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The Impact of Gov. Wolf’s Tax Proposals on Job Creation

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Gov. Tom Wolf’s proposed 2015-16 budget includes several new tax increases, including: a 20 percent increase in the personal income tax, a 10 percent increase in the sales tax for previously taxed items, an expansion of the sales tax base to dozens of previously untaxed goods and services, and a 5 percent severance tax on the value of natural gas at the wellhead—plus 4.7 cents per thousand cubic feet of gas extracted.

These taxes are somewhat offset by a gradual cut in the corporate net income tax rate from 9.99 percent to 4.99 percent, as well as approximately \$3.66 billion transferred to school districts for property tax relief beginning in October 2016.

The Commonwealth Foundation worked with the Beacon Hill Institute at Suffolk University to apply an economic modeling program to analyze the overall impact of Gov. Wolf’s proposals. Economists at Beacon Hill developed the Pennsylvania State Tax Analysis Modeling Program (PA STAMP) to calculate the impact of Gov. Wolf’s tax proposals on job creation.ⁱ

Here’s the bottom line: As a result of Wolf’s tax increases, **29,408 jobs will not be created in 2015-16**. To put that figure in perspective, consider that the Bureau for Labor Statistics estimates Pennsylvania added roughly 50,000 jobs over the last 12 months.

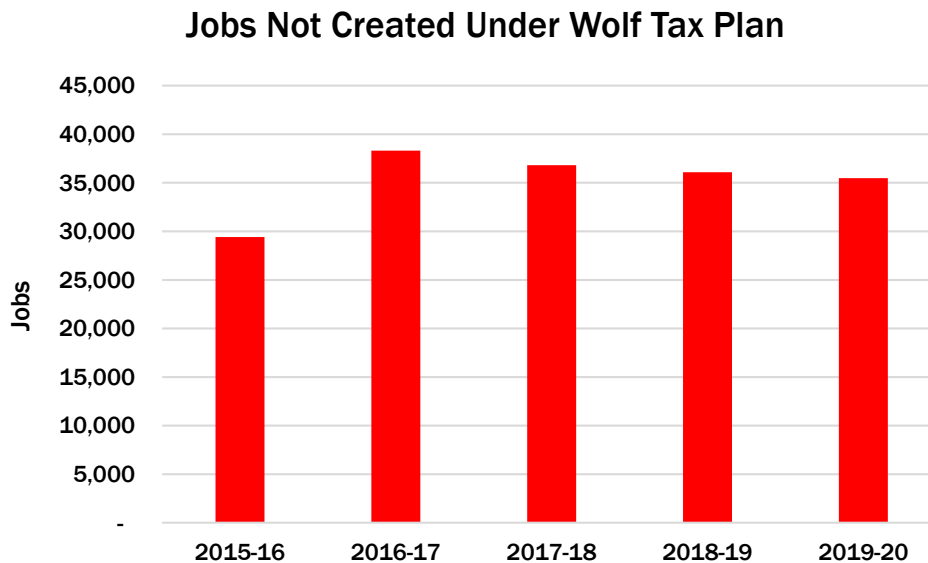
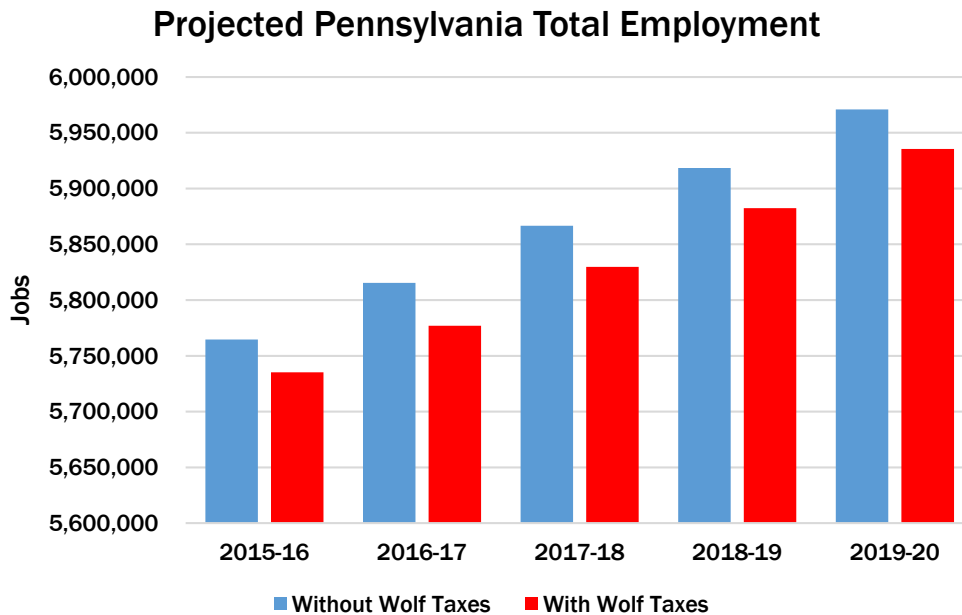
Total Employment

