



Philadelphia Needs to Create Jobs and Reduce Poverty: Tax Cuts Won't Do It

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Executive Summary

For the last twenty years, discussion about ways to improve the economy of Philadelphia and create jobs has far too often focused on both the wrong goal and the wrong means.

The goal has not been to reduce poverty and income inequality and create economic opportunity for those with low incomes, especially but not only for Black and brown people. Instead, it has been to pursue economic growth and jobs without regard for the impact on poverty.

The means has been cuts in business and wage taxes even though the evidence showing that this is an effective and efficient way of pursuing economic growth and creating more jobs has always been questionable. And there has been good reason to fear that tax cuts and the spending cuts or restraint they require would fail to reduce poverty and income inequality or possibly make them worse. Meanwhile, we have too often ignored alternatives to tax cuts as a strategy for generating jobs while increasing economic equality.

The aim of this paper is to redirect this debate. In the first five sections of the paper, we call into question the theoretical and empirical claims put forward by supporters of an economic development strategy focused on tax cuts, especially in business taxes. In the last section, we point to policy alternatives that promise to create investment and jobs in ways that reduce poverty and economic inequality in the city.

The first part of the paper challenges the widely held notion that Philadelphia's taxes are high, relative to those of the other 29 largest cities in the country. We show that this widely held and reported idea is based on misleading data that compares revenues raised by cities that are also counties, like Philadelphia, with that of cities that are embedded in county governments. Those embedded cities receive local services from their county governments. So, a fair comparison of local tax revenues should include both revenues raised by city governments and those raised by the county governments that provide services to the embedded cities. Once that correction is made, we find that Philadelphia's per capita taxes are only slightly above the median of the 30 largest cities in the United States.

The second part of the paper challenges another widely held belief that Philadelphia has a terrible record at creating jobs. Again, this belief is based, in part, on misleading data. As a result of economic, policy, and cultural changes that encouraged suburbanization, Philadelphia like most cities in the Northeast and Midwest did suffer major job losses in the last quarter of the 20th century. And because Philadelphia had more manufacturing jobs to lose than other cities, and suffered more from racial strife, it lost more jobs than most. But since the early part of this century, when economic and cultural changes began leading to a revival in urban areas, Philadelphia has been creating jobs faster than many of its competitors. We have not created enough jobs or the right kind of jobs to bring our unemployment rate below national levels, especially for Black Philadelphians. But there is no evidence that our tax system, rather than our problematic education system and other issues, is the cause of high unemployment levels.

The third part of the paper challenges, on both theoretical and empirical grounds, the claim that cutting taxes, and especially business taxes, can lead to job growth in the city without a loss of revenue. We

show, first, that because taxes are a small cost to businesses compared to the cost of labor, the cost of raw materials and goods used in production, and the cost of transportation of finished products, it is highly implausible that minor differences in tax rates would play a major role in businesses' decisions to locate or expand in one jurisdiction or another. Second, we point out that non-tax considerations play a far more important role in where people decide to live. We also point out that if a reduction in the Philadelphia wage tax leads to higher property taxes, the relative cost of living in Philadelphia versus other communities may not change at all and that it is the overall tax burden, not the wage tax alone, that families and businesses consider when making decisions about where to locate. Third, we point out that recent evidence suggests that most new jobs are created by start-up enterprises not by existing businesses moving from one place to another. As a result, Philadelphia is likely to be an advantageous place for a business start-up. While start-up businesses typically do not make profits in their early years, and thus would not pay much in Philadelphia business taxes, it would pay property taxes which are relatively low in our city.

Then we turn to econometric analyses of the impact of taxes on economic growth and job creation. We first show that the academic consensus is that the impact of reductions in business taxes on job creation is both small and comes at a substantial cost in local revenues. The notion that reducing business taxes would generate so much economic activity that overall tax revenues would increase is, according to this literature, utterly fanciful.

The debate in Philadelphia about taxes has been heavily influenced by the econometric work of Econsult Solutions, to which we then turn. That work is deeply flawed. To the limited extent that Econsult provides enough information for us evaluate their work, it appears that their estimates of the impact of business taxes on economic growth and job creation is twice that of national estimates. The reason for this severe overestimate is easy to see: their methods attribute any changes in business activity or the level of jobs in the city over the period of their analysis to changes in tax rates. Yet we know that during this same period dramatic economic, transportation and cultural changes led to first the decline in jobs in cities Philadelphia and other cities and, in recent years, to their recovery. Attributing all the changes in the number of jobs to minor tax changes is thus an abuse of statistical methods that is likely to give us vastly overstated estimates of the positive benefits of tax cuts. And one important sign of the failure of Econsult's methods is that their 2015 report fails to predict the addition of 90,000 new jobs in Philadelphia in the next four years.

In the fourth part of the paper, we try to reorient the discussion of economic development from a focus on taxes and jobs in general to the impact of our public policies on economic inequity, and particularly to the racial inequity created by national and local policies that have reinforced structural racism. We show that, for the most part, public policy has ignored the consequence of changes in tax policy on the distribution of income. And then we point out several reasons to worry that an economic strategy based on reducing taxes not only would fail to generate a huge influx of new jobs but is likely to harm low-income Philadelphians for four reasons. (1) Business tax cuts are themselves likely to be regressive in nature, giving larger benefits to the most-well off Philadelphians. (2) Low-income Philadelphians are far less likely to benefit from higher wages as result of an increase in economic activity. National research shows that when cuts to taxes generate new jobs as many as 80% of those jobs go to new residents of a city. And while wages may increase slightly for moderate- and high-income residents of the city, low-income residents, who are largely cut off from the dynamic sectors of our economy, are likely to benefit far less, if at all. (3) Reductions in business and wage taxes are likely to lead to an increase in property values and thus property taxes. While people with moderate and high incomes are likely to benefit from an increase in property values along with the increase in wages, those with low incomes would likely find that an increase in rent and property taxes would

make it impossible to stay in their homes and the neighborhoods in which they have long lived. (4) Because tax cuts do not generate enough new revenue to replace that which is lost, the tax cut strategy would eventually require spending restraint or reductions. Those cuts are likely to be made to basic services and education. However, education spending disproportionately benefits the lowest income Philadelphians. Many higher-income Philadelphians send their children to private schools. It follows then that securing a good public school education is far more critical to the lives of middle-income children and of lower-income children, who already have so much to overcome in their lives.

In the last section of the paper, we argue that the focus on tax rates in our discussion of Philadelphia's economy should be replaced by the consideration a number of alternatives strategies for expanding the economy and creating jobs in ways that reduce poverty and economic inequality for Philadelphia's Black and brown residents. We obviously do not do justice to the six new ideas we present in this section but offer them merely as an indication of how much more comprehensive our discussion of Philadelphia's economy can and should be.

Despite its length, this paper is just an initial look at the entire range of issues it discusses. It does not claim to be the final word on any of them. Our hope is that it will not only stimulate further discussion and debate but will encourage those debates to focus on the critical moral issue the city faces: how to overcome the legacy of economic inequality and structural racism that has left almost a quarter of our fellow Philadelphians living in poverty.

Introduction

In the two decades since the 2003 Philadelphia Tax Reform Commission report, the debates about economic growth and job creation in the city have focused on the problem of taxes. The dominant narrative in these debates has held that Philadelphia is a city that taxes too much,¹ that it taxes the wrong things—workers and businesses rather than land and buildings—and that high business taxes discourages business investment by encouraging them to locate outside of Philadelphia.² Advocates for tax “reform” conclude that Philadelphia's current tax structure is the reason for the city's slow economic growth and job creation. Some even say that our high rate of poverty is another result of our tax structure.

This report is the first installment in a long-term project to advance a set of public policies far more likely than tax cuts to create equitable growth in Philadelphia. In it we challenge every part of the dominant narrative and sketch an alternative set of policies that might reduce poverty in our city, generating greater economic growth that benefits everyone. We want to emphasize that this is the beginning of the project, not the end. Urban tax issues are complicated, and the evidence is rarely one-sided. The question of urban poverty—and the impact of structural racism on it—is even more complicated. So, this paper does not offer complete or final answers. It is meant, rather, to call into question some of the claims made by those who think that taxes are the beginning and end of urban economic policy and anti-poverty policy and to encourage thinking about alternatives. There will be

¹ A 2019 study by the Pew Charitable Trust on the revenues and expenditures of 30 cities, Philadelphia was to be the sixth-highest-taxed city. <https://www.pewtrusts.org/en/research-and-analysis/reports/2019/03/20/the-cost-of-local-government-in-philadelphia>.

² Philadelphia Tax Reform Commission, 2003, <https://economyleague.org/uploads/files/977693283426125976-the-road-to-tax-reform.pdf>; Mayor's Task Force on Tax Policy & Economic Competitiveness, “Thinking Beyond Today: A Path to Prosperity,” 2009, <https://ccato.org/DocumentCenter/View/198/Thinking-Beyond-Today-A-Path-to-Prosperity?bidId=>; In the report, both Philadelphia's business tax and wage tax were held up for criticism. On the latter, see Christopher Wink, “Philly's city wage tax just turned 75. Here's its dubious legacy.” Attracting top talent was the common interest interviewed entrepreneurs shared. <https://technical.ly/2014/12/12/philadelphia-city-wage-tax/>.

more that we and others will say about these issues in the future, and we hope this paper stimulates a much-needed debate about the future of our city.

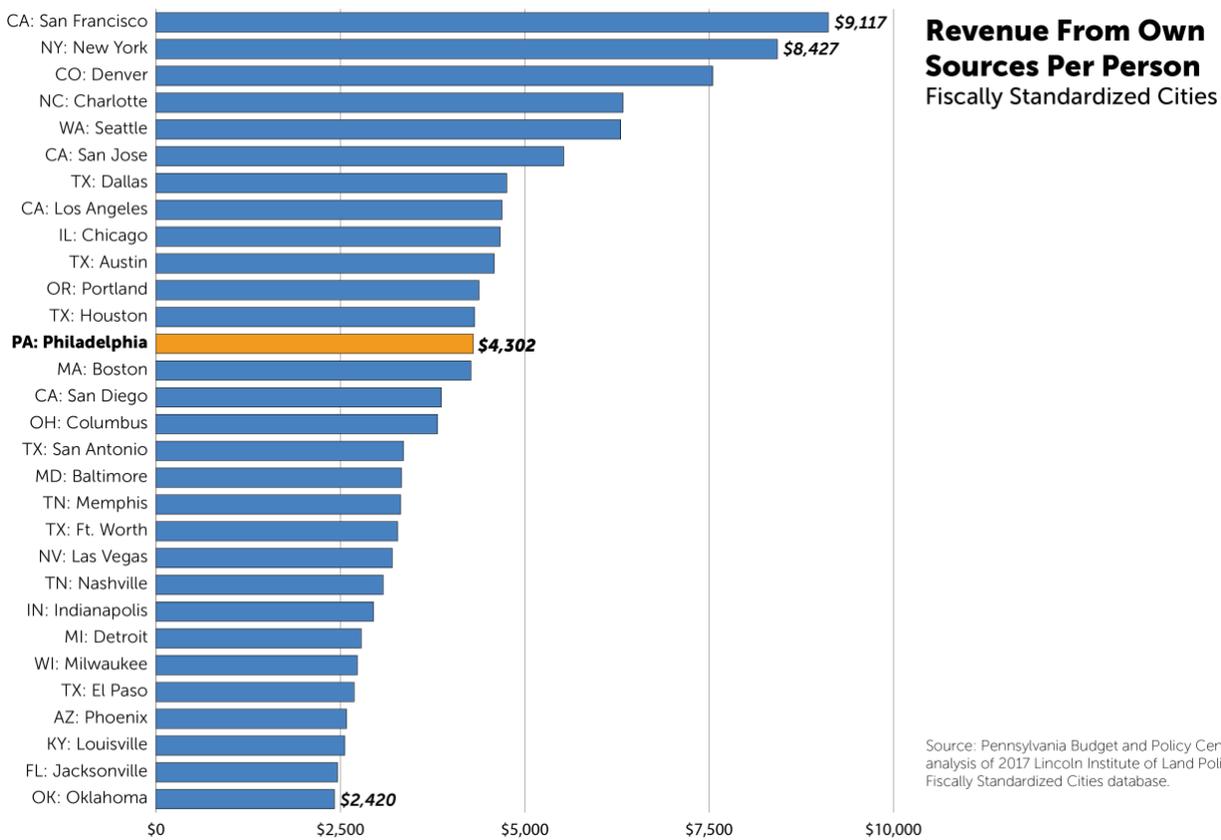
In the first part of the paper, we show that Philadelphia’s taxes are not particularly high. In part two, we show that, at least in recent years, Philadelphia has been creating jobs as fast as other cities and that it has done so despite minimal reductions in its level of taxes and a slight decline in the share of local revenues that come from property taxes. In part three, we call into question the notion that sharp reductions in business taxes would lead to a huge increase in job creation and that they could do so without creating deep, long-term problems for the city. In part four, we point out that, generally, the creation of jobs and economic growth do not necessarily lead to the reduction of poverty, in part because newcomers to the city take a large share of new jobs and in part because structural barriers of race and class stand in the way of lower-income Philadelphians’ integration into our dynamic economy. Part six introduces several policy ideas—which we expect to develop in subsequent work—that would address those barriers, reduce poverty and improve Philadelphia’s economy for all of us.

