

# Economic Development Spending Warrants Closer Scrutiny

## Position Statement in Support of Senate Bill 427

*Given before the Ways and Means Committee*

Maryland's economy is built on the foundation of our shared investments – things like quality health care, strong public schools, and reliable transportation networks. Surveys consistently find that these assets are among the most important factors business leaders consider when deciding where to start and grow a business.<sup>i</sup> Too often, tax breaks and spending programs intended to lure businesses into Maryland simply use up resources that could be better spent on these bedrock services. **The Maryland Center on Economic Policy supports Senate Bill 427 as part of Gov. Moore's efforts to phase out ineffective economic development spending** and ensuring our revenue system is up to the task of supporting thriving Maryland communities.

As policymakers have added a growing number of business subsidies to Maryland's tax code over the last several decades, evidence has begun to pile up that the millions of dollars we put into business tax breaks each year do little to support Maryland's economy. Rigorous academic research frequently finds little evidence that tax subsidies intended to lure businesses are effective.<sup>ii</sup> One reason for the disappointing performance of tax subsidies is the relative insignificance of state and local taxes to businesses' bottom lines, as they account for only 2 to 3 percent of most companies' cost structure.<sup>iii</sup>

Furthermore, evaluations by the Department of Legislative Services have repeatedly found poor design and little evidence of effectiveness in economic development subsidy programs, leading the agency to recommend terminating programs. These include:

- Job Creation Tax Credit
- One Maryland Economic Development Tax Credit
- Opportunity Zone Enhancement Program
- Research and Development Tax Credit
- Biotechnology Investment Tax Credit
- Purchase of Cybersecurity Technology Tax Credit

While Senate Bill 427 does not address or eliminate each of these programs, it represents a positive step toward subjecting economic development spending and tax breaks to closer scrutiny.

As policymakers contemplate billions in potential cuts to vital public services, we should first eliminate poorly designed subsidy programs that do little to help our economy.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the Ways and Means Committee make a favorable report on Senate Bill 427.**

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## **Equity Impact Analysis: Senate Bill 427**

### *Bill summary*

Senate Bill 427 reorganizes Maryland’s economic development programs, improves evidentiary standards, and ends some programs with little evidence of effectiveness.

### *Background*

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- One Maryland Economic Development Tax Credit
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### *Equity Implications*

Economic development programs consume resources the state could otherwise invest in Maryland communities. Our growing underinvestment in essential services like education, health care, and transportation harms all Marylanders, and at the same time has outsized impacts on people who face structural barriers because of low income or the ongoing legacy of racist policy. Eliminating ineffective subsidies will reduce the number of harmful public service cuts needed to balance Maryland’s budget.

### *Impact*

Senate Bill 427 would likely **improve racial and economic equity** in Maryland.

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<sup>i</sup> Geraldine Gambale, “35th Annual Corporate Survey: Effects of Global Pandemic Reflected in Executives’ Site and Facility Plans,” *Area Development*, 2021, <https://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2021/35th-annual-corporate-survey.shtml>

Rhett Morris, “What Do the Best Entrepreneurs Want in a City? Lessons from the Founders of America’s Fastest-Growing Companies,” *Endeavor Insight*, 2014, [https://issuu.com/endeavorglobal/docs/what\\_do\\_the\\_best\\_entrepreneurs\\_want](https://issuu.com/endeavorglobal/docs/what_do_the_best_entrepreneurs_want)

<sup>ii</sup> See for example Nathan Jensen, “The Effect of Economic Development Incentives and Clawback Provisions on Job Creation: A Pre-Registered Evaluation of Maryland and Virginia Programs,” *Research & Politics*, 2017, <https://journals.sagepub.com/doi/abs/10.1177/2053168017713646>

<sup>iii</sup> Robert Tannenwald, “Testimony of Robert Tannenwald, Senior Fellow, Before the New Hampshire Business Tax Commission,” Center on Budget and Policy Priorities, 2010, <https://www.cbpp.org/testimony-of-robert-tannenwald-senior-fellow-before-the-new-hampshire-business-tax-commission>