



Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Public Hearing on Pennsylvania's Business Climate

Before the:
Pennsylvania House Majority Policy Committee

Presented by:

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Chairman Benninghoff and members of the Committee, my name is Alex Halper and I am Director of Government Affairs for the Pennsylvania Chamber of Business and Industry. The PA Chamber is the largest, broad-based business advocacy association in Pennsylvania. We represent employers of all sizes, crossing all industry sectors throughout the Commonwealth. Thank you for the opportunity to testify today on Pennsylvania's business climate.

Accurately gauging Pennsylvania's business climate is challenging given the diversity and constantly evolving nature of our state's economy. However, the PA Chamber does attempt to capture the mood of employers in Pennsylvania by surveying businesses, including PA Chambers members and non-members, every year and asking questions related to their businesses, views on the economy in general and matters of public policy. Some sections of the survey change every year; others remain constant and therefore allow us to observe trends and make comparisons.

Our most recent survey was conducted in late summer 2014. A series of questions were asked to 652 Pennsylvania employers from all over the Commonwealth. Just like the PA Chamber membership in general, the majority of employers who participated were small businesses; in fact nearly three quarters had fewer than 20 employees. A great variety of industries were represented – the most common being services, retail and manufacturing.

In general, survey participants last year reported relatively robust sales growth and record levels of optimism. Despite these encouraging indicators, it is clear that employer optimism remains cautious as many continue to hold back on hiring and investments. The following are some additional highlights from the survey that I believe are pertinent to this hearing:

- A combined 57 percent of employers rated the overall business climate in Pennsylvania as either “excellent” or “good”, which marks the first time a majority of employers rate Pennsylvania’s overall business climate as better than average.
- 39 percent reported increases in sales during the last 12 months, up from 35 percent the previous year – the highest percentage increase in more than five years. Even more promising, 45 percent said they expect sales to increase in the next 12 months, the highest projection level in nearly ten years.
- 22 percent of employers say they hired more workers in the last 12 months; 62 percent experienced no changes. 23 percent said they expect to hire more in the next 12 months. This is the highest we have seen in more than five years but still far below pre-recession levels when new hiring peaked at 41 percent in 2006.
- 20 percent report making major investments in equipment or machinery during the last 12 months, a small drop from the past few years. 67 percent expect no improvements or investments of any kind this year, which we believe shows

heightened reluctance to commit to any new spending or business investments for the immediate future.

- Only 15 percent of employers say they would leave Pennsylvania if they could, which is the lowest in ten years.
- We ask employers to name the issue that most seriously impacts their ability to be competitive, and the most popular responses are general concerns about the economy, taxes and health care costs.

We strongly believe that the legislature's successful pursuit over the past few years of public policy to improve Pennsylvania's business climate have helped spur employers' stronger performances and renewed sense of optimism. Our members were encouraged and grateful to finally see action on numerous important legislative initiatives including lawsuit abuse legislation, putting our unemployment compensation system on a path to solvency and sustainability; bills related to energy policy, transportation, workers' compensation, among many others. On the tax policy front, a numbers of policy changes have been implemented, which we believe will improve Pennsylvania's ability to compete more effectively with other states, including: changing the Corporate Net Income tax apportionment formula to 100 percent sales; increasing the cap on Net Operating Loss deductions; revamping and

improving the tax appeals system; eliminating the inheritance tax for small family businesses and continuing the phase-down of the Capital Stock and Franchise tax.

Certainly tremendous progress has been made but these improvements to our business climate have not occurred in a vacuum. Other states have pursued agendas to strengthen their own economies and attract businesses. Unfortunately, many key legislative accomplishments simply address problems or put Pennsylvania on par with the rest of the country. Accordingly, we believe work during this current session should strive to continue the momentum you have generated. As I noted earlier in my testimony, while Pennsylvania employers appear increasingly optimistic, their optimism remains cautious and tempered. In addition to general uneasiness with a national economy that still seems fragile at times, there is clearly much concern among employers that momentum on productive public policy will not only slow down but reverse course. The prospect of new and/or higher taxes, additional mandates on employers, higher costs to do businesses and a general concern that the employer perspective is getting lost in key policy deliberations are all adding to trepidation within the business community.

Employers in general can be cautious by nature and that will likely hold true regardless of what government does or does not do. Our goal as an organization, and we hope the goal of the General Assembly, is for Pennsylvania to be governed by policies that

foster an environment in which employers' caution is at least balanced by their optimism, which will leads to investment, expansion and job growth.

Again, thank you for the opportunity to testify. I would be happy to answer any questions.