

TESTIMONY OF MICHAEL J. WIDMER

JOINT COMMITTEE ON TAXATION

MAY 15, 2001

Senator Walsh, Representative Casey, members of the Taxation Committee. I am Michael Widmer, President of the Massachusetts Taxpayers Foundation. I appreciate the opportunity to testify in opposition to S. 1647, S. 1751 and S. 1754, which would curtail or eliminate the so-called "single sales factor" for key industries in the state.

Over the past several years the Legislature has approved a long list of initiatives to improve the competitive landscape for Massachusetts employers. These steps have been guided by a basic fact: Most Massachusetts businesses -- and especially those industries that form the core of the state's economic base -- face serious cost disadvantages vis-à-vis their competitors in other states.

Among the most important changes adopted by the Legislature has been tax reform for several key sectors of the Massachusetts economy -- banks, manufacturers, mutual funds and insurers. A state's economy is built around export industries that locate facilities and hire employees in Massachusetts but sell their products or services out of state, thus bringing in dollars from outside the Commonwealth. These four industries are critical elements of the state's export sector, and their success is a major factor in the tremendous progress of the Massachusetts economy for the last decade.

Manufacturing accounts for almost half of the approximately one million Massachusetts citizens employed in the export sector. And financial services such as mutual funds have come to play an increasingly crucial role in the state's economic base, especially in the greater Boston area: The share of money management jobs in our export sector has more than doubled in the past decade. Passage of the single sales factor, combined with cost reductions in other areas like workers' compensation and unemployment insurance, has been critical in lessening the Commonwealth's competitive disadvantage for these industries.

The single sales factor and other tax changes are often called tax "breaks" as if they somehow bestow special favoritism on companies. In reality, the tax reforms for manufacturers and mutual fund companies have simply helped bring their costs into line with those in other states. Even with the reforms, overall business costs in Massachusetts are in most cases still significantly higher than in the rest of the country.

Since Massachusetts adopted the single sales factor, first for defense and other manufacturers and then for mutual fund companies, other states have followed suit. Illinois recently moved to single factor sales for all businesses, and last year Connecticut approved the single sales factor for manufacturers. Michigan, Ohio and Pennsylvania have given greater weight to sales in order to encourage employment and investment in their export industries. New York is seriously considering adopting a single sales factor for manufacturers; an analysis by economists at the National Bureau of Economic Research indicates that such a change would have a significant positive effect on employment in the state.

Manufacturers in Massachusetts and around the country are now struggling through what many economists consider a recession in the manufacturing sector, and financial services and a host of other firms are coping with the fallout from the slumping stock market and the slowing of the economy as a whole. Given this troubled economic picture -- and the aggressive efforts of other states to gain further competitive advantage -- it would be a major step backward to eliminate Massachusetts' single sales factor for manufacturers and mutual fund companies, as proposed in S. 1754.

It would be a great mistake as well to change the rules of the game in mid-stream by adding a new job retention requirement to the single sales factor for manufacturers, as proposed in S. 1647 and S. 1751. Given the economic pressures on the manufacturing sector -- both long term and in recent months -- many of our manufacturers would find such a requirement difficult, if not impossible, to meet. As a result, employers in Massachusetts would be denied the benefit of an important tax reform which they -- and many of their competitors in other states -- already enjoy. This would be poor tax policy as well as poor economic policy, and would likely cost jobs in the Commonwealth rather than protect them.

Adoption of the single sales factor for manufacturers and mutual fund companies has improved the competitive position of these important sectors of the Massachusetts economy. We urge the Committee to oppose changes in the single sales factor. Thank you.