To: Joint Standing Committee on Innovation, Development, Economic Advancement and Business

Date: May 18, 2023

From: Marianne Hill, Ph.D. Economics

Re: Testimony in Opposition to LD1918 - Dirigo Business Incentives

Senator Curry, Chair, Representative Roberts, Chair, and Honorable Members of the Joint Standing Committee.

I urge you to oppose LD1918.and vote "ought not to pass"

The tax incentives proposed in LD1918 are not carefully targeted, and there are serious problems, not only with its rather amorphous goals, but also with regard to implementation related to evaluation and accountability.

If the over-arching goal of this bill is to enable Maine's people and environment to thrive, a total revamping of the bill is needed. The tax incentives that can best lead the state forward are ones that are carefully crafted. The creation of well-paid jobs may be basic to a thriving economy, but several studies question the efficacy of tax incentives that fail to accurately assess the cost and benefits of incentives and/or fail to ensure evaluation and accountability of these tax breaks. (1)

In addition, alternatives to tax breaks can have much higher returns relative to cost. As the Brookings Institute notes, for example, providing "business services such as job training, business advice to smaller businesses, and new transportation infrastructure can have job creation effects per dollar that are five to 10 times greater than tax or cash incentives." (2) Another example: investment in paid family leave is estimated to return $10 for every $1 invested, according to a Columbia University study (3).

LD1918 links the size of tax breaks to capital investment, jobs created and training provided, but seems to demand little of the recipients in terms of quality of jobs, the quality of training or of the technology used or markets served. The incentives seem unlikely to pay for themselves in the long-run. From what is in the bill text, it seems the past record of a firm will not be examined in any detail: how does the firm compare to other firms in the same industry in terms of competitiveness? of compliance with

regulations? what is its record in promoting/hiring women and minorities? in hiring locals? if the firm is part of a chain, why would a tax break change the firm's investment behavior (typically it does not)?

The industries eligible for these Dirigo incentives include very few industries providing services, even services whose customer base consists of customers from out-of-state (some computer related industries are included). One of the fastest growing service industries is motion picture production, which is not included. About 77% of GDP comes from the service sector and many services have a higher multiplier effect on the economy than many manufacturing firms.

What are alternative uses of the tax revenue that will be lost? Maine has urgent unmet needs in several areas and addressing those needs would be of greater benefit to the state than hand-outs which have no assurance of a net positive return. Cost benefit analysis of child care, paid family leave, land trust housing, or expanded health care can be expected to show higher net benefits. As already mentioned, the return on paid family leave is estimated to be $10 for each $1 invested.

For these reasons, I ask you to oppose LD1918 and report "ought not to pass".

Thank you for your consideration,

Marianne Hill, Ph.D. Economics
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(1) https://www.brookings.edu/blog/the-avenue/2021/05/05/how-tax-incentives-can-power-more-equitable-inclusive-growth/

(2) Brookings Institute. "Most tax incentives don't work; here's how to fix them." https://www.brookings.edu/blog/the-avenue/2019/11/01/most-business-incentives-dont-work-heres-how-to-fix-them/

(3) https://www.povertycenter.columbia.edu/news-internal/2021/child-allowance/cost-benefit-analysis

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LD 1918

Excerpt: The tax incentives proposed in LD1918 are not carefully targeted, and there are serious problems, not only with its rather amorphous goals, but also with regard to implementation related to evaluation and accountability. It is in need of major revamping. I urge you to vote "ought not to pass". See accompanying text.