Are Philadelphia’s Taxes High? No

That Philadelphia is one of the highest taxed cities in the United States is a common belief.

But it’s not true. As figure 1 shows, out of the 30 largest cities in the United States, Philadelphia ranks 13th in tax revenue per person per year.

Figure 1



Tax revenue per person in Philadelphia, at \$4302, is just \$500 per person more than the median value of \$3,844 for these 30 cities. And it is *far* behind the most heavily taxed cities on a per capita basis,

including San Francisco at \$9,117, New York at \$8,427, Denver at \$7,550, Charlotte at \$6,333, and Seattle at \$6,302. San Jose, Dallas, Los Angeles, Chicago, Austin, Portland, and Houston also take in more tax revenue per person than our city.³

How is it possible that what “everyone knows” is so wrong?

One answer is that Philadelphia is one of the 9 cities among the 30 largest that is also a county. In the other 21 cities, many of the local government services that are provided by the City of Philadelphia are delivered instead by the county governments in which those cities are embedded. So, Philadelphia’s tax revenues pay for what both city and county governments provide in 21 of the largest 30 cities. And that pushes up Philadelphia’s per capita taxes relative to the other cities. Looking only at the revenues raised by cities, Philadelphia’s taxes are fairly high, ranking 6th out of those 30.

But that is a patently unfair and absurd comparison. To fairly compare the tax burden of living in Philadelphia to those of the 21 cities embedded in independent county governments that provide some of the services provided by our city, we must add the share of county taxes that provide local services to those city governments.

Some of us have known about this discrepancy for years, but the data needed to do a fair comparison of the tax burden of Philadelphia and of other large cities—data that takes into account the impact of county governments (or their absence)—was not easily available. Since 2017, however, a nonprofit, nonpartisan research institute, the [Lincoln Institute of Land Policy](http://www.lincolninstitute.org), has provided data that combines city revenues and a proportionate share of the county revenues devoted to city residents for more than 200 cities in the United States. The Lincoln Institute calls this data series “fiscally standardized cities.”

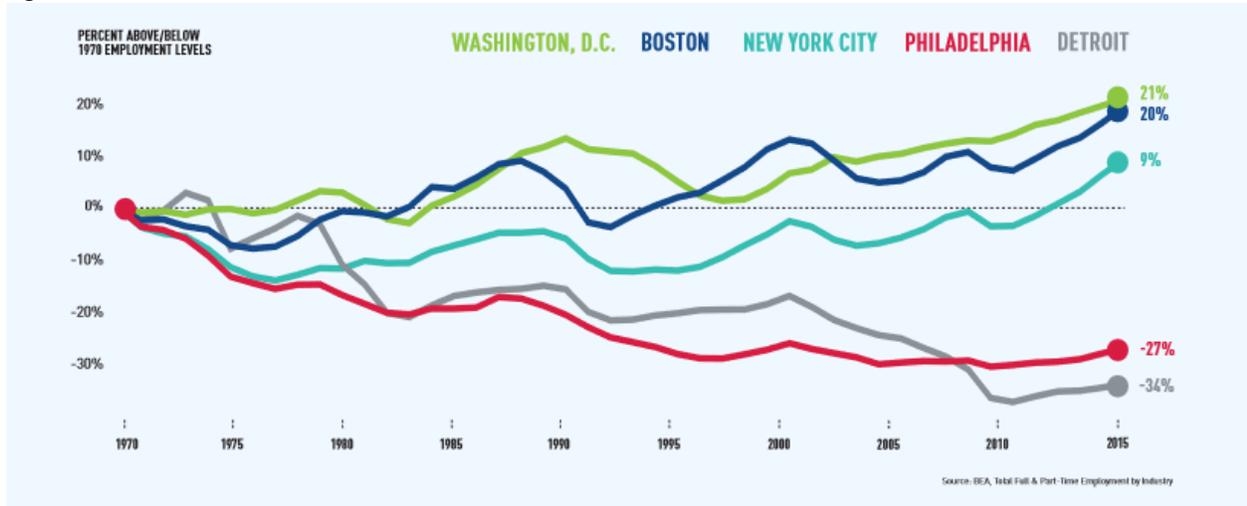
That is the source of the data in figure 1, which shows that the taxes Philadelphians pay for local government services are far closer to the median than what residents in the cities with the highest taxes pay.

Is Philadelphia a Job Creation Disaster Case? No

The second part of the dominant narrative holds that Philadelphia’s high taxes account for its dismal record in job creation. One single chart, shown here as figure 2, has been endlessly reproduced to justify this claim.

³All the data in this piece are from 2017. They exclude Washington, DC, which has the highest taxes of any city, but which is not comparable to the other largest cities because it provides services that are provided by the states in which other cities are located.

Figure 2



Look very closely at figure 2 and you will see the problem with taking it as evidence of Philadelphia’s long-term difficulties in job creation relative to New York, Boston, and Washington, DC. There is, in fact, a sharp drop in jobs between 1970 and 1985 and a lesser decline between 1985 and 2000. But after that point the line slightly rises. Philadelphia is still well below the other three cities, but that is largely the result of the initial starting point.

Figure 2 hides Philadelphia’s success because of when the data series begins.⁴ If we look at the same chart with a different starting point, job creation in Philadelphia in recent years looks much better. Figure 3 provides the same data but starts in 2005 and continues to 2020. Philadelphia’s job growth is well below that of New York City but close to that of Boston and Washington, DC.

⁴ The same error of using 1970 as the starting point for examining Philadelphia’s job creation record has been repeated in multiple publications in the last twenty years, and most recently in: Inga Saffron, “[Philly didn’t become America’s poorest big city by chance. Here’s how we fix it.](#)” *Philadelphia Inquirer*, October 13, 2020. (In other respects, however, the article is quite insightful.)

Figure 3

Cumulative Job Growth in 5 Cities, 2005 to 2020

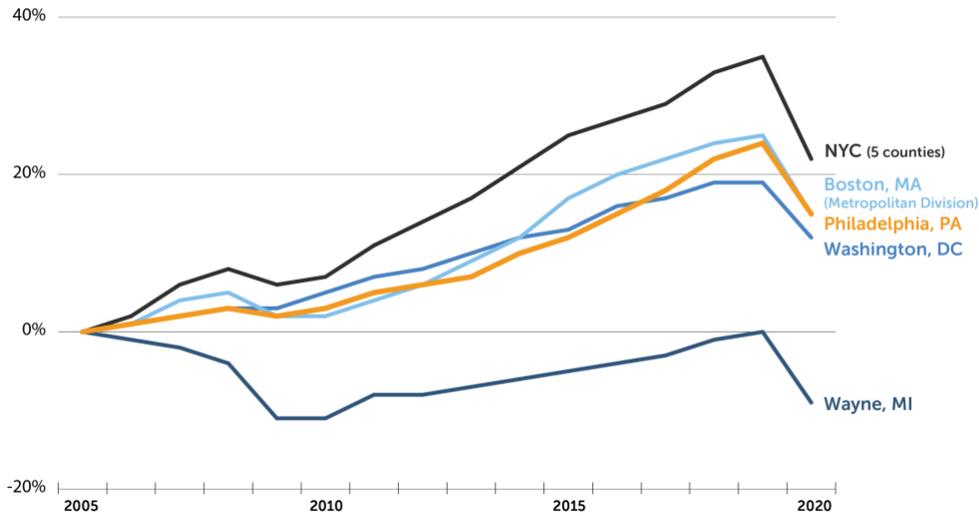
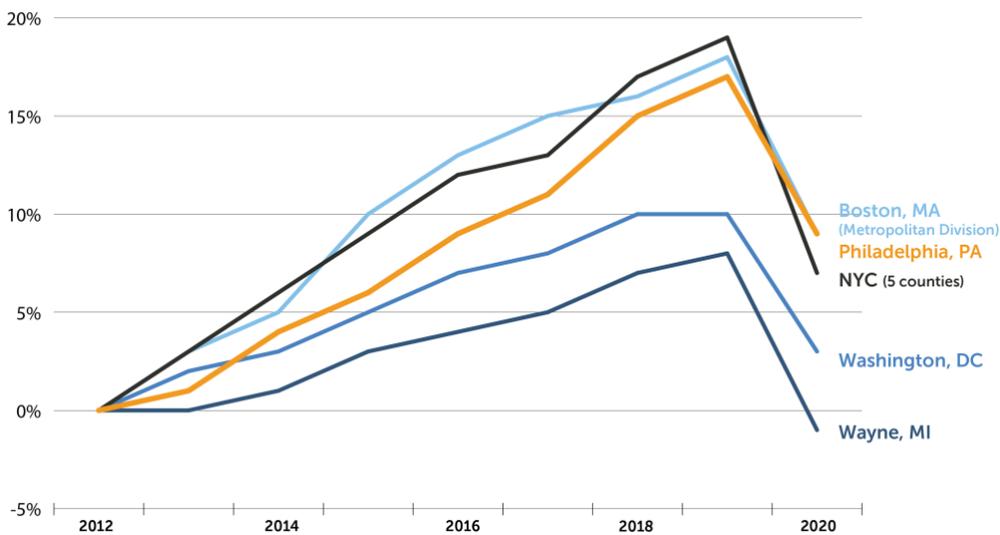


Figure 4 shows that when using the same data, but starting in 2012, Philadelphia looks better still with job growth quite close to New York City and Boston and well above Washington, DC.⁵

Figure 4

Cumulative Job Growth in 5 Cities, 2012 to 2020



⁵ We are not the first to point out Philadelphia’s recent success in job creation. Mike Shields, Haseeb Bajwa, and Samuel Hausner-Levine point out that between 2012 and 2018, Philadelphia’s average annual growth rate was 4.3%, higher than most of its peer cities and the national average. See “Philadelphia’s Economic Competitiveness—Part 4: City to City Business Growth,” *Economy League*, July 28, 2021, <https://economyleague.org/providing-insight/leadingindicators/2021/07/28/peercities2021-part4>.

