



Setting THE record straight

Feb. 29, 2008

Economic stimulus: focus on the fundamentals

Targeted tax reductions key to business, job growth

The business community agrees with the Rendell administration that uncertainties about the economy require special attention. What to do to better the state's standing is where the agreement ends. The PA Chamber, along with other members of the statewide CompetePA Coalition and forward-thinking lawmakers from both sides of the aisle, are urging more policymakers to focus on the fundamentals in order to achieve economic stimulus, and abandon the short-sighted philosophy that Pennsylvania can tax, borrow and spend its way into prosperity.

New approach needed for economic growth

Despite some good ideas for economic stimulus – specifically, proposals to improve transportation infrastructure – and good intentions, the Rendell administration's 2008-09 budget poses a familiar theme: more spending and borrowing as the solution to the Commonwealth's problems. State officials point to various economic development projects that have been hand-picked to receive taxpayer dollars as justification for continuing the status quo. However, the justification ends there. The reality is that any economic gains realized by the state diminish dramatically when compared with the rest of the nation. Competitively, the Commonwealth is a long way from where it needs to be. We have the sixth-largest economy, yet it's growing slower than most. In fact, Pennsylvania's Gross Domestic Product is growing at half the rate of the U.S. average. In prominent studies such as the American Legislative Exchange Council's Economic Competitiveness Index, which was featured in the *Wall Street Journal*, Pennsylvania ranked 44th for economic competitiveness and 37th for economic outlook.

It's time for a new approach. Targeted tax reform that helps businesses across the board by reducing the cost of creating jobs in the Commonwealth will go a long way toward improving Pennsylvania's competitive standing.

Employers know best what business and job growth requires – a CNI single sales apportionment formula and removal of the net operating loss cap

The unified business community is working to advance two specific tax reductions as part of the 2008-09 state budget. Both of these improvements build on modest reductions supported by the legislature and the governor last session.

One would be to base the Corporate Net Income tax apportionment formula only on a Pennsylvania company's sales. The current formula bases the rate on sales, property and payroll. Doing so essentially penalizes businesses for investing in their operations and hiring workers, while giving a competitive edge to outside companies that only sell in Pennsylvania.

The second tax change would be to eliminate the cap on losses companies can claim to lower their future tax burden. Eliminating the cap on net operating losses would be particularly beneficial to cyclical businesses and to start-up companies, which often lose money in their first years of operation. This change would provide an added boost to businesses that are struggling to get off the ground against the added pressure of a slowing economy.

Experts agree

During his testimony before the House Appropriations Committee earlier this month, James Diffley of Global Insights, an economic and financial analysis and forecasting firm, told the legislative panel that tax cuts are a better tool over the long term to spur economic growth. He noted that true economists do not approve of having government decide who wins and who loses in the competition for state taxpayer dollars, stressing that it is better to use these funds to provide tax relief.

Other voices:

"...some businesses say they've been passed over for [state financial] incentives, so out-of-state competitors can receive what they consider lavish relocation packages. DCED shouldn't favor firms over the state line when distributing such funds. But there's an easy solution – cut business taxes. That's an idea that everyone can rally around."

■ Pittsburgh Business Times editorial, Feb. 8, 2008

-more-

"More government means fewer jobs and less growth... When government becomes a growth industry, the private sector heads south."

- Steve Kagann, New York economist and professor, American Legislative Exchange Council's *State Roadmap to Prosperity*

"Both economic theory and empirical evidence demonstrate that reducing taxes – rather than increasing government taxing, borrowing and spending – encourages investment, productivity and wealth creation. Lawmakers can grow the government or they can grow the economy, but they can't grow both."

- Matthew Brouillette, president and CEO, The Commonwealth Foundation

"In a world where companies no longer are bound by geography, states need to make themselves attractive in the long term, beyond an immediate grant or tax break...Businesses want to locate where their dollar goes furthest."

- Vasilios Kosteas, assistant economics professor, Cleveland State University, as quoted in the *Pittsburgh Tribune-Review*

Government cannot continue to throw more and more money at economic development initiatives while ignoring the foundation on which businesses must operate. Whether the debate is over economic stimulus or economic development in general, elected officials need to listen to those who know job creation best. When it comes to business growth, who knows better what business needs than business itself?

Contact: Lesley Smith, director of communications, 717 720-5446.

The Pennsylvania Chamber of Business and Industry is the state's largest broad-based business association, with its membership representing nearly 50 percent of the private workforce. More information is available on the Chamber's website at www.pachamber.org

Pennsylvania Chamber of Business and Industry
417 Walnut Street, Harrisburg, PA 17101, Phone 800 225-7224, Fax 717 255-3298, www.pachamber.org