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Economist Warns Philadelphia: Tax Cuts Do Not Attract Business *Investing in Infrastructure and Human Capital Produces Economic Growth*



New Coalition “One Philadelphia” Opposes Biz Tax Cuts Group Favors Balanced Discussion of City’s Economic Future

Philadelphia, November 12 – “There is no evidence that tax cuts [in cities] get businesses to move from suburbs to cities,” said economist Robert Lynch, adding that more often, businesses flee cities to nearby suburbs, resulting in no net gain in jobs for the region – but causing cities to lose resources, because of the tax incentives they provide in an effort to “keep” businesses in town. Lynch says regional governments should “cooperate rather than compete” with each other.

As Philadelphia City Council is poised to hold hearings on tax cut proposals at City Hall next Tuesday (November 23), Lynch, Chair of the Department of Economics at Washington College Maryland, came to town last week to present the findings of his book – which suggests that investment in schools, public safety, public transportation, roads, bridges and human capital is far more effective than tax cuts as a stimulus to economic growth. Speaking at a forum sponsored by Philadelphia Citizens for Children and Youth and the newly-formed “One Philadelphia” Coalition which opposes the tax cut plans proposed for the city – Lynch presented findings from his book, “Rethinking Growth: How State and Local Taxes and Services Affect Economic Development,” which reviews more than 400 academic articles that critically analyze both the claims and actual results of tax-cut plans.

“The overall concept that you have to cut city revenues to promote growth – that doesn’t work,” Lynch said. “Look at the data – look at the facts. Tax-cutting hasn’t worked; it has failed.”

Lynch says the common assumption – that if we can just reduce the tax burden, businesses will be attracted to our community and those already here will stay – is all wrong. Yet in many states and cities, elected officials embrace that notion as the best way – the only way – to attract firms to depressed areas. The thinking goes that the fiscal break to business results in substantial job creation, in areas that would otherwise remain economically moribund.

So why are tax cut incentive schemes perennially popular? Lynch says businesses like the fiscal benefits they receive, and that elected officials “believe what they want to believe,” especially when politicized econometric groups are willing to put forward “very biased” economic projections.

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Lynch, who has also written about the large and long term benefits of investing in early childhood education programs, says the secret to economic growth is ample investment in all the aspects that make a place vital and attractive. “If you invest in pre-k, schools, colleges, bridges, roads, health care, libraries, and museums – and if you create a safe, clean living environment, then you will attract families and businesses,” Lynch said. “Without investment, you get no growth.”

Lynch noted that when the federal government cuts taxes, services aren’t necessarily reduced because the federal government can borrow money. In contrast, states and cities are forced to cut services when they cut taxes, because by law, they must balance their budgets each year. “The cuts in services that inevitably follow tax cuts can actually undermine economic development efforts,” Lynch noted.

To make the case against business tax cuts to City Council, a group of Philadelphia organizations and individuals have formed a new coalition, “One Philadelphia,” which will urge a broader debate about the tax structure and the city’s future.

According to Philadelphia’s Five-Year Plan, the Business Privilege Tax provides \$279 million to the city, 14 percent of locally generated tax revenue, or more than the total annual city expenditures for the Fire Department, Recreation Department, Free Library system, Fairmount Park and support for the arts *combined*. City property tax revenues would have to increase as much as 50 percent to help to replace these funds. Already, Mayor John Street wants to eliminate 1,300 city jobs – including layoffs of police and firefighters – to save \$58 million by June 30.

The One Philadelphia coalition includes the Progressive Roundtable, AFSCME District Council 47, PCCY, Community Legal Services, PennPIRG, Action Alliance for Senior Citizens, the Philadelphia Tenant Action Group and a number of individuals, including former City Councilman Angel Ortiz, Lance Haver, Director of the Philadelphia Office of Consumer Affairs, and Maurice Sampson a local businessman.