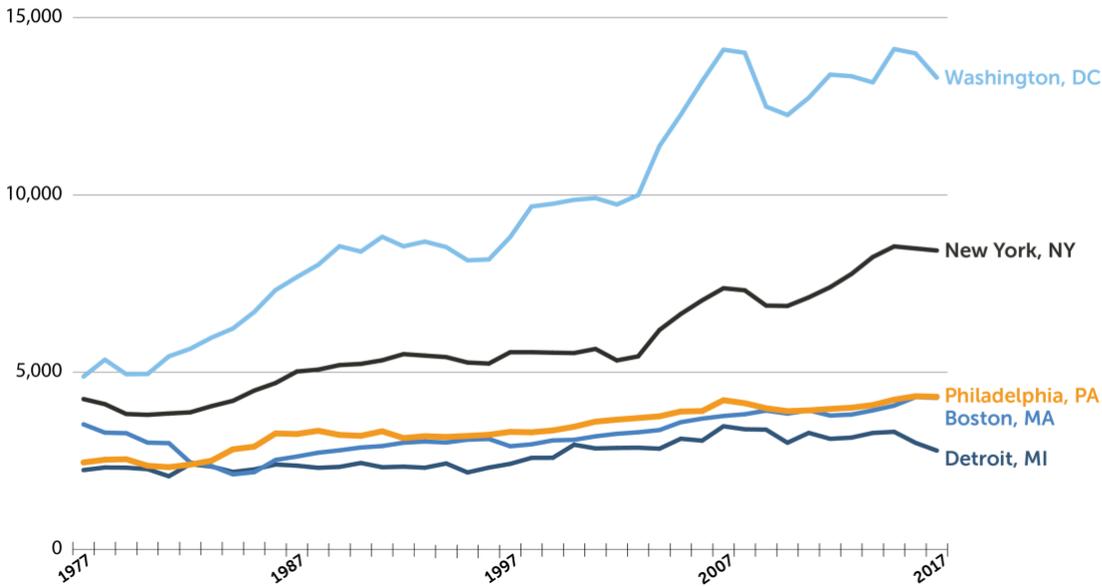
How is it possible that Philadelphia, the “basket case” in job creation between 1970 and 2005, became so effective in creating jobs after 2005?

If taxes were the major problem that stymied job growth in Philadelphia in the first period, but not in the second, we would expect significant changes in Philadelphia’s taxes. But figure 5, which presents locally raised revenues for the five fiscally standardized cities, shows that Philadelphia’s taxes have actually increased slightly over this period (when adjusted for inflation). While some reduction in wage and business taxes took place after 2005, they were so small that the growth in jobs exceeds the most optimistic projections of their effect by a factor of at least 10. Philadelphia’s decline and rise in job creation must be due to something other than our taxes.

Further reason to doubt that taxes have a major impact on urban job creation, generally, is that cities with constant or increased local revenues performed well in job growth. Washington, DC, and Boston continued to lead these five cities in job creation despite Washington, DC, more than doubling its local revenues per capita, and Boston holding revenues per capita almost steady over the last the forty years. New York, which has nearly tripled its local revenues per capita, continues to have strong job growth as well.

Figure 5

Local Revenues Per Capita Fiscally Standardized Cities
(Adjusted for Inflation with CPI-U)



These comparisons in the job growth and taxes of a few cities over time are merely suggestive, not conclusive. It is extremely difficult to isolate the impact of taxes on job creation as we’ll point out below. This data does show, however, that Philadelphia is not the job creation “basket case” it is often said to be. And it shows that, by themselves, neither tax rate levels nor whether a city taxes wages and business profits or property can account for changes in how many jobs are created within it.

We must add that despite Philadelphia’s success in creating jobs since the early 2000s, we have not created enough jobs or the right kind of jobs to reduce our unemployment rate below national levels, especially for Black and brown Philadelphians. But there is no evidence that our tax system, rather than our underfunded education system and the difficulties associated with our high poverty rates issues are the cause of high unemployment levels.

Why Taxes Are Much Less Important than Usually Thought

In this section, we examine business taxes’ impact on job creation and economic growth more generally, from both theoretical and empirical points of view.⁶

We’ll start with theory and then look at four reasons to doubt the claim that taxes are a major determinant of job creation.

Economic Theory and Job Growth

There is obviously a theoretical justification for thinking that business tax rates have an impact on where businesses locate and families live. Economic theory tells us that people are rational and make decisions that maximize their well-being. We rightly assume that businesses make more profits if business taxes are lower and that people are able to save and consume more when wage and property taxes are lower. It seems to follow that businesses would be motivated to invest more in places where taxes are lower, and families would decide to live in such communities.

This theoretical point is sound. And there is absolutely no question that there is some level of taxes in a city that would discourage business investment and both encourage people to leave a city and discourage them from coming. The issue, however, is about how powerful tax rates are relative to other factors that lead to investment location decisions for businesses and migration decisions for workers.

National and Local Trends that Affected Job Creation in Philadelphia

We saw above that Philadelphia lost jobs for 35 years after 1970 but started gaining jobs since 2005. Yet the city’s taxes rose slightly during that time, though far less than the other five cities to which we’re sometimes compared. And our share of revenue property taxes declined during this same time. Tax rates clearly don’t give an explanation for Philadelphia’s turnaround. But there are some national factors that might.

It’s easy to explain why every one of the five cities compared in figures 2 to 6 lost jobs in the last quarter of the 20th century. That loss was a product of the well-known shift of manufacturing from the cities to suburbs and from the Northeast and Midwest parts of the country to the Southeast and Southwest. These changes were driven by changes in manufacturing technology that made one-story rather than multi-story buildings ideal, the development of interstate highways that made it possible for raw materials and final goods to be transported to and from any place in the country, and manufacturers’ efforts to seek lower labor costs in parts of the country with low union density and labor law that’s unfavorable to workers.

⁶ While we’ll point out some reasons that the impact of wage, as well as business, taxes on Philadelphia’s economy has been highly overstated, this paper will focus mostly on business taxes. We’ll return to the issue of wage taxes’ effects on job creation and economic growth with a more detailed analysis in the future.

The loss of jobs in all of these cities was also a result of a shift in residents from cities to suburbs, which was driven by the shift of jobs to the suburbs as well as “white flight” from urban centers that had a rising and increasingly impoverished Black population created by the same job loss, redlining, as well as the racist zoning and other barriers that made it difficult for Black people to follow jobs to the suburbs. All of these factors—and no doubt a long-standing American distrust of life in big cities—helped create a cultural mood in middle and late 20th-century America that held up suburban life as an ideal.⁷ This ideal became a further barrier to economic growth in cities like Philadelphia.

While these factors affected all five cities, Philadelphia and Detroit were especially hard hit and continued to lose jobs in the 21st century. At the turn of the century, these two cities had a larger share of manufacturing jobs than New York, Boston, and Washington, DC, which historically had vibrant business and other service sectors: Boston with its insurance, investment, health, and education sectors; New York with its dominant financial sector; and DC with an expanding national government. Because of this, it’s not surprising that Philadelphia and Detroit fell behind the other three cities. In addition, Philadelphia suffered from the racial strife created in large part by Mayor Frank Rizzo and the high rate of crime in Philadelphia as compared to other cities going back to the early 20th century.

That Philadelphia has been more successful in recent years also has a number of plausible explanations related to cultural and economic changes. In the last fifteen years, the suburban ideal has been overcome by another cultural shift, especially among millennials and retiring baby boomers. The arts, culture, restaurants, and streetscapes of our cities have taken on a whole new appeal. And the attractions of urban life have been multiplied as the populations of our urban areas take off, including Philadelphia’s Center City and surrounding neighborhoods. Indeed, recent research by two economists shows that their “measure (of the quality of leisure amenities in a city) ties with low taxes as the most important predictor of urban population growth.”⁸

There seems to be no end to the proliferation of high-end coffee shops, restaurants, and art spaces of many kinds. There is an underlying economic basis to this new trend. The health care, education, and technology sectors have been growing due to technological advances and public policies which have stimulated the demand for health care and supported research in the field. These fields require the kinds of intense daily interaction among teachers, researchers, practitioners, executives, and providers of legal and other business services that is best conducted face to face in this era of digital communication. That has made cities far more economically attractive, and Philadelphia has very much benefited from the growth in its “eds and meds” sectors. That growth in employment has helped create an urban environment with the cultural excitement that has made urban life far more attractive now than it was 40 years ago. These trends have especially favored Philadelphia because of our lower property taxes, which have made housing relatively more affordable for younger people at the start of their careers. Shifting taxes from business to property would jeopardize this incentive.

⁷ Alfred Kazin, “Fear Of The City: 1783-1983,” *American Heritage*, Volume 24, Issue 2, 1983, <https://www.americanheritage.com/fear-city-1783-1983>.

⁸ Gerald A. Carlino and Albert Salz, “Beautiful City: Leisure Amenities and Urban Growth,” Federal Reserve Bank of Philadelphia Working Paper No. 19-16, March 13, 2019, revised April 29, 2020. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3351275.

The Limited Impact of Taxes on Investment and Residence Decisions

These national and local trends were extremely powerful, and their effects were felt all over the country. We can see why their impact swamps any changes in tax rates if we look further at the role that taxes play in the decisions that businesses and families make about where to plant themselves.

Business profits depend on both sales and the cost of doing business. Businesses pay some taxes no matter where they locate. And for most businesses, taxes are a much smaller cost of doing business than labor costs—and for manufacturers, the costs of energy and raw materials. Access to low-cost energy and raw materials are determined by things such as geographic location and transportation costs. And access to plentiful, skilled labor is determined by the quality of training and education found in a geographic location and by the costs of regional transportation for educated and trained workers. The best research we have suggests that, together, all state and local taxes account for only 1.9% of total business costs. Corporate income taxes at the state and local levels amount to only about 8.6% of that 1.9%, or 0.16%, according to one estimate.⁹ The very small reductions in business taxes put in place by Philadelphia in recent years thus amount to a tiny fraction of the costs of production paid by businesses operating here.

The recent scramble by the nation’s cities to offer Amazon huge tax subsidies shows us how limited in importance those subsidies were. Amazon chose two cities, Washington, DC, and New York, with the highest local in the country even though their tax subsidy packages were far less aggressive than that of other cities. And then, when New Yorkers rejected the deal, Amazon still decided to expand there. Obviously many other factors, and especially the availability of skilled workers, were far more important to Amazon than taxes.

Of course, the city’s wage tax might also affect businesses’ investment decisions if it means they must pay employees more in Philadelphia than in other locations to compensate for it. Yet here too, the empirical evidence about the effect of differential wage or income tax rates on where businesses locate is also fragile. Moreover, there has always been something disingenuous about the argument for wage tax reductions in the city—they have been put forward not so much as a way to reduce the overall burden of taxation but as a way of shifting taxation from wages to property taxes—again, to make Philadelphia a city with a more “normal” tax structure. Thinking that trading lower wage taxes for higher property values and property taxes would reduce the wages that employers have to offer employees to come to Philadelphia fails the basic test of logic. What is important is the burden of taxation and the cost of living, not whether an employee pays more wage or real estate taxes (which affects the cost of living both directly and indirectly in the higher cost of housing).¹⁰

There are other considerations that influence where employees want to live besides taxes. The difference in taxes between one community and another is a small share of household income. (As

⁹ Peter Fisher, “State and Local Taxes Are Not Significant Determinants of Growth,” <http://www.gradingstates.org/the-problem-with-tax-cutting-as-economic-policy/>, which is an accessible overview and one-stop resource about the impact of tax policy on economic development. The research on taxes’ effect on the cost of doing business is “based on data from 2001 through 2012 from two sources: U.S. Internal Revenue Service, Statistics of Income, Integrated Business Data for all U.S. Corporations, partnerships, and non-farm proprietorships, showing total deductions for business costs on tax returns, <https://www.irs.gov/statistics/soi-tax-stats-integrated-business-data>; and the Council on State Taxation’s annual reports *Total State and Local Business Taxes*. (The 2016 edition is available at <http://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/fy16-state-and-local-business-tax-burden-study.pdf>.)”

