

Optimism rose among Pennsylvania business leaders in 2018

Summary: A survey of business executives from across Pennsylvania showed optimism about the state’s business climate. However, they credited federal tax cuts and regulatory relief as the main reason for the optimism and not anything being done at the state level.

The Lincoln Institute of Public Opinion Research released its biannual Keystone Business Climate Survey for fall 2018. The survey was completed by 118 business executives, 81 percent of whom are owners with another 12 percent the chief officers or state/local managers. The survey posed questions regarding business conditions and policies in Pennsylvania. A majority of respondents reported that economic growth was continuing in 2018. Federal tax cuts and reduced regulatory burden are credited by respondents for the sustained growth. At the same time respondents see little change in the state’s policies toward business.

Responses from the fall 2018 survey point to a continued upswing in business conditions and confidence which was also noted in the spring 2018 survey. On the question of whether business conditions in Pennsylvania were better, the same or worse than six months ago, there was a two-percentage point increase in “better” than in spring 2018 and a drop of 8 percentage points of those replying to “worse.” Additionally, compared to the spring 2018 survey, there was a 10-percentage point increase in respondents indicating their companies’ sales had increased over the last six months. This jump in the number of businesses experiencing increased sales is quite impressive considering it was only six months between the two surveys. Overall, the fall 2018 business survey results confirmed the spring survey findings of continued confidence, job growth and increased sales in Pennsylvania.

Several questions focused on federal actions concerning businesses. Respondents were polled regarding the passage of the Federal Tax Cuts and Jobs Act of 2017 and asked if their business had taken any number of actions as a result of the legislation and were allowed to select all that applied. The responses were overwhelmingly positive. The actions with the greatest percentage of responses were “expanded employee hours” and “expanded business.” The categories “increased employee compensation,” “started a new product line” and “hired new employees” each had a high response rate. It’s clear the

Federal Tax Cuts and Jobs Act of 2017 has stimulated job growth as well as business growth in Pennsylvania.

One question asked if the current federal administration's regulations delivered regulatory relief. A sizeable number of business owners replied that it did; 16 percent noted significant regulatory relief and 49 percent said they had experienced regulatory relief.

While federal policies have aided economic growth in Pennsylvania, a state proposal would inhibit economic gains. Governor Wolf, along with the Department of Labor and Industry, created an increased overtime pay threshold proposal. The rules were released in The Pennsylvania Bulletin in June 2018; comments and testimony in support of or opposition to the proposal were collected until August 2018. The state Department of Labor and Industry is expected to make a decision sometime in 2019. If the proposal becomes the official state rule, the threshold of overtime pay for salaried employees would increase from \$23,660 annually to \$31,720 annually by January 2020. It would be increased to \$39,832 by January 2021, \$47,892 by January 2022 and then be updated every three years following.

Survey respondents believe difficulties will occur if the proposal is imposed with 35 percent saying it would have a significant or some negative impact on business.

The proposal would be a huge detriment, especially to small businesses and non-profits, because it would force many companies to reduce hours and limit promotions. Currently, many employees have work flexibility, but that would no longer be the case if they were to be treated as hourly employees due to the proposed salary thresholds.

An additional question inquired whether business owners had made changes to lessen dependence on minimum wage labor due to proposals from both the state and federal government to greatly increase the minimum wage. A majority (61 percent) of business owners responded they have already taken steps to decrease reliance on minimum wage workers. Therefore, the overtime pay initiative is not necessary and employees would suffer as result of another misguided state economic policy.

The clear takeaway from the survey is that state economic policies should follow the recent federal policy changes including the 2017 tax cuts and regulatory cutbacks. The evidence of the dramatic effectiveness of the federal policies can be seen in the recent improvement in business conditions and optimism in Pennsylvania. The lessons are obvious: It's time for Pennsylvania to learn them and act on them.

In order to understand how truly significant the fall 2018 survey responses are, one only needs to compare them to the results of the fall 2016 survey. In just a two-year span a substantial change in the responses and outlook of business owners has transpired. For example, in the fall 2016 survey only 5 percent of business owners reported that business conditions were "better" than six months earlier while in the fall 2018 survey 40 percent responded conditions were "better." Clearly, a dramatic shift has occurred in business

owners' confidence in the economy compared to late 2016.

Additionally, when asked if the company's sales increased, stayed relatively the same or decreased during the past six months, business owners in the fall of 2016 reported a 21 percent increase while 40 percent reported a decrease in sales in the past six months. In the fall of 2018, 50 percent of respondents reported higher sales while 16 percent reported a drop in sales in the past six months.

Also, future expectations of employment levels significantly changed. In the fall of 2016, 16 percent expected higher employment levels in the following six months, 69 percent the same and 11 percent lower levels. In contrast, the fall of 2018 survey showed 37 percent expected higher employment levels in the following six months, 54 percent the same and only 6 percent lower—again highlighting the swing in optimism.

Regarding business conditions in the following six months in the fall of 2016, 5 percent answered better, 47 percent the same and 44 percent worse. In the fall of 2018, 30 percent answered conditions were better, 50 percent the same and 16 percent worse. The shift in business outlook in just two years is stunning.

The fall 2018 survey clearly points to much improved business optimism and faster growth in Pennsylvania as a result of federal actions and policies. For Pennsylvania to move to a still more vibrant and robust economy, state and local policies must be changed to foster free enterprise, competition and business startups.

This means a drastic reduction in governments' involvement in the economy, lower taxes, fewer strangling regulations and a move away from trying to pick winners and subsidizing them with tax dollars.

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