



## **Prepared Testimony of Marc Stier to the Philadelphia Tax Reform Commission June 17, 2024**

Chairmen Stitt and Vague and members of the commission,

My name is Marc Stier. I'm the executive director of the Pennsylvania Policy Center and the senior advisor to the advisory committee to the Commission.

Thank you for the opportunity to testify today.

There is a temptation to come to a hearing like this one with a series of conclusions and, hopefully, some arguments and evidence to back them up. And there is an even greater temptation to come to hearing like this one and say, "If you reduce my taxes, Philadelphia will secure the equivalent of manna from heaven." At this early moment in the life of the Commission I'm going to resist this temptation. Instead, I want to raise a series of questions, about both the goals of the commission and the impact of various policies on our city. I will suggest answers to these questions. But, frankly, I'm not fully confident of the answers I would give today. Economic development and tax policy are complicated matters. And there is a great temptation to simplify them by basing conclusions on limited perspectives, inadequate evidence, and, frankly, on things everyone knows or assumes that may not be true.

Sound conclusions about tax policy require consideration of a variety of perspectives and the sifting of a great deal of evidence, and I for one have not considered every perspective or found all the evidence I need to reach firm conclusions. So today I just want to raise what I think are the critical questions, with the hope that the Commission's workgroups seek to explore them in depth before reaching any conclusions.

Question 1: What is the goal of economic development and tax policy? One might think that the answer to this question is obvious: greater economic growth, more jobs, and ultimately higher revenues to provide better public services. But while the answer is partly right, it leaves out a critical issue: For whom? Philadelphia, as Rev. Holston has pointed out in his testimony, is a city that is divided racially. Black, Latino, and Asian Philadelphians have far lower incomes and wealth than white Philadelphians. And we are divided economically with extremes of wealth and poverty. While there is a temptation to say that economic growth will benefit everyone, we know that this is not necessarily true.

Higher tax revenues that come from any kind of economic growth could provide additional revenue to help all Philadelphians. But there are reasons to believe that City services are not equitably distributed and there is no guarantee that additional revenues would provide services to the Philadelphians who need them most. And even more importantly, different economic development and tax strategies will not affect all Philadelphians in the same way or even in a beneficial way. A

strategy that, for example, encourages the creation of highly paid professional and managerial jobs in the city might not benefit Philadelphians who have low incomes and have not received the education that qualifies for those positions. And an influx of people to the city to hold those jobs would not be an unalloyed blessing either. It might generate higher tax revenues that, depending on how they are spent, could help low-income Philadelphians. But it could also generate higher housing prices and the other ills of gentrification that make life worse for people who live in the city today.

Not only do we have to ask ourselves which people would benefit from any proposed economic development strategy but in which areas do we seek development. I encourage the Commission not to focus its attention solely on Center City as usually understood. I recently read a report on our central business district that said its western boundary is the Schuylkill River. This struck me as utterly blind to the enormous growth of economic activity just west of the river in the last ten years.

Even more importantly, we still don't fully understand what growth of remote work will do to urban centers in Philadelphia and elsewhere. It is likely that in the post-pandemic world, a key area for job growth in consumer services will be in our many strong and vital neighborhoods. It's also possible that those neighborhoods could be a locus for the development of new business services and manufacturing that take advantage of rental costs far lower than in Center City. At this point, it's hard to know. But the commission should be aware of all these possibilities and devise policies that take them into account.

Question 2: How has Philadelphia been doing in terms of economic and job growth? People who call for reducing our taxes have a favorite chart that shows that since 1970 jobs have shrunk in Philadelphia while they have grown in several comparable cities. It's a striking chart, one that confirms the common view that Philadelphia is in trouble. But it's also outdated and misleading. I replicated that chart a few years ago [moving the starting point up to 2005 and 2012](#) and found that up to the beginning of the pandemic job growth in Philadelphia has led all those cities (except New York since 2005). I have not looked at the post-pandemic data. We need to do that. And, of course, that comparison is not the end of the matter. Pursuant to question one, we need to drill down and look at different kinds of jobs. Even if we are doing well, perhaps there is an opportunity to do better. For example, I think there is an opportunity to do better in moving low-income Philadelphians into better, higher-paying jobs as well as in recruiting high-wage executive level jobs.

Question 3: How heavily taxed is Philadelphia? We need to delve more deeply into the question of how heavily taxed Philadelphia is today. Two years ago, I recognized that some of the commonly used data that purports to show that Philadelphia is one of the most heavily taxed cities in the United States, per-capita taxes paid, was [deeply flawed](#). Philadelphia is a unified city and county. But many of the largest cities in the country have separate county governments. Once we look at their city and county taxes, we find that Philadelphia's total local taxes do not rank nearly as high as when we look at city taxes alone. [Paul Levy and Stephen Camp-Landis](#) responded thoughtfully to my piece by pointing out that the real issue is not per-capita taxes but tax rates, and that Philadelphia's tax rates are in fact high. I [replied](#) by agreeing that tax rates matter. I pointed out, however, that it is the marginal tax rate, especially on those with higher incomes, that is most important. And, while the evidence is not as good as we would prefer, because of the uniformity clause Philadelphia's marginal tax rate is likely not much higher than average for a large American city. (As I point out in the next question, it's also barely above that in our suburbs.)