¹⁰ The last two paragraphs are borrowed from an earlier paper: Marc Stier, “[Rethinking Philadelphia Taxes to Fund Education](https://krc-pbpc.org/research_publication/brief-rethinking-philadelphia-taxes-to-fund-education/),” Keystone Research Center, February 2018, https://krc-pbpc.org/research_publication/brief-rethinking-philadelphia-taxes-to-fund-education/.

we have seen, on the whole, taxes in Philadelphia aren't high.) Just from a narrow economic point of view, the overall cost of living is likely to be far more important than taxes—and we all know that Philadelphia has less expensive housing costs than other Northeast/Mid-Atlantic cities, which makes it very attractive. But there are many other factors that make a community an attractive place to live as well—the weather, quality of public parks and recreation facilities, and the quality and variety of restaurants, the arts, and as pointed out above, the cultural life of a city overall which appears to be as important as tax rates.

When we're talking about people who are already established in a community, other powerful factors discourage them from moving even if taxes go up. People form connections to friends and family members in a community and are reluctant to leave them behind. Their careers tie them to certain locations as well—and the evidence we have suggests that those ties are stronger the wealthier people are. As we wrote in a [recent paper](#), “the whole history of urban economics—the Italian city state of the 16th century; the financial centers of London and New York; the high-technology corridors in Silicon Valley and centered on Route 128 in Massachusetts; the movie and television industries in Hollywood—shows us that economic activity and the knowledge, skills, and personal connections that make for economic productivity are place-based. That is why, even as manufacturing spreads out across the globe, the most highly paid financial and technology workers at the center of major corporations have become ever more concentrated in major urban areas.”¹¹

Wage, Business, and Property Taxes

One of the claims of those who call for reductions in wage and business taxes is that our city's problem isn't just that we tax too much, but that we tax the wrong things. The mantra of the tax reformers is that we tax things that can easily move, people and businesses, more highly than things that are fixed in place—tax land and buildings. So, they advocate for Philadelphia to become a more “normal” city—cut taxes on wages and businesses and make up for lost revenues with higher property taxes, whether through higher property tax rates or the increased value of properties that would result as economic activity increases.

We can't fully evaluate these claims here, but there is reason to be skeptical of them.

¹¹ Here are some of the critical sources of new research that shows millionaires rarely move from state to state: Cristobal Young, “The Myth of Millionaire Tax Flight,” Stanford University Press, 2018, <https://www.sup.org/books/title/?id=27987#:~:text=%5BThe%20Myth%20of%20Millionaire%20Tax,and%20non%20scholarly%20audiences%20alike>; Cristobal Young et al., “Millionaire Migration and Taxation of the Elite: Evidence from Administrative Data,” *American Sociological Review*, Vol. 81 No. 3, 2016, https://crisobalyoung.com/development/wp-content/uploads/2018/11/Millionaire_migration_Jun16ASRFeature.pdf; Adam Nagourney, “Two-Tax Rise Tests Wealthy in California,” *New York Times*, February 6, 2013, <https://www.nytimes.com/2013/02/07/us/millionaires-consider-leaving-california-over-taxes.html>; Cristobal Young and Charles Varner, “Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,” *National Tax Journal*, June 2011, <http://crisobalyoung.com/development/wp-content/uploads/2018/11/NTJ-millionaire-migration-state-taxation.pdf>; Roger S. Cohen, Andrew E. Lai, and Charles Steindel, “A Replication of ‘Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,’” 2014, <https://journals.sagepub.com/doi/abs/10.1177/1091142114537893?journalCode=pfrb>; and Cristobal Young and Charles Varner, “A Reply to ‘A Replication of Millionaire Migration and State Taxation of Top Incomes: Evidence from a Natural Experiment,’” 2015, <https://journals.sagepub.com/doi/abs/10.1177/1091142114537896?journalCode=pfrb>.

First, land and buildings don't pay taxes, businesses and people do. An increase in property taxes is ultimately paid for by businesses and people. And, as the proponents of making our city "normal" recognize, while buildings and land can't move, their value can shift dramatically. Indeed, their whole strategy for recouping lost business and wage tax revenues depends on the value of land and buildings and thus real estate tax revenues increasing as wage and business taxes decline. (From an economic point of view, then, that shift in property values is the functional equivalent of businesses and people moving.) Again, there is no a priori reason to think that either employers or employees distinguish between one or another kind of tax when deciding where to locate businesses and residence.

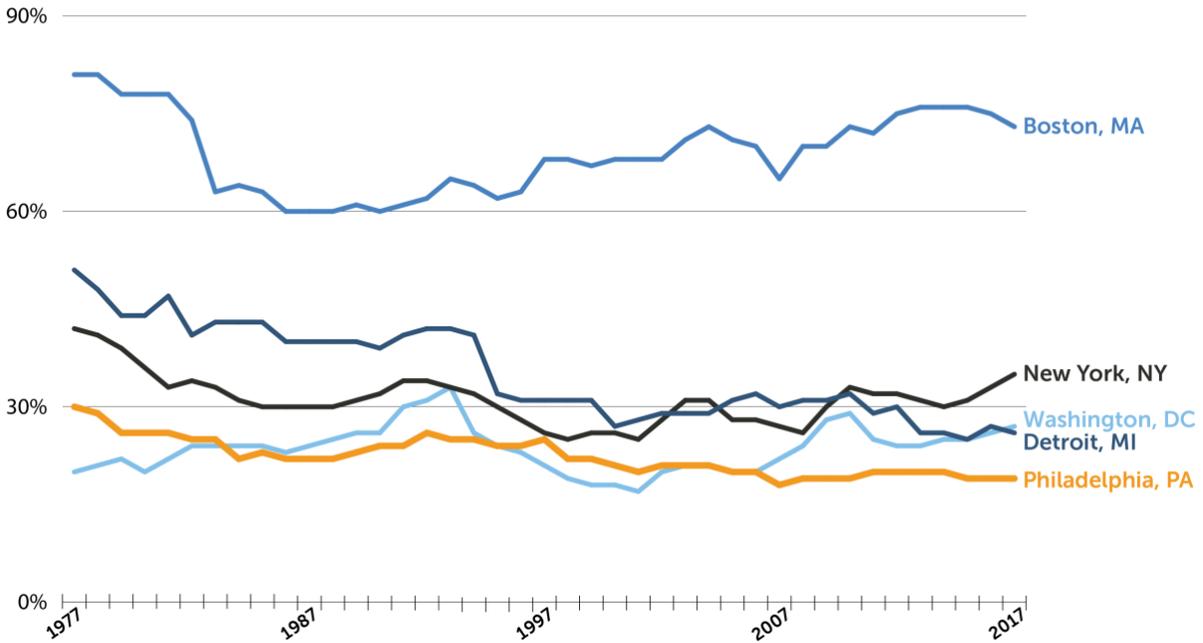
Second, if we look at recent changes in property taxes in Philadelphia and elsewhere, there is little evidence that shifting taxes from wage or business income is critical to generating jobs. Figure 6 shows that Philadelphia's success in creating jobs since 2005 (and even more so since 2012) is not a product of a shift from taxes on wages and business to land and building. Just the reverse has taken place, as the share of total tax revenue that comes from property taxes has declined from 30% in 1997 to 19% in 2017. Meanwhile, the city with the fastest job growth of these five, Boston, has moved in the opposite direction from that proposed by the critics of Philadelphia's tax system, reducing the share of local tax revenue coming from property taxes from 81% to 73% and frequently dipping to 60%–70% during periods of fast growth. At least part of the growth in housing development and population in Philadelphia has been attributed to the 10-year tax abatement on new construction. Indeed, observers have claimed that constitutional or statutory limits the property tax, including limits on reassessment, in the early 1980s in both Massachusetts and California and the drop in property taxes (after inflation) is responsible for the growth in population and jobs in both cities.¹² New York City has continued to generate jobs even as the share of revenues it generates from property taxes has fallen from 42% to 35%, with extended periods of closer to 30%.¹³

¹² [Steve H. Hanke](#) and [Stephen J. K. Walters](#), "How Sunday's NFL Cities Became Champs," *Wall Street Journal*, January 21, 2012, <https://www.cato.org/commentary/how-sundays-nfl-cities-became-champs>.

¹³ This observation raises the questions of whether the advocates for cutting business and wage taxes in Philadelphia have things totally backwards in that their plans are based on the idea that reductions in those taxes will lead to a rapid increase in property values and property taxes. The strategy that worked in Boston and San Francisco appears to have been just the opposite, that is, to encourage real estate development by holding property taxes lower by limiting upwards reassessments. One could argue that this is the same strategy used in Philadelphia, by means of the property tax abatement program. While that program raises the same issues of lost revenues and fairness that we raise with regard to reduction in wage and business taxes, it's possible that the benefits of lost revenues due to limits on property taxes are far greater than those that might arise from limits on business taxes. That would be true if property taxes are a larger share of the costs of home ownership than business taxes are relative to those cost of business. We do not know the answer to these questions and will pursue them in future work.

Figure 6

Share of Own Source Revenues From Property Taxes Fiscally Standardized Cities (Adjusted for Inflation with CPI-U)



Business Tax Rates, Property Tax, and Where New Jobs Come From

So, national economic and cultural trends are likely to be far more important than changes in tax rates in driving the local economy and job growth. But when it comes to jobs, there is further doubt that business tax rates have a major effect on employers’ decisions about where to locate. For the most part, new jobs do not come from businesses’ decisions to move or expand production.

A Center for Budget and Policy Priorities report analyzing states’ job creation strategies found two key conclusions about the source of new jobs:¹⁴

The vast majority of jobs are created by businesses that start up or are already present in a state — not by relocation or branching into a state by out-of-state firms. Jobs that move into one state from another typically represent only 1 to 4 percent of total job creation each year, depending on the state. Jobs created by out-of-state businesses expanding into a state through the opening of new branches represent less than one-sixth of total job creation. In other words, “home-grown” jobs contribute more than 80 percent of total job creation in every state.

During periods of healthy economic growth, startups and young, fast-growing companies are responsible for most new jobs. During the Internet-driven boom of the late 1990s and early 2000s, for example, startup firms (those less than one year old) and high-growth firms — which are likely to be young — accounted for about 70 percent of all new

¹⁴ Michael Mazerov and Michael Leachman, “State Job Creation Strategies Often Off Base,” Center on Budget & Policy Priorities (CBPP), February 3, 2016, <https://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base>.

jobs in the U.S. economy.¹⁵ From 1990 to 2009, these enterprises were responsible for about 3 million jobs per year, with a little over 2 million jobs created consistently after the first five years of operations.

These conclusions give us more reason to doubt that business tax cuts are a useful tool to stimulate economic growth and job creation. Taxes on business profits are likely to have little impact on where jobs are created because new start-ups typically do not show any profits for their first few years in business. They also call into question the strategy proposed by the Tax Reform Commission—that is, to make Philadelphia a more “normal” city by reducing our reliance on business taxes and, instead, increase the share of Philadelphia taxes that fall on real estate. Property taxes, unlike business profit taxes, do fall on start-up businesses because they pay them whether they are profitable or not.

