

BEFORE THE PHILADELPHIA CITY COUNCIL
COMMITTEE OF THE WHOLE

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AND

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HEARING ON BUSINESS PRIVILEGE TAX

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Honorable Members of the City Council of Philadelphia,

Thank you for this opportunity to offer testimony on the proposed bill to **eliminate** the Business Privilege Tax (BPT), a tax which raises \$261.2 million in revenue this year, about 10% of the City's entire budget. Bill No. 040767 would over time end both the **Net Income** component about 70% of the BPT or about \$183 million this year, as well as the **Gross Receipts** tax component. The **Gross Receipts** portion is already on a reduction curve and will have been cut by 69% in coming years.¹ I strongly believe that this bill is a fiscally imprudent measure and, although well-intended, would fail to achieve its objectives while depleting the City of needed revenues for essential services.

Last Saturday I attended the funeral and memorial service at the Greater Ebenezer Baptist Church of one of the noblest of anti-poverty and human rights warriors in our City's history, Louise Brookins. Ms. Brookins was for the past 30 years the director of the Philadelphia and Pennsylvania Welfare Rights Organizations. She followed her father's counsel who advised that "no man can ever ride your back if you don't bend over" and was, especially

¹Reductions in the gross receipts proportion of the BPT began in 1995 and by next year will have been cut in half. When added to the wage tax reductions begun also in 1995, there has been by the end of FY05 a ten year cumulative reduction of \$1.1 billion to taxpayers, including over \$200 million in this fiscal year.

Tax reductions and credits that have already been legislated for the next ten years will provide another \$2.2 billion of new tax relief to take effect from FY06 to FY15.

for those in government, the beacon shining her light on the needs of the least fortunate in our society. I was thinking that if Louise Brookins were here in these City Council chambers today, how might she respond to a proposal that would end any responsibility for businesses to pay their fair share for needed government services.

Ms. Brookins would have known that her own niece, a City Public Health Dept. employee with a distinguished 13 year record of service for the health needs of children and pregnant mothers, had, just three weeks ago, been laid off due to City budget cutting. But I don't think Ms. Brookins would have pressed upon you this personal story from her own family. Rather she would have asked some broader questions that relate to what is the purpose of our Government, what kind of City do we all want to live in, and why have you been elected to your office here.

Ms. Brookins, if here, would have asked how can you think of totally eliminating the Business Privilege Tax when currently a health uninsured woman with suspected breast cancer may wait for 3 months to get an medical appointment at a City Health Dept. District Center?

Ms. Brookins would ask you how can you think of totally eliminating the Business Privilege Tax when currently it takes 2 to 3 months for the L.& I. Dept. to do an inspection for a Housing Code violation of a ceiling falling in or exposed wiring or lack of water, all of which threaten life and health, and when L.& I. Dept. no longer undertakes reinspections of such houses to insure violations are corrected?

Ms. Brookins would ask how can you think of totally eliminating the Business Privilege Tax when currently 20 Library branches are being closed in the mornings for senior

citizens and others and with no professional librarians planned ever to staff these branches?

Ms. Brookins would ask how can you think of totally eliminating the Business Privilege Tax when currently, in a multi-billion dollar City budget, the City spreads out just \$2 million to 225 arts and culture organizations, many of which are the only ones serving the poorest areas of the City?

And Ms. Brookins would finally have asked how can you think of eliminating the Business Privilege Tax when we know—as acknowledged by the “supply side” economists advising the Tax Reform Commission—that a “supply side” effect of these tax cuts will surely be an **increase in the real estate taxes** paid for by elderly on low fixed incomes and other homeowners?

These questions could continue, but the point is obvious: the state of current City services is so failing and so fragile that they are already at the edge of the precipice. Do we seriously want to end entirely a revenue stream that insures further declines in City services and the quality of life in our City? Have we so quickly forgotten the warnings of the Econsult advisers and Professor Inman at Wharton that whatever hypothetical “supply side” benefits the City could reap from tax cutting, vanishes when public services and infrastructure are weakened?

Well, perhaps some who do not need the Health Centers for their cancer detection or do not need L.&I. to insure that their water flows or their ceiling doesn't fall in, might argue that the means, that is the drying up of City revenues and the depleting of City services, is worth the end, assumed job creation and economic development. Fair enough, this dream. But at least this rosy assumption should be subjected to our best critical thinking and analysis. Unfortunately,

a few special interests in the City have, heretofore, monopolized the debate, and prevented a fair and objective scrutiny of the tax cuts-to-economic development hypothesis. I saw this personally on the Tax Reform Commission where my request to obtain more objective research of the pros and cons of these tax cuts from academics outside the City was quietly deep-sixed by the Tax Commission.

But it is not too late to hear another side and ponder whether in fact this tax cutting emperor, indeed wears no clothes.

Professor Robert Lynch,² is one such voice worth tuning into. He reports that:

Hundreds of studies confirm that local taxes are not a significant consideration When businesses decide where to locate and invest. Far more important are availability of qualified workers, proximity to customers and business markets, and access to raw materials and supplies. Public services also matter, including schools, transportation, health care, police and fire protection, recreational and cultural amenities, and institutions of higher learning.³

In particular Prof. Lynch shows how inefficient and wasteful it is for city governments to be deprived of necessary revenues when so little comes out of this policy as an economic

²Professor Lynch is an associate professor and chairman of the Economics Department at Washington College and recent author of, Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development (Economic Policy Institute 2004). Prof. Lynch came to Philadelphia at a forum sponsored by the Philadelphia Citizens for Children and Youth, and his Philadelphia Inquirer Op-Ed, "Tax cuts and incentives are the wrong ways to draw jobs," was published on Jan. 13, 2005, and is attached here.

³ Op-Ed, supra.

development tool: because the BPT is a federal tax deduction for businesses, the dollar cut in BPT and lost to the City is worth much less than a dollar to the business, with the difference going as more revenue out of the city to the federal government. Prof. Lynch also reports that research shows that businesses may invest only a small part of the tax cut they receive, and not necessarily in the city that gives them the tax cut. So, Prof. Lynch, states, “the public-spending reduction caused by the tax cut isn’t necessarily ‘replaced’ by private investment. That means slower economic development growth in Philadelphia and potentially more job loss.”⁴

Prof. Lynch further states that:

Instead of wasting money on tax incentives to business, Philadelphia should invest: in schools, in good roads, in public safety, in clean streets –and in public transportation....The best way to lure businesses to Philadelphia is to make the city an attractive place to live for the highly educated, well-trained workers of the 21st-century companies need.

Investment in public services, especially in education and infrastructure, will spur economic growth, influence business location decisions, create jobs, and attract people..”⁵

Thus Professor Lynch counsels, based on hundreds of studies across the country, that the ending of a BPT is not a smart or efficient path toward economic development. Ms. Brookins would have additionally counseled that with essential City services so inadequate at present any further weakening of needed public services from the ending of the BPT would work against the whole purpose of having a government to protect people and maintain a decent quality of life.

⁴Id.

⁵Id.

The bill ending the BPT should not be passed, but rather a renewed effort should be begun here in City Council to pursue economic development strategies that maintain and enhance our essential public services.

Thank you for this opportunity to speak, and I am happy to entertain any questions.