

Testimony of
David N. Taylor, Executive Director
Pennsylvania Manufacturers' Association
before the
House Majority Policy Committee
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The Capitol
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Thank you, Chairman Reed and members of the committee for the opportunity to speak with you today. I'm David Taylor and I serve as Executive Director of the Pennsylvania Manufacturers' Association, a statewide trade organization representing the manufacturing sector in the state's public policy process since 1909. The manufacturing sector is the engine that drives Pennsylvania's economy, generating 12.5 percent of Gross State Product, adding \$75 billion in wealth every year, directly employing over 570,000 Pennsylvanians, and sustaining millions of additional Pennsylvania jobs through far-reaching supply chains and distribution networks.

Although our specific subject today is business taxes, I'd like to start with the broader issue of competitiveness. As you well know, there are a lot of problems with America's economy and our national economic competitiveness that only the President and Congress can address. But when it comes to Pennsylvania's competition with other U.S. states for investment, growth, and jobs, only our elected officials in Harrisburg can fix what's wrong.

And what's wrong is this: from 1997 through 2010, Pennsylvania's economy grew at less than one-third the national rate. If our Gross State Product had grown at the U.S. average during that period, our economy would be more than \$227 billion larger than it is today. In percentage terms, that's 45 percent – almost half again larger. Instead of a Gross State Product of just over \$500 billion, we'd have one over \$733 billion. So that's tens of thousands of jobs we should have had, but were never created – jobs that might have given us sufficient population growth to keep all of our congressional seats. That's the quarter-trillion-dollar price we've already paid for Pennsylvania's chronic economic underperformance. And it's a price we will continue to pay until and unless we make net progress relative to competitor states.

It's important to remember that competitiveness is a moving target and even when we make progress relative to where Pennsylvania has been, it doesn't necessarily constitute net progress against our competitors. Pro-growth governors and legislatures in competitor states are advancing their own reform agendas, which means Pennsylvania's leaders must work twice as hard if we're going to (first) catch up and (then) keep up in the race between the states for investment, growth, and jobs.

There are many areas of state policy that affect the business climate including the regulatory burden, the costs of lawsuit abuse, and labor-related issues including Unemployment Compensation and Workers' Compensation, but the impact of state business taxes is the cost that is most easily calculated and therefore becomes the most prominent factor in private-sector decision-making. Pennsylvania's Corporate Net Income tax rate of 9.99 percent is the highest flat rate in the nation and the second-highest rate overall; Iowa has escalating CNI rates that hit 12 percent above \$250,000. If being highest (or second-highest) in the nation isn't bad enough, keep in mind that adding the Federal corporate tax burden gives Pennsylvania the highest (or second-highest) corporate tax rate on Planet Earth. Perhaps that might begin to explain our two-thirds-below-average growth rate over the last 13 years and the quarter-trillion-dollars of growth we forfeited.

Of course, it is the "C" corporations that pay the CNI; "S" corporations, partnerships, and limited liability companies pay state business taxes through the Personal Income tax. Because of the sizable gap between the two rates, it becomes prohibitive for a non-"C" corporation to reorganize as a "C", which would allow the entity to raise capital by issuing shares that could be sold to the public. In other words, Pennsylvania's very high CNI rate is a great way to keep small businesses small, or to force them out of state to build their futures somewhere else.

As you work to make Pennsylvania's business tax climate more competitive, I want to liberate you from the false choice between the so-called "cost" of tax relief and keeping in place the oppressive current rates. Optimizing Pennsylvania's business tax rates will likely reduce collections in the short term but should yield long-term growth and economic expansion that will broaden the tax base and result in higher collections than would have otherwise occurred. This would be the opposite approach to the catastrophic 1991 tax increase where Governor Casey and the General Assembly closed a budget gap – and added new spending – with a \$3 billion tax hike that fell almost entirely on employers. In my assessment, that fateful decision condemned Pennsylvania to the sluggish job growth, wage growth, and population growth from which we currently suffer.

I would also argue that the initial reduced collections from pro-growth business tax relief would be a much better investment than the billions state taxpayers have plowed into subsidies, handouts, and inducements to keep or bring employers into Pennsylvania. There is no substitute for strong economic fundamentals. Improving the baseline cost of doing business in the commonwealth helps the entire productive sector, not just a handful of politically-connected industries or firms.

The just-passed General Fund budget is the first step on the journey to a more prosperous future for Pennsylvania. It is fundamentally unhealthy for state government to grow faster than the private economy, but by bringing down expenditures to meet revenues the 2011-2012 budget reverses that trend. In addition, restoring the phase-out of the Capital Stock and Franchise tax and following the federal tax code on accelerated depreciation for business equipment are both small but significant positive steps for the state's business tax regimen. So I thank all of you today for supporting the new state budget and the hopeful path that it offers for Pennsylvania's economic future.

In conclusion I would say that our goal should be a pro-growth environment where business earnings are taxed only once at a flat competitive rate. Eliminate the Capital Stock and Franchise tax. Allow employers to carry forward all of their Net Operating Losses. Enact a 100 percent sales factor for the CNI and bring the rate down to the national average or below.

Again, thank you for addressing this critical subject and for inviting me to share my thoughts. I'll do my best to answer any questions.