



## Facts and Claims on the Effect of a Personal Income Tax (PIT) Increase on Jobs

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On Monday, June 15, the Commonwealth Foundation posted a press release stating that a 1% personal income tax (PIT) rate increase would result in the loss of 47,600 jobs in the private sector. This brief examines the claims and provides additional information on the specific points.

### Claim

“Using the Pennsylvania State Tax Analysis Modeling Program (PA-STAMP), an economic modeling program developed by the Beacon Hill Institute at Suffolk University, the Commonwealth Foundation projects that a 1-percentage point increase in the PIT (from the current rate of 3.07%) would result in a net loss of 47,633 jobs next year. A 2-percentage point PIT increase would cost Pennsylvania 94,491 jobs.”

### Fact

The Commonwealth Foundation provided no information about its model or methodology, only results. However, the Beacon Hill model employed by the Commonwealth Foundation, known as STAMP, has been criticized by reputable researchers. According to an October 2003 analysis of modeling practices and their ability to assess tax/expenditure economic impacts, prepared by the University of Arizona, “the STAMP model is not useful for forecasting.” *Strike one.* The report further states, “Its use is very limited for impact analysis.” *Strike two.* Also noting, “It will be extremely difficult to accurately represent a change in Arizona’s tax structure with a change in STAMP’s tax variables.”<sup>1</sup> *Strike three.*

Tax/Expenditure models are only as good as the data and assumptions that go into them. The STAMP model excludes the economic impact of public sector spending, which is considerable. Reports using the PA-STAMP model, issued with little transparency regarding methods and data, and questionable assumptions, should be used cautiously at best.

### Claim

“As every economist knows, a recession is the worst time to increase taxes, and doing so now would add thousands more Pennsylvanians to the ranks of the unemployed.”

### Fact

No such agreement exists. Economists have differing opinions on this subject, particularly when the other choice is budget cuts. Economists Joseph Stiglitz, a recipient of the Nobel Prize, and Peter Orszag, now the Director of the Office of Management and Budget, wrote during the last recession that

“economic analysis suggests that tax increases would not in general be more harmful to the economy than spending reductions.”<sup>ii</sup>

### Claim

“Tax increases will harm our economic recovery as Harrisburg politically allocates spending rather than allowing the private sector to spend, invest, and save in the most productive manner.”

### Fact

When worried about financial markets and dropping consumer demand, wealthy individuals are more likely to save during a recession than spend and invest. While saving is good, it does very little to help the economy recover. Maintaining public spending during an economic downturn on such things as transportation systems and higher education helps our businesses be more competitive when the economy recovers.

### Claim

“The failure of the Rendell, Bush, and Obama agendas to stimulate jobs with higher levels of government spending is evident,” noted Brouillette. “The only thing they have ‘stimulated’ is government.”

### Fact

According to the data included in the press release, state government employment has decreased by 200 employees since April 2008. Federal jobs have increased during that same time by 2,900, but that is likely due to the ramp up for the 2010 Census.

### Claim

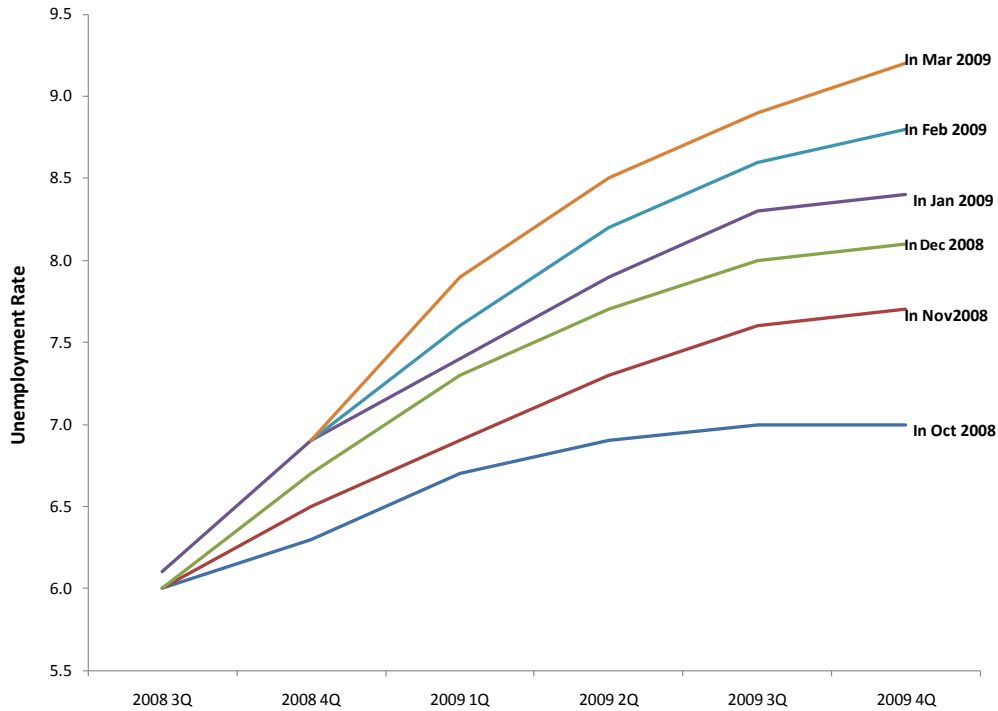
“While President Obama and Governor Rendell claimed the economic stimulus would ‘create or retain’ 130,000 jobs in Pennsylvania, **the state has only lost jobs since passage of the stimulus legislation, and unemployment rates are higher today than the Obama administration claimed they would be with passing the stimulus bill.** In fact, Pennsylvania has lost 217,000 private sector jobs since the start of the current recession, while adding 13,500 government employees.”

### Fact

On Monday, June 15, economist Paul Krugman noted the irony of the claims that the economic stimulus is failing after four months, when in comparison, jobless rates continued to increase for 16 months following the 1981 Reagan tax cuts. As only a small fraction of the funds from the multi-year federal stimulus program have been spent, no one should expect to see a radical downgrade in unemployment rates, particularly when the scope of the world-wide recession is still growing.

As the figure below from the Economic Policy Institute (EPI) illustrates, the unemployment rate expected by economic forecasters increased by more than two percentage points between October and March with each new forecast revised upward as new data accumulated about the depth of the recession. As

the forecasts became progressively more grim the projected size of the stimulus expected by these same forecasters was revised upward. The final stimulus package although sizable was not sufficiently large to return the economy to full employment but it will limit the depth and length of the current downturn.



Source: Blue Chip Forecasts

## Fact

Pennsylvania has the second-lowest top income tax rate of the 42 states with individual income taxes. This means that for the wealthiest among us, those who hold the majority of capital used to make business decisions, even with a rate increase, Pennsylvania will still have among the lowest rates in the nation and a rate well below our economic competitors. If tax rates were the most important criteria for business decisions, jobs and wealthy people should be storming Pennsylvania. Location decisions are complex and vary by industry and by business. A well-developed transportation system, skilled workforce, proximity to important markets, and emerging technologies can far outweigh tax rates in such decisions.

<sup>i</sup> Alberta Charney and Marshall Vest, *Modeling Practices and Their Ability to Assess Tax/Expenditure Economic Impacts*, paper prepared for the AUBER Conference, New Orleans, October 2003, The University of Arizona, Tucson, AZ.

<sup>ii</sup> Peter Orszag and Joseph Stiglitz, *Budget Cuts Vs. Tax increases at the State Level: Is one More Counter-Productive than the Other During a Recession?* Center on Budget and Policy Priorities, Washington, DC, November 6, 2001.