The Academic Evidence about Taxes and Jobs

Once we turn from abstract economic theories to the actual reasons business and families invest and live in one place or another, the claim that taxes are a major determinant of those decisions is implausible. And thus, it should come as no surprise that the large body of statistical and empirical evidence that academics have developed in the last few decades casts doubt on the strength of the relationship between taxes and job growth.

There is a vast literature on this issue—so vast that we will cite a number of works that essentially summarize that literature, not the primary works themselves.^{16 17} But before we turn to this evidence we want to express our doubts about the capacity of this economic research to fully capture the impact of cultural and economic changes on economic and job growth, thereby leading these statistical studies to overestimate the impact of change in tax rates. Leaving those qualms aside, however, those literature reviews have led to a rough consensus about the impact of taxes on economic growth in cities and states: that the elasticity of business activity relative to business taxes is 2%–3%. That

¹⁵ Ibid.

¹⁶ See Michael Mazerov and Michael Leachman, “State Job Creation Strategies Often Off Base,” Center on Budget & Policy Priorities (CBPP), February 3, 2016, <https://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base>; Timothy J. Bartik, “Solving the Problems of Economic Development Incentives,” *Growth and Change*, Vol. 25, No 2 (Spring 2005); Timothy J. Bartik, “Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy,” Upjohn Institute Technical Reports, <https://doi.org/10.17848/tr18-034>; Peter Fisher, “State and Local Taxes are Not Significant Determinants of Growth”; “Grading the States: Business Climate Rankings and the Real Path to Prosperity,” <http://www.gradingstates.org/the-problem-with-tax-cutting-as-economic-policy/>.

¹⁷ In addition to the overviews of the literature in the previous note, there are a number of powerful case studies of states that have adopted sharp tax cuts as a way of stimulating their economies only to see those policies fail. See for example:

Tracy M. Turner and Brandon Blagg, “[The Short-term Effects of the Kansas Income Tax Cuts on Employment Growth](#),” *Public Finance Review*, March 29, 2017. See also W. Robert Reed and Cynthia L. Rogers, “Tax Cuts and Employment in New Jersey: Lessons From a Regional Analysis,” *Public Finance Review*, May 1, 2004, <https://journals.sagepub.com/doi/abs/10.1177/1091142104264488?journalCode=pfrb>: “In New Jersey tax cuts to the Personal Income tax were made during the 1991 to 1997 period. This study did not reveal that these cuts stimulated employment growth within the state. Nor did the analysis attribute the employment growth experienced within the region to these particular cuts.” Also Michael Mazerov, “Kansas Provides Compelling Evidence of Failure of ‘Supply Side’ Tax Cuts,” Center on Budget and Policy Priorities, January 22, 2018, <https://www.cbpp.org/sites/default/files/atoms/files/1-22-18sfp.pdf>: “During the Brownback administration the Personal Income tax and some business taxes were cut in Kansas. The cuts did not noticeably help the state economy. Many jobs were lost, the bond rating was downgraded. Kansas underperformed as compared to neighboring states.”

means that a 10% reduction in business taxes would increase business activity by about 2%–3%. Now there are several important qualifications to this claim:

- It assumes that all business taxes in a jurisdiction are cut by the same amount. That means that mean state business taxes as well as and other local business taxes would be reduced by that amount as well.
- It assumes that public spending is not reduced to offset the cost of cutting business taxes. Cutting public spending would have both short- and long-term negative consequences on business activity. In the short term, any reduction in spending would lead to a direct loss in public sector jobs and an indirect loss due to the reduction in consumption due to the loss of those jobs. The longer-term consequences are more serious. We know, for example, that K-12 education—and even more so, early childhood education—has dramatic effects on children’s long-term educational and economic success and thus contributes to the local economy. Similarly, we know that investments in roads and bridges and public transportation have enormous economic benefits. Reducing spending in these and other public services to pay for business tax cuts could be totally self-defeating over the long term.
- It does not presume that all new jobs would go to current Philadelphians. Many of the new workers would come from outside of the city. Indeed, recent studies suggest that as many as 80% of the jobs created by tax cuts and subsidies to individual businesses are filled by newcomers to a city.¹⁸ That raises the question, to which we’ll return, of whether business tax cuts would aid Philadelphians who are currently living in poverty and who are also the ones most dependent on public education and other government services.

On the other hand, an increase in business activity generated by a cut in business taxes could lead to some increases in tax revenues.

- Wage taxes would be paid by those holding newly created jobs.
- Property taxes would likely rise as additional residents would raise property values. Those additional taxes, however, would fall not just on new residents but on all Philadelphians.

At present, the Pennsylvania Budget and Policy Center does not have the capacity to do economic modeling and, as there is no specific proposal for cutting business taxes in front of Council, we have not retained the services of an organization that does so. But we can do a rough, seat-of-the-pants analysis that suggests just how problematic deep business tax cuts might be for Philadelphia.

Say, for example, we were to reduce taxes for the Business Income and Receipt Tax (BIRT) rates by 50%. That would cost the city about \$270 million in revenues in the next fiscal year—and that amount would grow every year leading to a ten-year loss in revenue of at least \$3 billion. But that tax cut itself would not generate even a 10% long-term increase in the number of jobs. For businesses in Philadelphia pay other taxes to the city—property taxes and use and occupancy taxes—and they pay either corporate income taxes or taxes on their profits to the state. Our rough estimate is that the BIRT makes up only about one-third of the tax burden on Philadelphia businesses. So, a 50% reduction in the BIRT would likely generate about 6% more jobs over the long term. A rough estimate might be 50,000 new jobs at the end of ten years.

¹⁸ Timothy J. Bartik, “Solving the Problems of Economic Development Incentives,” *Growth and Change*, Vol. 25, No 2 (Spring 2005), 143.

That is not a negligible number of new jobs, but it is not enormous either. And it comes at an extraordinary cost of \$270 million per year or \$3 billion in city revenues over ten years. That is around 5% of the city budget. To give a sense of what a \$270 million loss of revenue means, it is the entire amount that the city contributes to the Philadelphia School District, ten times what it contributes to the Housing Trust Fund and to the Free Library, five times what it contributes to the Community College of Philadelphia, and a bit more than a third of what it contributes to SEPTA.

New jobs would lead to higher wage tax as more workers would pay the tax and higher property tax as increased economic activity would raise the value of real estate and they would partly offset revenue lost to the deep cut in the BIRT. But our review of econometric analyses of similar proposals suggests these additional revenues would cover no more than 50% of the lost revenue. The city would still be short around \$135 million per year. A recent Fitch Ratings report showed that drastic tax policy changes could have negative long-term effects on a state economy because reductions in spending would reduce wages and business income in the city.¹⁹ That would also have a negative impact on tax revenues and on credit ratings, which would increase borrowing costs for the city.²⁰

We can only speculate about the costs of that lost revenue over the long term because we don't know exactly where they would fall. But much of the city budget—like the budget of any government—cannot be easily reduced. Spending on the basic functions the city provides cannot be cut, such as payroll for most city employees who run the basic structure of our government, pensions, and debt service. Many other services such as sanitation and street cleaning, parks and recreation, human services, and libraries are already threadbare. They cannot be cut without creating serious burdens on Philadelphians and, when it comes to human services, putting the health and well-being of children, seniors, and those who have physical and mental illnesses at risk. Fire protection has already faced significant cuts. And while some progressives in the city have called to shift spending from the police to human services, considering increasing murder rates, Philadelphia's politicians and many voters have rejected that advice.

Like most government budgets, the parts of the city budget that can be most easily cut from a political point of view are those in which the resulting burdens are least immediately visible. But they are also the parts of the budget that have the most important consequences for the long-term economic prospects of the city: education and infrastructure. Research about the effect of pre-K and K-12 education, higher education, and roads and bridges continues to show that their long-term impact on people's well-being and on their communities' economic prospects is strong. Research on the impact of education on the economy shows us that communities that have an additional year of schooling in a community increases economic activity per capita by 17.4% and wages per capita by 17.8%.²¹ We know the effects of pre-K education are long-lasting: long-term studies have shown that pre-K education leads to higher high school graduation rates and, for those who receive it, results in a higher

¹⁹ "Implementation Risks Lurk in US State 2022 Tax Cut Plans," Fitch Ratings, March 30, 2022, <https://www.fitchratings.com/research/us-public-finance/implementation-risks-lurk-in-us-state-2022-tax-cut-plans-30-03-2022>.

²⁰ "What is a Rating Agency?" Corporate Finance Institute, <https://corporatefinanceinstitute.com/resources/knowledge/finance/rating-agency/>.

²¹ On the importance of higher education to economic growth, see: Enrico Moretti, "Estimating the Social Return to Higher Education: Evidence from Longitudinal and Repeated Cross-Sectional Data," *Journal of Econometrics*, Vol. 121, 2004, 175-212. The city can best increase the proportion of Philadelphia residents with college degrees by investing in pre-K programs and K-12 schools so that more young Philadelphians are ready and able to secure a higher education.

IQ at age 5 and a greater chance to be a homeowner and have a higher income at age 40.²² We know that infrastructure spending so dramatically raises the productivity of private capital that even conservative economists claim that “it pays for itself.”²³

Public investment in Philadelphia strongly contributes to the well-being of our current residents. So, our conclusion is not only that deep cuts to business taxes would be a mistake for Philadelphia not just because they won’t pay for themselves in new tax revenues, or create all that jobs for current Philadelphians but because they would require deep cuts in the public services that most contribute to the long-term economic prospects of the city.

Again, this is a conclusion we would revisit with a deeper analysis should our political leaders again propose specific cuts in business taxes. But especially, in light of what we say below about alternative economic development strategies, we think it’s time for the discussion about our city’s economic future to stop focusing on tax rates and think more broadly about how to improve the economic well-being of Philadelphians.

The Evidence about Taxes and Jobs: Econsult’s Research on Philadelphia

The results of the last section might come as a shock to those in the city who, for twenty years, have been touting that business and wage tax cuts would help our city based on the work of Econsult. But there are two good reasons to have little confidence in Econsult’s projections of tax cuts’ impact on job creation and other aspects of Philadelphia’s economy.

The first is that Econsult’s modeling—which examines the relationship between changes in Philadelphia’s tax rates on the one hand and the city’s tax base and job creation on the other—is bound to overstate that relationship because it fails to control for all the other factors that influence the economy of the city. We know that Philadelphia tax rates went up during the years in which the city lost jobs and went down slightly during the years it gained jobs. But to attribute those changes to tax rates alone and ignore all those national trends we mentioned above—such as the shift of jobs from cities to suburbs and from the Northeast and Midwest to the South and Southwest, the growing and then shrinking appeal of suburban life—is to guarantee that the impact of taxes on economic change in the city is overstated. Much the same is true with regard to the local factors that also had an impact on Philadelphia’s economy—the rise and decline of crime rates, the impact of political leaders such as Frank Rizzo in the 1970s and the decline of his kind of politics in our city since.

While we are focusing here on evaluating Econsult’s arguments regarding business tax cuts, the same flaws in the projections of the benefits of business tax apply to their projections of the positive impact of wage tax cuts. Using statistical tools that look at the relationship between tax rates and economic outcomes while ignoring all the other factors that influence the economy of the

²² L. J. Schweinhart et al., *Lifetime Effects: The High/Scope Perry Preschool Study Through Age 40* (2005). See Schweinhart’s “summary, conclusions and FAQ” document at <https://fpg.unc.edu/sites/fpg.unc.edu/files/resources/presentations-and-webinars/Perry%20Project.pdf>.

²³ Jim Glassman, “How a Big Infrastructure Investment Could Pay Off,” JP Morgan, Markets and Economy, <https://www.jpmorgan.com/commercial-banking/insights/the-economic-case-for-infrastructure-spending>.

city is guaranteed to give us results that overstate the importance of wage tax rates on our economic life.

