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Preventing Tax Rate Increases in Pennsylvania

In a growing economy with taxes levied on sales, income, and the value of real property, not to mention special levies such as business privilege taxes and fees for government services, tax revenues will normally rise with the tax rates that are in place. Of course, confiscatory rates, evasion, loop holes and inability to pay might offset some of the expected revenue gains. Indeed, lowering some tax rates such as capital gains tax rates can boost revenue by creating more realization of gains through selling. Or lowering U.S. corporate net income rates could lead to repatriation of overseas profits. Granted, those two are mostly national level considerations. Then too, regulatory costs and restraints can impact business and economic growth.

Pennsylvania has been shown to rank poorly in several areas of taxation on business by the Tax Foundation and that undoubtedly exerts a drag on the Commonwealth compared to lower tax rate states. Certainly, the state should not be looking to make doing business and earning after tax profits more difficult through regulations and higher taxes. But that seems to be the Governor's office's preferred way of going after more revenue.

The problem in Harrisburg, as in many state capitals, is the refusal of some to understand the need to curb and even reduce spending. In Pennsylvania and in many other states, public sector pensions, especially the school retirement and the state employees retirement that are heavily funded by state tax dollars, are gobbling up tax revenues at a horrendous pace and taking money that could be used for other state functions, including education expenses other than pensions. As a result of making overly generous promises to future retirees over fifteen years ago through an increase in the payout formula and failing to adequately fund them for several years, the state is in a crisis. A crisis the Governor and his allies refuse to address in any meaningful way thereby allowing the devouring of revenue growth by the pension system's insatiable appetite. There will be no significant progress on the state's budget dilemma until the pension issue is dealt with seriously.

Nor is there any significant effort in Harrisburg to address some other underlying drivers of exorbitant and unnecessary expenditures. The state and other levels of government could save hundreds of millions if not billions of dollars each year by getting rid of the prevailing wage law that artificially drives up the cost of public construction in

Pennsylvania. And it is grossly anticompetitive by preventing non-union contractors from bringing their cost advantages to bear. Why not implement a staged phase out of the prevailing wage requirement over the next three or four years, lowering the gap between the prevailing wage and market wage each year, eliminating the prevailing wage altogether in year four?

Next, the government should put an end to the right of teachers and transit workers to strike and then revise the law governing arbitration in police and fire labor contracts to be more in line with what other states use and along the lines spelled out in the legislation that created the Intergovernmental Cooperation Authority in Pittsburgh. Teacher strikes are allowed in very few states and Pennsylvania has for decades led the nation in the number of strikes. The strikes disrupt education and create hardships for parents. Worst of all they are used to ratchet up compensation and benefits as well as more favorable work rules. A union in one district gets a very generous contract by striking or threatening to strike and that contract is then used by unions in other districts as bargaining leverage.

Well-off districts with large tax bases that can comfortably afford rich compensation packages in labor contracts at relatively low tax rates become the standard that unions in less well-off districts can hold up as what fair pay should be. This also leads to cries of unfairness by the education lobbies and groups who continually point to disparities in per student spending across the state. The use of these disparities generates needless pressure for more state spending that can never eliminate the disparities as long as wealthy districts have enormous tax bases—or until the state eliminates local taxing authority for schools and funds all expenditures out of Harrisburg, an unlikely event to say the least.

Transit strikes allow unions to use threats to the economy as well as to public welfare to browbeat transit managers into capitulating to demands, or getting the state to toss in more money—a pattern used successfully over and over again by PAT workers.

Or perhaps Pennsylvania might follow the lead of Michigan and enact a right-to-work law. Michigan enacted right-to-work for all employees other than police and fire in December 2012. After years of languishing, private employment growth in Michigan since the bill was signed into law has more than doubled the rate in Pennsylvania. For example, from August 2012 to August 2015, Michigan jobs grew 7.6 percent, in Pennsylvania during the same period the employment count rose 3.3 percent. From August 2013 to August 2015 jobs were up 4.9 percent in Michigan compared to 2.5 percent in Pennsylvania.

Granted, factors other than right-to-work might be at play contributing to Michigan's employment gains but bear in mind too that Pennsylvania's economy was benefitting from the Marcellus Shale boom over the last three years: Michigan had no such natural resource driven economic boost. It is certainly time for Pennsylvania to begin moving toward right-to-work.

In sum, there are many alternatives to looking for tax rate increases and new items to tax to improve the state's fiscal situation and its growth prospects—alternatives that are used in many other states. All it takes is a willingness to refocus the government toward cost effectiveness and respect for the taxpayers and businesses that make an economy prosper so that government can be funded. Of course, this will require reining in the power of special interest groups, especially the outsized influence of employees of government and government entities exercised on policy makers—the long running and seemingly intractable problem the Commonwealth faces.

Barring the enactment of the major cost savings and free market enhancements mentioned above it is incumbent on those who want a more prosperous Pennsylvania to fight any increase in taxes or new taxes unless there are; (1) true offsetting tax reductions that are broad based, (2) there is substantial pension reform and, (3) the state gets serious about working out a solution to the angst created by a school funding system that allows and/or requires local taxes in some districts to provide the lion's share of school funds.

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