	Without Wolf Taxes	With Wolf Taxes	Jobs Not Created
2015-16	5,764,652	5,735,243	29,408
2016-17	5,815,360	5,777,047	38,313
2017-18	5,866,631	5,829,821	36,810
2018-19	5,918,471	5,882,391	36,080
2019-20	5,970,885	5,935,404	35,481

Excluding government employment—which would slightly tick up as a result of Gov. Wolf’s tax plan—more than 39,000 private sector jobs would not be created in 2015-16.

Private Sector Employment

	Without Wolf Taxes	With Wolf Taxes	Jobs Not Created
2015-16	5,063,968	5,024,759	39,209
2016-17	5,116,985	5,076,586	40,399
2017-18	5,170,557	5,132,299	38,258
2018-19	5,224,691	5,186,636	38,055
2019-20	5,279,391	5,241,433	37,957



Frequently Asked Questions:

- 1) *What is the Pennsylvania State Tax Analysis Modeling Program (PA STAMP) and how does it work?*

PA STAMP is a computer program that simulates the economic impact of proposed tax policy changes. Economists at the Beacon Hill Institute developed a flexible model that compares Pennsylvania's baseline economic scenario to an alternative scenario. The baseline scenario assumes current tax law remains unchanged for the next five years, while the alternate scenario assumes Gov. Wolf's tax proposals are fully implemented in the 2015-16 fiscal year.

PA STAMP provides a flexible Excel spreadsheet that can be used to run economic simulations on employment, as well investment, population, and disposable income. The model creates a mathematical description of the relationship between producers, consumers, and government policy. STAMP analyses have been utilized in two dozen states to demonstrate the dynamic effect of tax changes on jobs and the economy.

2) How reliable are economic models?

Economic models are based on reasonable, rational assumptions about the behavior of individuals and firms. This is typically how economists analyze the impact of tax policy changes. Models—though not perfect—are an important tool for lawmakers and policy analysts when determining the impact of a policy proposal.

3) This policy memo refers to “jobs not created” instead of “jobs lost.” What is the distinction?

The analysis does not suggest the state will lose jobs from this year to next year, but that there will be fewer jobs under the tax proposal than under current tax policy.

Demographic and economic trends suggest that Pennsylvania will enjoy modest, sustained job growth over the coming months. In fact, under PA STAMP’s baseline scenario, jobs will grow at a steady rate over the next five years. However, according to the Beacon Hill analysis, fewer jobs will be created if Gov. Wolf’s proposals are enacted than if no changes are made to current tax law. Accordingly, Gov. Wolf’s tax changes will result in a significant number of “jobs not created.” The governor’s tax plan may not prevent the economic pie from expanding, but it results in slower job growth.

The “jobs not created” figure represent the number of jobs that would exist during a given year under existing policy. These annual figures should not be added together.

4) Does government spending stimulate economic growth?

This has been at the heart of economic debates for quite some time. The key question to consider is whether the second order effects of higher taxes—fewer jobs, lower wages, reduced investment, reduced incentives to continue working—outweigh the first order effects of greater government spending.

Beacon Hill economists do find that the governor's proposals will lead to slightly higher levels of government employment. In this narrow sense, higher taxes stimulate government employment. However, the tax changes are detrimental to private sector employment—and the net impact on jobs in Pennsylvania is negative as a result of Gov. Wolf’s proposals.

ⁱ Note: The model does not account for Gov. Wolf’s retroactive increase in the bank shares tax or the increased sales taxes on non-cigarette tobacco products. As part of Gov. Wolf’s corporate net income tax cut, he calls for a transition to combined reporting, which is also not accounted for in this analysis.