At one point in its 2003 report, Econsult seems to acknowledge this danger. Its researchers point out that their analysis accounts for national trends by modeling changes in Philadelphia's tax base and employment as a share of the national tax base and employment numbers. But while this approach can take into account trends that are uniform across the nation, it simply cannot take into account trends that are not uniform across the country such as the shift of people and jobs from inner cities to suburbs.

The result of this problematic economic modeling is that the elasticity of changes in business taxes with regard to jobs reported in Econsult's 2003 work is more than twice what is found to be in the literature described above.²⁴ And that is how it projected that an elimination of the gross receipts tax would lead to an increase in total revenue in three years.

Another indication of the failure of Econsult's analysis to recognize factors external to taxes on the city's economy is that the dynamic model in their August 2015 report does not predict the strong job growth that Philadelphia experienced in the following four years.²⁵ That report projects an increase in net employment of 18,000 jobs over ten years. Yet Philadelphia gained almost 90,000 jobs between 2015 and 2019 with almost no changes in tax rates. (It gained more than 70,000 jobs between 2012 and 2015.) How much confidence can we have in an economic model that misses the mark so dramatically in projecting what would happen in the very near term without any changes in public policy? This dramatic growth in jobs in the city without any significant tax changes shows just how important non-tax factors are in our economy.

²⁴ Here are the technical details that support this claim. In an appendix to its 2003 report, Econsult reports that a cut of the gross receipts tax by 1 point (which at the time would have been a 37% reduction in the tax rate) generates an increase of jobs of 10.5%. That by itself gives us an elasticity of .28%. But remember that the elasticity estimates in the economic literature assume that if all business taxes are reduced by 1%, economic activity would increase by 2%–3%. And by our rough estimate, in 2003, a 37% reduction in the gross receipts tax would have amounted to only a 15% reduction in all taxes paid by Philadelphia businesses. Those businesses also paid Philadelphia property taxes, the net income part of what was then called the BPT Pennsylvania corporate taxes and net profits taxes (for S-corps and other pass-through entities). Claiming that, what is in effect, a 15% reduction in business taxes leads to a 10.5% increase in jobs gives us an elasticity of 4.5%.

Now Econsult researchers might claim that the effect of a reduction in Philadelphia business taxes is meant to draw new businesses from the Philadelphia suburbs, not from the rest of the nation. And their estimates of cutting Philadelphia's taxes alone need not take into account any but Philadelphia taxes. Still, their estimates should include the Philadelphia net profits tax and the portion of the property tax paid by businesses in the city. And it is dubious that the economic literature would still justify their high estimates of the elasticity of tax cuts for business activity for interregional business location decisions when we are looking at the core city in a region. (One could make a stronger case that businesses would be more influenced by tax rates when deciding to choose between two small adjoining communities in the suburbs of a major city. Moreover, their economic modeling would have to adjust downward their estimates of the impact on the city's wage and sales tax revenues by recognizing that businesses currently located outside the city that might move into it already generate tax revenues income in the city because their employees either live in the city or engage in significant spending in the city or because their suppliers are located in the city.

²⁵ Econsult Solutions, "Modeling the Impact of Tax Reform in Philadelphia," August 2015, <https://econsultsolutions.com/wp-content/uploads/2015/09/ESI-Tax-Simulation-Model-FINAL-August-2015.pdf>.

Econsult's methods also ignore a number of consequences the tax policies they propose—and the impact on new business activity and jobs they project—would have on existing businesses and tax revenues, as well as on spending needs. The kind of job growth they project would, in tight labor markets, lead to higher wages across the board, which would reduce profits of Philadelphia businesses and business tax revenues. When unemployment is higher, the effect would be less. An increase in property values would also lead to an increase in business rent, which would also reduce business profits. Econsult's model does not consider these increased business costs and their impact on BIRT revenues.

A final problem with Econsult's analysis of the impact of tax changes is that because it overstates the growth in jobs and the revenue base as a result of cutting taxes, it doesn't consider the consequences of reduced spending for city services and the city's economy. One reason it does this, of course, is that Econsult has consistently promised what the old economists' saw says we cannot have—a free lunch as it projects that revenue would increase as a result of tax cuts.²⁶ In addition to overestimating the new revenue generated by tax cuts, Econsult's analyses never includes the cost to the city of a growing population as jobs increase. Population growth does bring new wage and presumably property tax revenues, but it adds to the demand for city services, including education, that new residents would seek as well, especially since the city typically provides a higher level of services to communities that have higher rather than lower incomes. Nowhere in Econsult's work can we find an analysis of those costs.

Econsult's work deserves a much closer analysis than we can give it here. But neither its August 2015 report nor the draft projections that circulated in political circles in the last year give enough detail about its modeling or its estimates of the impact of individual changes in taxes on city employment and job creation for us to do such an analysis. We do note that while the 2015 projection of the Growth Coalition's tax cut proposals show that city revenues are positive over a 10-year period—a conclusion we find deeply implausible for the reasons we have given—those results turn negative in the last three years of that 10-year period. There is no reason to think that this would change in the future. So even with methods that overstate revenue and job gains from the Growth Coalition's proposals, they show that ultimately the city loses revenue from them.²⁷

We conclude that neither the public nor policy makers should have much confidence in Econsult's

²⁶ As Timothy Bartik points out about business tax cuts in "Solving the Problems of Economic Development Incentives," *Growth and Change*, Vol. 25, No 2 (Spring 2005), 142: "The elasticities are not large enough to produce a Laffer Curve, in which cuts in tax rates would raise the tax base enough to increase revenue."

²⁷ It's not surprising that the revenue benefits of tax changes in Econsult's model are front-loaded when one considers that a substantial share of revenue increases comes from a jump in property taxes as the property values increase in response to changes in business tax rates. That increase is basically a one-time event and the benefit of wage and job growth gradually diminish. Had Econsult taken into account the full costs of cutting taxes over a longer period of time, the long-term benefits would be even less impressive. What Timothy J. Bartik says about business tax incentives is true of business tax cuts as well: "... economic development incentives are short-term gain, long-term pain." Timothy J. Bartik, "Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy," Upjohn Institute Technical Reports, <https://doi.org/10.17848/tr18-034>.

projections because its approach fails to take into account non-tax factors that have influenced both the decline and the growth of jobs in the city.

Summary: Urban Economics in Theory and Practice

In many ways, the debate about taxes, jobs, and economic growth is reminiscent of the debate about the minimum wage. Abstract economic theory tells us that raising the minimum wage would reduce jobs. And there is little doubt that if we raise the minimum wage high enough jobs are likely to be lost. Yet, the empirical evidence collected over the last two decades shows us that substantial increases in the minimum wage do not lead to job losses for a number of reasons: labor is only a part of the cost of doing business; many businesses can pass part of the cost of higher wages on to their customers; higher wages reduce turnover and training costs, and thus labor costs, for businesses; and higher wages increase consumption, thus driving up sales for businesses that have to pay their workers more.

What the minimum wage example shows us is that sound economic thinking, whether about taxes or about the minimum wage, can't be based on theory alone but must attend to the effect of specific factors that influence economic decisions. These factors can't be revealed by theory but only on the basis of an empirical analysis of the practical realities that people and businesses face in their daily lives. When we look at them, however, we find that broad economic and cultural factors have far more influence in the real-world decisions of business and individuals than do minor changes in tax rates.

Focusing on the Right Question: Economic Growth and Inequality

So far, in this report we have talked about the goals of tax policy—in particular, the way that's commonly been done in the last two decades of public debate: that is by focusing on job creation and economic growth in Philadelphia. In this section, we point out that this is not the most important consideration for tax and economic policy.

One might think that we all want a city that has a growing economy and is generating more jobs. And it's true that a growing city does benefit everyone, at least in that it generates more tax revenue that can be used to fund city services or hold taxes down in the future. However, there is another important consideration as well: the impact that a particular path we take towards economic growth in the city has on the distribution of income and the reduction of poverty.

We know our city has a very high rate of poverty and substantial economic inequality. The poverty in our city and our economic inequality are—or should be—morally repugnant to all of us. Poverty hurts families and the local economy.²⁸ And the evidence is that Philadelphia's income inequality has grown worse over the years. Philadelphia has had a consistent upward trend in income inequality from the 1980s at 8.3%, to 2019 at 13.5%.²⁹ This is far above the U.S. figures at 6.9% and 9.6% respectively for the mentioned period.

²⁸ "Poverty in America: Consequences for Individuals and the Economy," United States Government Accountability Office (GAO), <https://www.gao.gov/assets/gao-07-343t.pdf>.

²⁹ This ratio measures the percentage of Philadelphia's population who are top earners (the 95th percentile) against the percentage of those who earn the least (the 20th percentile). Philadelphia's trend line is higher than the U.S. for the same time period. Income inequality in the U.S. grew from 6.9%, in the 1980s to 9.6% in 2019. IPUMS USA | National Equity Atlas, https://nationalequityatlas.org/indicators/Income_inequality#/?breakdown=2&geo=07000000004260000 Also, Pennsylvania ranked as #14 amongst the 50 states in income inequality. <https://www.epi.org/multimedia/unequal-states-of-america/#/Pennsylvania>.

Income inequality is associated with poor health and difficulties advancing socioeconomically.³⁰ In addition to its association with poor health outcomes and higher crime rates, it has been shown to slow down economic growth. A 2015 study by the International Monetary Fund (IMF) found that income growth for the bottom 20% of income earners brought about more economic growth (raising GDP by 0.38%) when compared to the same income growth for the top 20% of income earners (where GDP fell by 0.08%).³¹

There are many factors contributing to the high poverty rate in Philadelphia. Over the years, families have been adversely affected by suburbanization, underfunded schools, and racialized practices within the labor and housing markets.³² The high rate of crime associated with poverty deepens poverty as well, by increasing the cost of doing business and thus discouraging the expansion of businesses in poor communities.

So, when we consider tax and economic policies we must ask ourselves not only whether they contribute to a growing economy and new jobs but whether they do so in ways that, at the very least, do not increase economic poverty and economic inequality in our city, or even better, begin to reduce them.

The impact of policy choices on poverty and economic inequality has rarely played a central role in Philadelphia's debates about tax policy in the last twenty years. Only once, when called to account by my colleague, Stephen Herzenberg, did any of Econsult's papers discuss the issue. As far as I know, none of Econsult's projection of the impact of tax cuts on Philadelphia's economy addressed how tax changes would affect the distribution of income.³³

Moreover, some influential figures in our city—including an academic who for a times was an influential advisor to Mayor Nutter—explicitly said that only the state and federal government had the resources to address poverty and that the city would therefore have to “decouple” public policies that benefit the third of the city that was doing well economically, the Happy 500,000, from those that benefit the rest of the city, essentially giving up on addressing the problem of poverty.³⁴

³⁰ Raj Chetty and Nathaniel Hendren, “The Impacts Of Neighborhoods On Intergenerational Mobility II: County-Level Estimates,” *The Quarterly Journal of Economics*, Volume 133, Issue 3, August 2018, 1163–1228, <https://doi.org/10.1093/qje/qjy006> or <https://academic.oup.com/qje/article/133/3/1163/4850659?login=false>.

³¹ Era Dabla-Norris, Kalpana Kochhar, Frantisek Ricka, Nujin Suphaphiphat, and Evridiki Tsounta, “Causes and Consequences of Income Inequality: A Global Perspective,” *International Monetary Fund (IMF)*, <https://www.imf.org/external/pubs/ft/sdn/2015/sdn1513.pdf>

³² Inga Saffron, “Philly didn't become America's poorest big city by chance. Here's how we fix it.” <https://www.inquirer.com/business/philadelphia-poverty-unemployment-racism-education-upskilling-20201013.html>.

