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BEFORE THE SENATE DEMOCRATIC
POLICY COMMITTEE OF THE PENNSYLVANIA LEGISLATURE

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Chairwoman Boscola and Members of the Committee:

I am going to speak about the politico-economic context of Pennsylvania's policy of reducing corporate taxes. My colleague Steve Herzenberg will follow with some of the details about the consequences of recent corporate tax cuts for tax revenues, drawn from our joint paper.

For 25 years in our state, and since 1980 nationally, we have followed the path demanded by corporations and the rich. We have cut their taxes with the promise that doing so would lead to more investment that would, in turn, lead to economic growth and new jobs.

Cutting corporate taxes hasn't worked, either nationwide or in Pennsylvania or in other states such as Ohio. Nor has cutting incomes taxes on the rich generated economic growth and new jobs as the experiences of Kansas and Louisiana show.

Tax cutting has led, on the federal level, to deep budget deficits with little increase in business investment and little impact on our economy aside from that which results from the temporary fiscal stimulus of enlarging the deficit.

The states, however, cannot run deficits. So states that have sharply cut taxes on corporations and the rich have, on the one hand, increased the share of taxes being paid by working- and middle-class people. And on the other, they have deeply cut budgets, especially for education, human services, and infrastructure. The result has been growing inequality and economies that have grown no faster and in many cases more slowly than the rest of the nation.

To understand the failure of tax cuts, it is useful to recognize that there is another path we could take today to make our economy work for everyone. It's not untried, and it's not utopian. It's the path America and Pennsylvania took in the three decades after World War II, decades in which the American economy grew *both* at the fastest rate in our history *and* in a more egalitarian direction.

In those decades, we increased the minimum wage, which reached its highest point adjusted for inflation in 1968. A higher minimum wage and the expansion of unions in both the public and private sectors led to wages rising as fast as productivity growth. We expanded the safety net, helping the elderly with social security benefits, the jobless with unemployment benefits, and children and their parents with subsidized childcare. We built public housing. And we enacted Medicare and Medicaid, making health care accessible to many who could not previously afford it.

Productivity grew quickly for two reasons. On the one hand, rising wages and benefits drove the economy forward because working-class and middle-class people could afford to buy more. That consumption gave businesses a reason to invest in new productive capacity. On the other hand, private investment was supplemented by a huge increase in public investment. We spent heavily on education at all levels and as the percentage of Americans with advanced training in college and in trades grew rapidly our workforce became far more productive. We built roads and bridges, transit systems and airports, water and sewer systems. Those investments created jobs; they expanded the markets for workers—enabling businesses to hire those best qualified for each position—and reduced the costs of transportation, creating a larger market for goods that spurred innovation. Government investment in research led to explosive technological growth, from which we benefit to this day.

Taxes were higher and fell more heavily on both wealthy individuals and large corporations than they do today. But they funded the public investment and safety net that fueled our economic growth. Without those taxes, the rich would have been richer. But they would have been so rich that they would have saved rather than spent much of their income, reducing the buying power that is necessary to move the economy forward.

And that's exactly what we see in America and Pennsylvania today. Tax cuts on corporations and the rich increase inequality but keep failing as an economic development strategy because it is the consumption of average Americans that drives businesses to invest and produce more.

That's true of the Trump tax cuts which have not led to an increase in business investment. And it's even more true at the state level where tax cuts for the rich have to be offset by budget cuts and tax increases on everyone else, which thus reduces consumption in the state. Our corporate tax cuts serve as one of the main reasons that the state share of education spending has been declining in the last decade. And that has led to restraint in school spending and higher school property taxes that have made it harder for average Pennsylvanians to sustain or increase their consumption. Economic stagnation or distress is the short-term result.

The long-term result is even more disastrous. Those who defend the corporate agenda talk incessantly about investment but fail to recognize that public investment in an educated population, in roads and bridges and transit systems, and in access to affordable broadband, among many other things, are as critical —or even more critical—to the long term productivity of our economy as private investment.

It's time to remember how Pennsylvania became an economic colossus in an America with a middle class that was growing and becoming more prosperous because we can re-create those policies. We can make our tax system fairer again by asking corporations and the wealthy to pay their fair share. We can use new revenues to invest in education at all levels, infrastructure, and the safety net, especially for health care, childcare, and housing. We can raise the minimum wage, restore the 40-hour work week, and help workers form unions. We can once again build our economy from the bottom and middle up, making Pennsylvanians richer and more equal at the same time.

Thank you for taking my testimony.