The Perfect Match for Ohio

Coupling Tax Fairness with Job Creation for a Stronger Economy

1This report was prepared by AFSCME from a post on EPI’s Working Economics blog. It has been reformatted for appearance and by individual state distribution.
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Tax fairness policies could create 3.3 million jobs nationwide, 143,030 in Ohio

The tax code was fundamentally changed in the last few decades in ways favoring wealthy and high-income households (Pollack and Thiess 2011). The top marginal tax rate fell from 70 percent during the 1970s, to 50 percent through most of the 1980s, to 35 percent for the past decade. The tax rate on capital gains – income created from wealth rather than work – from 40 percent in the late 1970s to just 15 percent by 2012.

Today, after the “fiscal cliff” deal earlier this year, this rate still stands at just 20 percent. Additionally, loopholes in the tax code allow big corporations opportunities for tax evasion and incentivize offshoring, resulting in historically low levels of revenue.

Reforming the tax code to close corporate loopholes and ending tax breaks for the wealthy would raise revenue that could be used to fund job-creating investments in Ohio to produce 143,030 jobs.

During the past two years, Congress largely ignored or paid little attention to job creation and instead directed its rhetoric, if not its actions, toward the budget deficit. But a misplaced opposition to higher near-term deficits need not preclude effective job creation policies, because Congress could simply use tax fairness reforms to pay for job creation policies.

By pairing job creation policies – which are temporary – with permanent tax changes, deficits would be reduced substantially over the medium and long term (which is what really matters).

The Congressional Progressive Caucus’s Back to Work Budget includes a number of tax policies that raise revenue while imposing only a minimal drag on the economy in the near term. And if the money raised through these policies were recycled into job-creating investments, the result would be a huge boost to jobs. The table below illustrates three such options and describes the amount of federal revenue that each would raise, as well as the number of jobs that would result if the revenue were spent on infrastructure investments.

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This analysis examines the impact of three such policies that could be implemented to raise revenue to support job creation in Ohio through 2016:

**Enact the Fairness in Taxation Act of 2013:**
64,563 Jobs Created in Ohio through 2016

We can build a responsible tax system that supports job creation and that ensures everyone pays their fair share. We do this by raising tax rates for those making over $1 million, and ending lower rates paid by taxpayers (like Wall Street bankers) who earn disproportionate income from capital gains and dividends compared to ordinary Americans.

**Close Corporate Loopholes:**
10,463 Jobs Created in Ohio Through 2016

The corporate income tax code contains tax loopholes and preferences that result in low revenues relative to historical levels, opportunities for tax evasion, and perverse incentives for overleveraging, offshoring and using fossil fuels. Adopting the reforms to the U.S. international tax system proposed in President Obama's fiscal year 2014 budget – reforms that largely target international corporate tax avoidance – would raise $150 billion in federal revenue during the next decade.

**Adopt Financial Transactions Tax (FTT):**
68,003 Jobs Created in Ohio Through 2016

During the last 30 years, the financial sector grew from 3.8 percent to 7.6 percent of the economy, yet this growth did not appear to provide any commensurate benefits to the overall economy – if anything, the economy underperformed during these 30 years compared with the three decades prior (Mishel and Bivens 2011). These trends suggest that much of the financial sector’s recent growth produces profits for itself without adding actual value to the economy or society. By levying a small tax on the sales of financial products, large sums of revenue can be raised in a progressive manner while dampening volatility and without distorting productive economic activity. The Congressional Progressive Caucus’s version of the FTT would raise $879 billion in federal revenue during the next decade.
Conclusion

Pairing tax fairness reforms with job creation investment accomplishes two goals: It reduces inequality by ensuring progressivity in the tax code, and it makes everyone better off by creating jobs and expanding economic activity. This is exactly what the state needs as Ohioans continue to get back on their feet in the aftermath of the Great Recession. If we close tax loopholes that benefit corporations and the wealthy, we can be fiscally responsible and protect the middle class by creating jobs right now.

Appendix: Methodology for Calculating Jobs Impact

i. The jobs impact of each policy was calculated by applying a multiplier to the fiscal impact in each year. The multipliers used were: investing in infrastructure investment, 1.44; raising upper-income tax rates, 0.37; raising corporate tax revenue, 0.32; and adopting financial transactions tax, 0.39. Each of these multipliers are published by Mark Zandi at Moody’s Economy.com (Zandi 2011), although the raising upper-income rates option uses an average of two multipliers (0.35 for permanently extending the Bush-era tax cuts and 0.39 for permanently extending temporary capital gains and dividends tax cuts). These estimates assume the economy did not return to potential output by 2017, which is consistent with CBO projections (CBO 2012); this assumption implies elevated fiscal multipliers. The state shares of the tax policy changes were calculated using state data on the distribution of taxpayers who earn more than $200,000, published by Citizens for Tax Justice (2008). The state shares of the infrastructure investments were calculated using each state’s share of national employment (Bureau of Labor Statistics 2012). We did not want to presume a certain state allocation of funds for three reasons:

1. Different types of infrastructure would entail different allocations;

2. certain allocations, such as the transportation allocations, are currently debated and will likely change soon; and

3. for some infrastructure areas, such as school construction, it isn’t clear what formula would be used. It should be noted that each tax policy is scored against a current policy baseline in which current tax policies are extended. But if all tax policies are implemented together, there may be interactions that are not captured in this analysis.

ii. For more information or to view the original report or references, please visit: www.epi.org/publication/ib329-tax-fairness-job-creation