³³ See “Choosing the Best Mix of Taxes for Philadelphia,” 62.

³⁴ Marc Stier addressed the decoupling strategy in a blog post in 2008, “Mark Alan Hughes, The Decoupling Strategy and Mayor Nutter,” <http://marcstier.com/blog2/?p=72>.

This strategy was a counsel of despair that, thankfully, the Nutter administration mainly did not embrace it (And, to his credit, Mark Alan Hughes led an effort to bring resources to the city to reduce poverty by encouraging more Philadelphians to apply for the Earned Income Tax cut). Hughes's recommendation was at least honest in that it recognized that the city had, for some time, already adopted a “decoupling strategy” and had been resigned to directing public policy to the benefit of well-off Pennsylvanians while, for the most part, ignoring the poor.

As Stier pointed out in “[An Alternative to the Decoupling Strategy](#),” the notion that it was possible to decouple the well-being of poor people from that of those who are well-off was questionable, not only morally but pragmatically. A city

The city has moved in a different direction since. Mayor Kenney’s efforts on both pre-K and K-12 education have explicitly focused on using education as a tool to reduce poverty. That is an approach we support although, as we point out below, there are other tools to reduce poverty that the city should adopt as well. A number of Council members have also been urging the city to address questions of poverty. And Council has adopted three programs that are designed to reduce taxes in ways that benefit those with low incomes: a [wage tax rebate](#) for those with low incomes, a [homestead exemption](#) that provides larger benefits relative to income for those with lower incomes, and the [Long Time Owner Occupants Program \(LOOP\)](#), which limits the increase in home assessments to 50% for those who have lived in their homes for at least ten years.

Policies that increase tax equity are welcome although, as we expect to show in a future paper, Philadelphia taxes remain highly regressive in that they take a higher share of income of those with low incomes than those with high incomes. Thus, it is imperative that a full evaluation of tax-cutting strategies take into account ways they can do harm to Philadelphia and its people by increasing tax inequity and poverty.

While we cannot address them in depth here, we do want to mention three ways in which cutting taxes, and especially business taxes, might actually worsen economic inequity and poverty.³⁵

The first is that business tax cuts are themselves likely to be regressive in nature, giving larger benefits to the most well-off Philadelphians. While not all business owners in Philadelphia have high incomes, they are likely to have higher incomes, on average, than those who do not own businesses. Thus, business tax cuts are highly likely to raise the tax burden on those with low incomes relative to those with high incomes.

Second, we have pointed out that when tax cuts generate new jobs—albeit at lower rates than the proponents of tax cuts predict—as many as 80% of those jobs go to new residents of the city. And while wages may increase slightly for moderate- and high-income residents of the city, low-income residents, who are largely cut off from the dynamic sectors of our economy, are likely to benefit far less, if at all.

Third, reductions in business and wage taxes are likely to lead to an increase in property values and therefore property taxes. Indeed, the proponents of business and wage tax cuts have long held that this is one of the benefits of cutting wage and business taxes. This leads to greater income and racial inequity in two ways. First, there is substantial evidence from comparisons between assessments and sales values that homes tend to be over-assessed in Black communities.³⁶ This means that Black people unfairly pay higher property taxes than white people. Second, while people with moderate and high incomes are likely to benefit from an increase in property values, along with the increase in wages, increases in rent and property taxes would make it impossible for those with low incomes to

cannot add professional and managerial jobs without adding support staff, and that staff must be educated in our schools and have a place to live in our communities. And, since we can’t house new professionals and manager at costs they can afford without gentrifying low-income neighborhoods (something we argue below could happen in a way that does not displace working-class people), there is no way to keep crime from spilling over from working-class neighborhoods to the ones in which professionals and managers seek to live. So, at some point, our attempt to add new professional and managerial jobs would be stymied by the poverty in so much of the city.

³⁵ At this point, we can’t firmly estimate the magnitude of the problems we’ve identified; but we have no doubt that they are real.

³⁶ University of Chicago Center For Municipal Fairness, Property Tax Project, <https://propertytaxproject.uchicago.edu>.

stay in their homes and the neighborhoods where some families have lived for generations. In other words, the tax cut strategy would exacerbate the worst problems associated with gentrification.

Fourth, we come back to the issue of what spending the city would have to cut to make up for the loss of revenue. As we pointed out above, the parts of the city budget that can be most easily reduced are those in which the benefits of spending, as well as the costs of spending reductions, are least visible. Those are education and infrastructure. However, education spending disproportionately benefits the lowest-income Philadelphians. Many higher-income Philadelphians send their children [to private schools](#), so securing a good public school education is far more critical to the lives of lower-income children who already have so much to overcome in their lives.

The most comprehensive attempt to model the benefits and costs of local government incentives for business, created by Timothy J. Bartik, includes analysis of a full range of positive and negative consequences of business incentives on each quintile arranged by income.³⁷ It takes into account the growth in business activity, employment, property values, local revenues, and wages, as well as the cost of reduced public spending, especially on education.³⁸ Not surprisingly, he finds that the distribution of costs and benefits of incentives to businesses are highly unequal. While the top quintile in his model receives 52% of all incomes, it receives 64% of the long-term benefits of the business incentives. At the other end of the income spectrum, the overall income of the lowest quintile is reduced. And though the lowest quintile only has 5.08% of total incomes in his model, it receives no overall long-term benefit from economic incentives and bears 13.85% of the long-term costs. In his model, people in the lowest quintile do receive more than their share of labor market benefits, primarily higher wages from business incentives—11.72% vs. their 5.08% share of income. Their share of the long-term costs of education cutbacks is far more disproportionate (23.72% vs. 5.08%) and far greater than the long-term benefits of higher wages.³⁹

While Bartik’s model is a general model, not one based on the specific experiences of Philadelphia, and is focused on incentives to particular businesses rather than general business tax cuts, his results give us reason to be wary of the consequences of economic inequity of tax cutting as an economic development strategy.

One last point in concluding this section: we have been focused on how the costs and benefits of business tax cuts fall on those with low and high incomes in our city. But we would be remiss not to point out that there is a racial component to economic inequity. White as well as Black people are poor in Philadelphia and economic development policies that hurt those with low incomes would hurt white people as well as Black. But Black people are disproportionately poor in our city for reasons that are strongly connected to the history of white supremacy in our country and region. Redlining,

³⁷ Timothy J. Bartik, “Who Benefits From Economic Development Incentives? How Incentive Effects on Local Incomes and the Income Distribution Vary with Different Assumptions about Incentive Policy and the Local Economy,” Upjohn Institute Technical Reports, <https://doi.org/10.17848/tr18-034>.

³⁸ Ibid, 42. Bartik’s model “assumes that half of all business incentive financing comes from cutting public spending and that 22.1 percent of reduced spending is taken out of K-12 education. These education cutbacks are estimated to reduce the present value of future earnings by reducing real wages of local residents.”

³⁹ Bartik’s analysis also shows that the fourth quintile, those in the 60th-80th percentile of incomes, lose from business incentives. The reason appears to be that it “falls through the cracks. Its income is high enough that, based on the research literature, it doesn’t gain much from job growth tightening up local labor markets and raising unemployment to population rations. But quintile 4’s income is low enough that it doesn’t gain disproportionately from capital gains from local job growth’s effect on property-value gains.

White flight from the city, barriers to integrating suburban communities, and other policies are largely responsible for the disproportionate share of Black people living in poverty.

Adopting economic development policies that provide disproportionate benefits to higher-income white people, while harming the long-term future of lower-income Black people, would thus continue the white supremacist policies that created these inequities in the first place.

Alternatives to Tax Cuts as a Strategy for Equitable Development

One of the most important concepts in economics is that of opportunity cost. It is the cost of options forgone: if you invest your time and money in one project, it can't be invested in another.

For the last twenty years, discussion about how to improve Philadelphia's economy and create jobs has far too often focused on both the wrong goal and the wrong means.

The goal has not been to reduce poverty and income inequality and to create economic opportunity for those with low incomes, especially Black and brown people. Instead, it has been to pursue economic growth and jobs, even if they were to come at the cost of ignoring or even increasing poverty and income inequality.

The means have been cuts in business and wage taxes even though the evidence that this is an effective and efficient way to pursue economic growth and jobs has always been questionable; and there has been little reason to believe that tax cuts, and the spending cuts or restraint they require, would reduce poverty and income inequality and, as we have shown, some reason to think they might increase it.

Meanwhile we have too often ignored alternatives to tax cuts as a strategy for generating jobs while increasing economic equality. But progressive thinkers in Philadelphia and beyond have been putting forward alternatives to tax cuts and have also been thinking about how cities like Philadelphia can find the resources to embrace them. Those are the opportunities we have missed.

This is not the place to consider every alternative to tax cuts as a strategy for equitable development, though we hope to present many of these in detail in the coming year. It's not possible, however, to come to a judgement about the tax cut strategy unless we have an idea of the alternatives.

Education

One alternative is well-known and is discussed earlier in the paper: investing more in education from pre-K to college. Under Mayor Kenny, and with the strong support of City Council, the city has been increasing funding for pre-K and K-12 education. Less has been invested in making it easier for the Philadelphia high school graduates to attend college even though programs that help Philadelphians attend college would provide long-term benefits to the city.⁴⁰

This alternative is well known, and as we noted above, the evidence in support of adding funding to education is strong.

⁴⁰ Enrico Moretti, "NBER Working Paper Series: Estimating the Social Return to Higher Education: Evidence From Longitudinal and Repeated Cross-Sectional Data," National Bureau of Economic Research, *NBER*, August 2002, https://www.nber.org/system/files/working_papers/w9108/w9108.pdf; Kristin Blagg and Erica Blom, "Evaluating the Return on Investment in Higher Education," Urban Institute, September 2018, https://www.urban.org/sites/default/files/publication/99078/evaluating_the_return_on_investment_in_higher_education.pdf.

Greater Density with Equity

Philadelphia, like many other cities, is growing because of economic and cultural changes. That has led to growing density and new housing development. The question is whether our city takes advantage of this opportunity to grow in a way that is equitable to all long-term Philadelphia residents—and that also allows us to break down the residential segregation that was created by redlining and white flight.

The benefits of greater density for a city and country are well known. Higher density spurs commercial development, which creates jobs. It reduces sprawl and thus the destruction of open spaces and the environmental disasters that go with it. It can make the cost public transit cheaper, reducing the costs of transportation for those with low incomes, relieving traffic issues, and helping the environment by discouraging the use of cars. It makes it easier for workers to find jobs that match their skills and employers to find workers that match their needs. It can lead to more construction in a city, which generates business activity and jobs for the highly paid building trades. It can raise property values, which both increases revenue for cities and wealth for its inhabitants. And, under the right conditions, it can moderate spike n housing prices by expanding supply.

The cost of greater density is also well known, especially when new development in low-income communities leads to gentrification. New development that changes the character of neighborhoods harms those with low incomes by raising their taxes even while their incomes remain unchanged or increasing their rents, forcing people to leave their long-time neighborhoods, either by eviction or choice, to find affordable housing. Gentrification can make parking more difficult, which is especially problematic in areas that are not well served by public transit. It also brings with it racialized practices within the housing market that particularly displaces Black and brown people.⁴¹

Whether growing density makes Philadelphia a more or less equitable city depends on the public policies we adopt. Policies that would spread the benefits of development and density more broadly include

- providing even more protection than we currently do from rising property taxes for low-income, long-time residents.
- reforming our inclusionary zoning programs to ensure that housing for low-income families is built in the neighborhoods that are subject to the most development, not elsewhere.
- helping low-income families afford their homes by creating a program to help the lack of availability of low-dollar mortgages (less than \$70,000) for prospective homeowners with lower incomes⁴² and by addressing the problem of appraisal bias, which by undervaluing Black people’s homes undermines their ability to create generational wealth or utilize equity for economic advancement (examples include paying for college) and securing a mortgage..

