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# For a Stronger Economy, Maryland Needs the Right Public Investments

To make Maryland an even better place to do business, policymakers need to focus on strengthening the state's workforce and supporting small business growth.

Since 2014, Maryland's leaders have continued to debate the best ways to improve the state's business climate and boost the economy, which has grown slowly since the Great Recession.

Some argue that state tax cuts are needed to make Maryland more appealing to businesses. The fact is, taxes make up a very small share of total business expenses. And, Maryland is already a great place to do business, boasting a highly educated workforce, a large number of affluent customers and easy transportation connections to other parts of the country. Rather than cutting taxes – which would take resources away from public investments that boost the economy – doing more to help workers develop their skills and removing barriers to small business success offer much stronger prospects for more broadly shared prosperity. Just over half of Maryland workers are employed at a small business (defined by the Small Business Administration<sup>i</sup> as having fewer than 500 employees) and the greatest job growth in Maryland has come from very small firms, with 1-4 employees, according to the Small Business Administration.

Stronger measures to help small and medium-sized businesses get off the ground and expand can create more jobs in Maryland. Further, efforts to help people who are struggling to make ends meet climb the economic ladder will pump more money into the local economy, supporting community businesses. Maryland businesses already get a good return on their tax investment, receiving \$1 in services for every 70 cents they invest through taxes<sup>ii</sup>, according to the business management consultant firm Ernst & Young. There are additional measures that can help grow the state's economy without cutting back on public investments that promote good schools, an efficient transportation network, and safe communities – things that support a healthy economy.

## Strengthening Our Workforce

While Maryland's highly educated workforce meets the recruitment needs for many businesses, other businesses need workers with specific skills. For many workers, pursuing a college degree is not a viable path.

It would be a win-win for businesses and Maryland workers to support more middle-skill, middle-wage job opportunities: positions in industries such as health care, construction, information technology and advanced manufacturing that require some technical skills and training but not a bachelor's degree. These jobs typically pay enough to support a family. Creating more of these opportunities would provide more career advancement options for people now in low-skilled service industry jobs that don't pay a living wage, as well as younger workers unable to pursue a four-year degree.

Maryland leaders should facilitate strong regional partnerships between Maryland employers and workforce training programs to help workers gain the skills that employers are looking for. For example the Baltimore Alliance for Careers in Healthcare connects the region's major hospitals with nonprofit organizations and educational institutions to ensure there is a strong pipeline of workers to fill health care industry jobs, and that those workers get the support they need to stay in those jobs and climb the career ladder.

It also is essential to provide funding for adult education at a level that meets today's need. Often these programs have long wait times in the parts of the state where they are most needed.

### **Leveling the Playing Field**

One barrier to small business expansion is the difficulty in competing with large corporations, both in the benefits small businesses can offer employees and the prices they can charge to their customers. There are several different approaches to leveling the playing field, from closing tax loopholes to making it easier for small businesses to provide retirement benefits.

State contracting would be a good place to start. Maryland issues an estimated \$7 billion per year in state contracts, money that doesn't always wind up supporting local firms. Instituting a "buy Maryland, buy small" contracting policy that favors local businesses, could ensure that more state tax dollars go to support Maryland businesses.

It can also be challenging for small businesses to offer employee benefits comparable to large companies. The Affordable Care Act helped level the playing field for small businesses in the health insurance market; Maryland could do the same for retirement plans by passing legislation to create a statewide retirement savings trust. Such legislation, which would have given 1.2 million Marylanders access to a workplace retirement savings plan by allowing small businesses to offer retirement plans that are closer to those offered by large corporations, was introduced in 2014 but failed to pass.

Finally, lawmakers could close the tax loophole that allows large, multi-state enterprises to use accounting tricks to avoid paying taxes on all their Maryland profits. Each year Maryland's small businesses pay their fair share and meet their tax responsibilities while large, multi-state companies are able to shift their earnings on paper to other states to avoid paying taxes in the state. Closing this loophole by implementing "combined reporting" would create a fairer, more effective corporate tax system.

### **Access to Capital**

Access to capital remains one of the biggest challenges facing the small business community. State support for small businesses shouldn't solely focus on the startup period. Stable businesses that are ready to expand also can have a hard time getting the capital they need. There are a variety of mechanisms

Maryland can use to help support home-grown businesses, including allowing them to defer taxes in order to expand or guarantee loans.

These strategies would be a more effective way to support growth – without harming the state services that are essential to foster economic growth – than approaches like tax-free zones for manufacturing that would only help a select few businesses at a very high cost to the state.

### Energy Costs

The high cost of energy in Maryland is an issue for businesses and employees alike. Not only does the high cost of energy discourage manufacturing, data centers, and other industries with high energy costs from locating here, it also strains employees' family budgets.

State leaders should strengthen programs that help businesses improve their energy efficiency, such as EmPOWER Maryland, and promote awareness of all the resources available to businesses that would help improve energy efficiency and lower bills.

### Invest in Maryland

Maryland's public investments over the years in good schools, safe communities and roads and bridges have played a large role in making the state a great place to do business. Maintaining and building upon these past investments is essential for continued economic growth and a strong business climate.

Consistent investments in infrastructure are essential to a thriving economy, enabling employees, goods and information to travel easily throughout the state. That support needs to continue. A modern economy requires wide access to high-speed internet connections, particularly in rural areas and other underserved parts of the state. Improving these vital public goods and services also supports construction and other middle-wage jobs.

Another way to invest in Maryland is by expanding the state Earned Income Tax Credit, which would put money back in the pockets of hard-working people struggling to get by on low wages -- benefitting them, their families, and the local economy.

Finally, we should be investing in our future workforce by maintaining good public schools and ensuring that Maryland students can afford to get a college degree without being saddled with crippling student loan debt.

A common thread running through all of these policy proposals is that they represent a pooling of resources for the common good. That is the time-tested way Maryland got to be such a good place to raise a family and start a business, and it is how the state will continue to be a leader.

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### Endnotes

<sup>i</sup> Small Business Administration. Small Business Profile: Maryland.  
[https://www.sba.gov/sites/default/files/advocacy/MD\\_1.pdf](https://www.sba.gov/sites/default/files/advocacy/MD_1.pdf)

<sup>ii</sup> Ernst & Young, Council on State Taxation. Total State and Local Business Taxes. October 2015.  
<http://www.cost.org/page.aspx?id=69654>