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Selling Ourselves Short: Research Shows State Tax Breaks Don't Grow Jobs

MONTGOMERY, AL – A study released today by the Economic Policy Institute finds little support for elected officials' use of tax incentives to promote economic growth and employment expansion. By contrast, the research shows, budget cuts in the face of decreased tax revenues are more likely to deter business relocation and thus hamper job growth**.**

The D.C.-based Institute's report, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development,* challenges the assumption that state and local tax cuts and incentives are the key to "creating jobs" and "growing the economy." The study comes at a critical time for Alabama, where revenue losses from recent tax breaks are compounding an already unprecedented budget shortfall.

"We're in a vicious cycle now," says Kimble Forrister, statewide coordinator of Alabama Arise, a Montgomery-based nonprofit whose membership lobbies for fairer state policies toward low-income Alabamians. "Alabama had to use huge tax incentives to attract businesses who had not wanted to come to a state where infrastructure and services were falling apart. But we wouldn't have to pay so much to attract companies if we'd invest that money in making Alabama an attractive place to raise children and do business."

The report's author, Robert G. Lynch, analyzed hundreds of research studies and found little evidence that tax cuts and incentives stimulate economic activity, create jobs, or prompt job transfers between states. "The cuts in services that inevitably follow tax cuts can actually undermine economic development efforts," Lynch observes. "Taxing decisions that eliminate or erode those services make [a] location less attractive to business than another one where there is a policy of investing in services and infrastructure that can support economic development."

EPI's survey of the latest research found no evidence that some states are losing a significant number of jobs to other states that offer tax cuts or incentives to businesses. Beyond the critique of tax incentives, Lynch also found that, for every private sector job created by state and local tax cuts, governments lose between $39,000 and $78,000 in annual tax revenues. Such revenue losses lead to more jobs lost in the public sector than were gained in the private sector – a net loss of jobs after tax cuts.

The research cited in the EPI survey reinforces the caution that Alabama Arise has voiced for a decade. "When we give tax cuts to wealthy corporations," observes Arise's Kimble Forrister, "economic inequality increases because families bear the burden of regressive taxes, hospital bills and child care they wouldn't have to pay for in other states."

Although recent opinion polls show that voters want the legislature to fix Alabama's budget problems without raising taxes, legislators are struggling to find a politically viable solution to the crisis.

"At a time when state and local resources are scarce," Forrister asserts, "we ought to be putting our money into the basics that make Alabama a great place to live. Strong public education, public health and public safety — that's what will draw new businesses to our state."

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Alabama Arise is a coalition of 147 religious and community groups that promote state policies to improve the lives of low-income people.