POLICY BRIEF

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Pennsylvania's Anti-Growth Trifecta

The decades' long anemic growth of Pennsylvania's economy has been well documented. Consistently over many years, the state has posted job gains ranking among the bottom five or ten states. That should come as no surprise given the business climate and regulatory environment special interests have saddled the Commonwealth with. Let's look at three of the worst of the legislative and policy measures inhibiting Pennsylvania's growth.

1. Public sector unions, especially teachers and public safety unions, along with transit workers have used their imposing power to obtain legislation giving them an enormous advantage at the negotiating table. Their bargaining advantages have enabled these workers to achieve extremely expensive compensation packages as well as work rules that hamper the ability of governing bodies to control costs and keep tax burdens from ratcheting ever higher—for individuals and businesses. Other unions such as SEIU and AFCSME also bear responsibility for overly expensive, inefficient government and high taxes. The gigantic underfunded pension problems coming at us in the next couple of years are in large part a reflection of public sector union strength. Certainly, the inability of the Legislature to pass even a modest public sector pension reform bill can be attributed to powerful unions.

2. Pennsylvania's business tax structure is very punitive beginning with a corporate net income tax that ranks among the nation's highest. Further, the Commonwealth is one of the few states with a capital stock and franchise tax and its provisions for loss carry forward are extremely tight compared to other states. Businesses also pay property taxes that in many Pennsylvania communities are extraordinarily burdensome. All told, the tax environment in Pennsylvania is not helpful in inducing companies to locate or start a business. That is a key reason the state offers so many subsidy programs. These programs are necessary to offset the onerous tax environment. In essence, every dollar of subsidy makes Pennsylvanians a dollar poorer compared to what they would be if companies were being enticed to the state because of an excellent, business friendly tax structure.

3. And just recently we learned that Pennsylvania remains stuck as the fifth worse state on the 2010 Tort Liability Index compiled by the Pacific Research Institute. The index measures the costs of torts as well risks associated with them. According to the study's authors, direct tort costs in the U.S. amount to 2 percent of GDP, the highest percentage of any country in the world. Being among the worst in this country on the tort liability index means that Pennsylvania's tort cost as percentage of gross state product is almost certainly above the 2 percent national figure. To the extent that Pennsylvania's tort to gross state product percentage is above that of better ranking states, the greater additional burden on businesses will lower their net income per dollar of sales. Moreover, the high direct tort costs points to a greater probability of being sued and most likely a greater chance of losing or having to settle a suit. Pennsylvania also ranked as the fifth worse state in 2008, which means there has been little or no progress in addressing this burden faced by companies doing business in the state.

These three growth inhibiting factors are and have been well known for a long time—as have the other major growth inhibitors such as not being a Right to Work state, the tax dollar wasting prevailing wage law and a highway and bridge system that continually receives failing or near failing grades from the American Society of Civil Engineers.

The fact that the growth inhibitors have been around for a long time and have been documented time and again to be major obstacles to improved economic performance but never get dealt with in any meaningful way by Governors or the Legislature is a testament to the sway unions and trial lawyers have over the Legislature and public policy in the Commonwealth.

Examples of union influence are legion. For one, getting a Right to Work bill to the floor of either legislative body has proved an impossible task, despite poll after poll showing Pennsylvanians believe there should be such a law. Ditto ending the right of teachers or transit workers to strike. And reform of Act 111, the law requiring binding arbitration for public safety employees? It has never gotten to first base even though Pennsylvania's law is far and away the most generous to unions of any state. It appears to be, like Social Security, the third rail of Pennsylvania politics. Finally, during the recent hardships faced by school districts—which cannot layoff teachers for economic reasons—not one legislator or public official stepped forward ask teachers to forgo voluntarily and temporarily the annual wage increases called for in their contracts to give some relief to beleaguered taxpayers.

Similarly, we have not seen or heard an Allegheny County official or PAT board member ask the drivers and mechanics to make wage concessions during the current financial crisis in order to reduce the number of service cuts and to reduce the number of driver and mechanic layoffs. And we certainly have not heard union leaders offer any temporary concessions to help PA weather the current storm.

Trial lawyer resistance to serious tort reform legislation is understandable. And apparently, they have been able to exercise plenty of clout to forestall legislation that would move Pennsylvania from among the worst states for tort liability to the middle of the pack let alone to be among the best ranked states.

Getting taxes down for businesses should be a top priority for any official who wants to see faster expansion of business activity. But to date, any discussion of lower business taxes is met with the old objection, "How do we offset the tax cuts?", meaning what are the other taxes we can raise to enable the business tax cuts. And as long as there is no real effort to curb the rate of spending growth that will always the answer. Given the pro-spending growth bias among politicians, especially those heavily indebted to powerful special interest groups, cutting spending is never acceptable. So business taxes do not get the cuts necessary to improve the state's comparative tax-climate.

In short, the anti-growth trifecta is firmly ensconced and shows little or no sign of relaxing its grip on the state and its policies.

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