Question 4: How do Philadelphia taxes compare to those in the suburbs? I've been talking about the comparison to other cities. But those who call for lowering our tax rates are often more focused on the comparison to the suburbs. It's time to reexamine that issue as some recent data suggests that when one accounts for both our relatively lower property taxes and relatively higher taxes, [taxes in our city are not higher than those in the suburbs either on a per capita basis or in terms of marginal tax rates.](#) But we certainly need more information on this issue.

Question 5: What do we really know about the impact of taxes on job creation and economic growth? Political officials typically overestimate the impact of taxes on local economies because tax policy is the easiest policy to change and because in any city there are interests that seek low tax rates, regardless of their impact on the economy of the city. Yet national studies [I surveyed a few years ago](#) suggest that changes in tax rates have far less impact on the decisions of individuals about where to live and businesses about where to locate than many other facts. I have not looked at this research for a few years, however, and I encourage the Commission to look at more recent work.

I also want to point out that discussions of the impact of taxes on job creation in Philadelphia have relied far too heavily on a twenty-year old Econsult report that has severe methodological problems. It assumes that changes in tax rates account for all changes in Philadelphia's share of jobs nationwide. When one considers that during the period analyzed in that study, there was, for many different reasons, a massive nationwide movement of jobs from the Northeast and Midwest to the South and Southwest, as well as other factors that affected Philadelphia's economy alone—such as our relatively high crime rate—this assumption is, frankly, absurd. I recently figured out a way to control for many of the factors left out of the Econsult report, and my team will be updating that study with an estimated competition data at the end of July.

Question 6: How effectively does the City collect taxes and how does this affect our taxes' economic impact? It's time to look more closely at this. Let me give you one critical example: Political officials and pundits often say that the gross receipts part of the BIRT has a terrible impact on business formation because Philadelphia-based businesses have to pay it regardless of whether they have profits. They make this claim despite the exemption of the first \$100,000 in gross receipts from the tax. Yet, from a theoretical point of view, the GRT should have no impact on where businesses form or expand because it is levied on *all sales in Philadelphia* no matter where the business is located. The only reason the GRT would discourage a business from locating within our boundaries is if the City does not effectively enforce it. And if it does not effectively enforce the GRT, it's possible that the City could both raise revenues and eliminate any negative consequences of the GRT by doing a better job of enforcing it.

Question 7: It's time to think again about the claim that Philadelphia should become a "normal" city that relies more heavily on property taxes and less heavily on wage and business taxes. This claim is defended on the ground that people and business can move but buildings cannot. This claim is not as obvious as those who repeat it think.. For one thing, if the reason to worry about the Gross Profits Tax is that newly formed business have to pay it regardless of whether they are profitable, than that is certainly true for property taxes as well. I know of at least three small manufacturers who have recently opened businesses in the city because space is cheap. And that's partly a product of our relatively low properties taxes. Second, while I'm as much of a Henry Georgist as the next tax reformer and would love to see this city adopt land value taxation, we should remember that George favored taxes on land itself, not land and buildings. It is true that land cannot move. But buildings can and do deteriorate and depreciate. And they can be improved. That's the functional equivalent of people moving in and out of the city. Moreover, given the positive experience our city has had with the abatement on real estate improvements, which is a partial implementation of land value

taxation, do we really want to reverse direction and shift taxation to buildings and land? And finally, let me point out that the two United States cities that grew that fastest at the end of the last century and the first decade of this one, San Francisco and Boston, took off after strict limits on increases in property taxes were implemented because of proposition 13 and 2 ½ respectively. And there is reason to believe that New York and Washington, DC also saw benefits from reducing property taxes. Two economists from the CATO Institute supported this policy in an [article in the Wall Street Journal](#) 12 years ago. If this line of thought is correct, it would be folly for Philadelphia to raise property taxes to offset revenue lost due to wage and business tax cuts.

Question 8: Finally, I would hope that the commission will spend a little time considering other paths to equitable economic development besides changes to the tax code. Other cities have found success in creating jobs, especially for those with lower wages, by adopting targeted workforce development and commercial corridor strategies. The targeted workforce training approach uses city funds to assist businesses in training the workers they need to expand their operations in the city while giving those workers career paths that allow them to enter the middle class. This strategy would not just encourage new businesses to locate in the city but would support the expansion of the economic sectors growing in the city that employ trained worker at many levels such as medical research. The commercial corridor strategy, which was put forward many years ago by Harvard professor Michael Porter, takes advantage of the buying power found in dense urban communities, even when incomes are at the low or moderate level. Upgrading commercial corridors all at once, with subsidies for start-up businesses, worker training, as well as storefront and streetscape improvements, can redirect consumption to commercial corridors that once were, and could again become lively. Both private, public and public-private development of this kind has been successful in a number of areas of Philadelphia, including Manyunk and West Oak Lane. There are many other commercial corridors that would benefit from similar approaches.

I have deliberately raised far more questions than answer in these remarks because I believe that this commission could make a huge contribution to the development of good public policy in the city by a honest, thoughtful, and evidence based consideration of the answer to them. I would be happy to contribute what I can to this process.

Thank you for your attention.