⁴¹ “Urban Displacement Project: What Are Gentrification and Displacement,” Urban Displacement Project, University of California Berkeley and University of Toronto, <https://www.urbandisplacement.org/about/what-are-gentrification-and-displacement/>.

⁴² Elinor Haider and Larry Eichel, “The State of Housing Affordability in Philadelphia: Who’s cost-burdened—and why” The Pew Charitable Trusts: Philadelphia Research and Policy Initiatives, September 10, 2020, <https://www.pewtrusts.org/en/research-and-analysis/reports/2020/09/the-state-of-housing-affordability-in-philadelphia>; Laurie Goodman and Bing Bai, “Why do lenders deny small-dollar mortgages at higher rates?” <https://www.urban.org/urban-wire/why-do-lenders-deny-small-dollar-mortgages-higher-rates>.

- investing more in helping low-income homeowners repair and upgrade their homes.
- creating community property zones that dedicate a share of the increased property values and taxes in a community to support public amenities for the community such as new or improved parks and recreation centers, child care centers, and senior centers, and to support community organizing efforts that aim to confront neighborhood issues as well; such zones could also be used to support affordable housing policies such as rent subsidies in gentrifying neighborhoods.
- doing periodic cost-benefit analyses of the many targeted tax incentives to businesses in the city from the point of view of economic and racial equity.
- slowing development in neighborhoods that suffer the ill effects of gentrification until policies that demonstrably protect long-time homeowners are in place—which would create strong political incentives for those policies to be adopted.

If these policies were to be adopted, it would make sense for Philadelphia to selectively increase development density—say by raising allowable building heights—in economically stable communities or areas of the city transitioning to residential use, such as along the Delaware River. Unlike new housing development in gentrifying communities, expanding the supply of housing in these communities is likely to slow the increase in housing prices.⁴³

Sectoral Employment Programs

We have seen that wage and tax cuts may provide a limited incentive to businesses to locate in Philadelphia, though too often those who are unemployed or disconnected from the growing sectors of our economy do not benefit. They don't secure new jobs. And the spillover effects in the less dynamic parts of the economy don't necessarily raise wages for low-income workers. Nor do they change the expectations of young people in low-income communities about their future prospects.

One way to incentivize economic development and job growth, while also ensuring that the benefits flow to lower-income Philadelphians, is with sectoral employment programs. These programs help businesses recruit and train workers, particularly those businesses in potentially growing sectors of the economy. These incentives should flow to start-ups in the city as well as businesses who move to the city if they commit to training and hiring individuals from disadvantaged communities. If these programs are, in turn, tied to investments in our schools, they can provide a pipeline for young people from low-income communities to good-paying jobs. And that, in turn would make the rewards of

⁴³The premise of our view that growing density can have positive as well as negative effects is based on the assumption that while new high-density, market-rate housing development in gentrifying low-income neighborhoods can lead to higher housing costs, the same kind of development in stable, moderate-income communities can, by increasing supply, moderate housing costs. We recognize that at this point the academic literature on this issue remains uncertain. Our reading of the evidence—and common sense—suggests that, given the hyper-local nature of housing markets, it's highly likely that the same new housing development in these two different situations can have a vastly different impact on housing prices. Thus, it is critical that zoning decisions that allow for increased density be limited to stable neighborhoods. The same policy in gentrifying neighborhoods could lead to greater inequity in the housing market. See Andrés Rodríguez-Pose and Michael Storper, "Housing, urban growth and inequalities: The limits to deregulation and upzoning in reducing economic and spatial inequality," Utrecht University Papers in Evolutionary Economic Geography, #19.14, <http://econ.geo.uu.nl/peeg/peeg1914.pdf>. Upzoning, however, can contribute to more equitable housing markets in stable middle-class neighborhoods, not just in cities but in the suburbs where such policies are desperately needed.

education real to our young people in a way that many of them can't see now because those rewards are too few and too distant.⁴⁴

Investing in people makes more sense than giving incentives to businesses for another reason. Educated and trained workers are less likely to abandon Philadelphia, than businesses that come here only in search of tax breaks. Even if businesses that received incentives were to leave the city, the trained and experienced workers they'd leave behind would be a resource for other Philadelphia businesses, including startups.

Commercial Corridor Redevelopment

Many cities in the country—and some Philadelphia neighborhoods such as Oak Lane—have shown that commercial corridor redevelopment is a promising way to create jobs and boost incomes in low-income communities. The premise of this approach was recognized by a number of academics, most notably Michael Porter, who pointed out that while the average income in low-income communities is not high, they are typically so dense they have the buying power to support a great deal of commerce. Yet, many commercial corridors in the country, including in Philadelphia, have been so devastated by white flight, and both business and government disinvestment, that residents typically spend a great deal of their money outside of their own communities. The result is there are fewer jobs for members of the community, which in a vicious circle leads to even less commercial activity than there could be.

Commercial corridor strategies—and other such policies such as efforts to bring supermarkets to communities in food deserts—use government subsidies to invest in commercial corridors facilities such as streets and streetscapes (including sidewalks, storefronts, and signage), public transitshelters, and where necessary, parking designed to make shopping in them more attractive. They can also subsidize business that expand or locate in revitalized commercial corridors. Commercial corridor investment can also be combined with sectoral market strategies to ensure that people from the community are trained so they can join the workforce in new and expanding businesses. A critical part of such programs, however, should be a requirement that participating businesses provide internal career ladders so that workers that start at the bottom can move into better-paying, more responsible positions.

Paying for These Programs

The obvious question is: How can Philadelphia pay for these programs? Well, of course, one answer is that it will never be able to do so if we cut taxes. It is possible, however, that the growth we are already experiencing might give us the resources to invest in them.

Another answer is to find new sources of revenue. And since Philadelphia's taxes are already highly regressive, those revenues should come from those who are wealthy.

⁴⁴ Sectoral employment programs are programs for helping those job seekers who typically earn low incomes and without a college degree or high school diploma obtain skills for industries with strong labor demand and employment opportunities. This is done through training: in general, in career readiness, and in technical skills. Mentoring and training are hallmarks of the program. "Evidence Review: Sectoral Employment Programs as a path to Quality Jobs: Lessons learned from Randomized Evaluations," Abdul Latif Jameel Poverty Action Lab, J-PAL, https://www.povertyactionlab.org/sites/default/files/publication/Evidence-Review_Sectoral-Employment_2222022_0.pdf.

Recently, Councilwoman Kendra Brooks proposed a Wealth Tax for Philadelphia plan, based partly on our analysis. Critics of that proposal responded, of course, that Philadelphia is already too highly taxed. As we showed at the start of this paper, that is not the case. Our estimate is that raising \$200 million through a wealth tax would only add \$102 in taxes per capita annually, lifting Philadelphia from #14 to #12 in the rank of taxes per capita among the 30 largest cities.

The Wealth Tax proposal was criticized on the grounds that it would drive wealthy people from Philadelphia—but, in this paper, we present evidence showing there is little evidence that the very wealthy move in response to tax increases.

We believe that raising revenues from the wealthy, whether through a wealth tax or some other means, to invest in programs that reduce poverty and income inequality in our city is a choice that most Philadelphians would support, including most of those who would pay higher taxes under the Wealth Tax proposal.⁴⁵

An Unanswered Question

There is one question which any discussion of economic strategies for the city should soon be discussing—what changes are likely to occur as a result of the rise of virtual work during the pandemic. We have not addressed this question for two reasons. First, we do not know the extent to which the changes in work created by the pandemic will be permanent. Some people fear that many former commuters will never return to the city. It is far too early to know the answer to that question. We know that Philadelphia lost jobs and population as a result of the pandemic, albeit far less than New York and other cities on a per-capita basis. But we don't know how many people will return. While it is quite possible that many former daily commuters will only come into the city a few days a week rather than every day, again it is too soon to be sure or to calculate the impact on taxes of a partial rather than full return. (And the impact on taxes of a partial return depends on how tax laws are interpreted or changed.)

We also don't know the extent to which the ultimate impact of the pandemic will not be a reduction in commerce but a wider distribution of commerce throughout the city. It's clear that Center City commerce has been hard hit by the reduction of daily workers. But there is some anecdotal evidence that commerce has increased in outlying neighborhoods as those who work at home spend more time in local restaurants and coffee shops and other businesses.

⁴⁵ One way to limit incentive for wealthy people to leave is to enact a wealth tax regionally to support public transit, which would reduce the subsidy Philadelphia and the collar counties pay to SEPTA. This would also give SEPTA a revenue base that could enable it to issue bonds that would give it the funds to invest in major transit improvements. We have not yet estimated what a regional wealth tax would raise, but we suspect it would bring in enough revenue to more than offset all of the transit subsidies paid by the five SEPTA counties. The funds Philadelphia would save on transit subsidies could be used to implement the economic development strategies discussed in this section of the paper.

There is a strong case for regional taxes, which PBPC director Marc Stier made years ago in “A Regional Tax Swap?” *Marc Stier at Large*, December 31, 2006, <http://marcstier.com/blog2/?p=7>. As we mentioned above, residents of the collar counties benefit from Philadelphia's economy and cultural amenities. Yet it's only commuters who pay taxes to support the city's government without which the economy and cultural amenities would collapse. In that piece, Stier suggests that a regional sales tax be used to support SEPTA (and pay off the bonds on the sports stadiums, pick up Philadelphia's grants to the Philadelphia Museum of Art, and pay for other goods that benefit the residents of the entire region). He also proposes that the commuter tax be gradually eliminated in turn. Given the concerns about declining commuter tax revenues in the post-COVID era, we believe it is time to evaluate this proposal.

One thing that we do caution, is to assume that tax cuts are a solution to lost commuters. Like any good advocates, those who call for wage and business tax cuts are avid to offer them up as a solution to any problem and certainly don't want this crisis—if it exists—to go to waste. So far, however, they have offered no reason to think that post-pandemic economic conditions are more rather than less likely to make tax cuts an effective economic development strategy. Perhaps they will do so and we will listen when they do.

Conclusion

Rather than an overview of the paper—which essentially repeat the Executive Summary with which this paper begins, let us conclude with two requests.

First, we know that much of what we say in this paper is likely to be controversial and is, in truth, uncertain. Urban economics is a huge field and we are neither specialists nor as widely read it as we would like to be. And much work in the field is itself uncertain and controversial. So we hope that the readers of this paper respond to it with criticisms that take what we say and the evidence we present with the same seriousness and respect we have tried to take the work of those who have proposed wage and business tax cuts. There is room in this debate for differences of opinion and respectful disagreement about what conclusions we should draw from theory and evidence.

Second and more importantly, the one thing we hope readers of this paper will accept is our challenge to focus debate about economic policy not just on overall measures of economic growth and job creation but on the impact of different development strategies of economic and racial inequality in our city. The extraordinarily high rate of poverty in our city is both a moral scandal and a human disaster. We see the consequences every day in the murder rate.

That moral scandal and human disaster is not just, or even mainly, a problem of public policy in our city. It cannot be solved just by changing public policy in Philadelphia. But we all have the responsibility to figure how our city can best use our collective means to reduce economic and racial inequality. We hope that, however those of us who engage in policy advocacy and debate disagree, we can at least all agree that this the most important task our city faces.