OREGON CENTER FOR PUBLIC POLICY
204 N. First St., Suite C • PO Box 7 • Silverton, OR 97381 • www.ocpp.org • 503-873-1201 • fax 503-873-1947

June 12, 2001

New Data Show that House Bill 2281 Single Sales Factor is No "Field of Dreams" for Economic Growth

By Jeff Thompson and Charles Sheketoff

House Bill 2281 reduces General Fund revenue by $101.3 million in 2003-05 by modifying the formula that Oregon uses to determine how much of a multi-state corporation's income is subject to Oregon's corporate tax.[1] This proposal, which adopts a "single sales factor," was analyzed in a previous study by OCPP, *House Bill 2281B and the Single Sales Factor: An Expensive, Ineffective, and Unnecessary Effort to Change the Business Climate.*[2] Since the release of that earlier report, proponents of the single sales factor made additional claims about the impacts of HB 2281 during a Senate debate, and new data on economic growth have been released. This report addresses claims made during the Senate debate and analyzes the implications that the new data have on the likely economic impacts of a single sales factor policy.[3]

During the Senate debate over the measure, proponents claimed that the single sales factor would have powerful economic impacts and that this policy could help Oregon keep up with other states that have adopted the formula. Iowa, in particular, was highlighted as a state whose economy has benefited from the single sales factor.

Despite these claims, there is little reason to think that a single sales factor will bring significant economic growth to Oregon. The Legislative Revenue Office's Oregon Tax Incidence Model (OTIM) shows that reducing the corporate income tax as proposed by HB 2281 will have a miniscule impact on Oregon's economy. The Model projects just 100 more jobs per year for several years as a result of the bill.[4]

New Gross State Product and manufacturing employment data contradict supporters' claims that the single sales factor can be expected to generate significant economic growth. Single sales factor states do not perform particularly well by either of these key indicators of economic growth. Oregon, however, has been one of the nation's top performers in the late 1990s by both measures, without the "assistance" of the single sales factor policy.

Bureau of Economic Analysis: Oregon's Economy Outshines Single Sales Factor States

The same day the state Senate was debating HB 2281, the federal Bureau of Economic Analysis (BEA) released new estimates of Gross State Product (GSP) for 1999. The BEA estimates reveal that, while Oregon grew rapidly in the 1990s, states with single sales factor formulas grew more slowly.

Table 1. Growth in Gross State Product and Manufacturing Employment

	Growth in Real GSP		Growth in Manufacturing Employment	
	1995-100	rank	1995-2000	rank
US	4.40%		0.14%	
New Hampshire	7.62%	1	0.89%	21
Oregon	7.54%	2	1.59%	10
Arizona	7.34%	3	2.42%	4
Colorado	6.80%	4	1.22%	14
Nevada	6.57%	5	4.73%	1
Utah	6.32%	6	2.01%	6
Idaho	6.12%	7	1.11%	16
Georgia	5.95%	8	0.29%	25
*Texas	5.81%	9	1.25%	13
Washington	5.44%	10	0.74%	22
California	5.42%	11	1.52%	11
*Massachusetts	5.25%	12	-0.42%	34
Minnesota	5.13%	13	0.99%	18
North Carolina	5.01%	14	-1.56%	46
Florida	4.39%	15	0.09%	28
**Connecticut	4.35%	16	-1.37%	44
New Mexico	4.25%	17	-0.69%	38
Wisconsin	4.15%	18	0.92%	19
***Illinois	3.99%	19	-0.13%	29
New York	3.96%	20	-1.48%	45
South Carolina	3.87%	21	-1.36%	43
Rhode Island	3.86%	22	-2.86%	50
Indiana	3.84%	23	0.59%	23
*Missouri	3.83%	24	-0.43%	35
Tennessee	3.77%	25	-0.96%	39
Ohio	3.77%	26	0.24%	26
Kansas	3.73%	27	1.90%	7
Virginia	3.72%	28	-0.64%	37
Kentucky	3.72%	29	0.90%	20
Oklahoma	3.70%	30	1.20%	15
Delaware	3.66%	31	-1.29%	42
*Nebraska	3.49%	32	1.64%	9
Arkansas	3.49%	33	-0.17%	30
South Dakota	3.35%	34	2.38%	5
Alabama	3.31%	35	-1.12%	40
New Jersey	3.31%	36	-1.59%	47
Vermont	3.30%	37	1.82%	8
****Maryland	3.28%	38	0.14%	27
*Iowa	3.28%	39	1.08%	17
Pennsylvania	3.17%	40	-0.28%	33
Mississippi	3.14%	41	-1.79%	48
Maine	3.09%	42	-1.16%	41
Michigan	2.94%	43	0.50%	24
North Dakota	2.71%	44	2.66%	2
Montana	2.45%	45	1.27%	12
Louisiana	2.42%	46	-0.26%	32
Wyoming	2.40%	47	2.46%	3
West Virginia	1.80%	48	-0.18%	31
Alaska	0.56%	49	-2.99%	51
District of Columbia	0.49%	50	-2.15%	49
Hawaii	-0.04%	51	-0.54%	36

*These states had single sales factor for entire period.

**Conecticut adopted a single sales factor in 2000.

***Illinois adopted a single sales factor in 1998.

****Maryland is the only state to adopt a single sales factor in 2001.

Between 1995 and 1999 Oregon had the second fastest growing economy in the country, expanding at an inflation-adjusted rate of 7.5 percent per year (Table 1).[5] Only five states had single sales factor policies during that entire period, and all of them grew more slowly than Oregon.[6] Texas was the only single sales factor state among the ten fastest growing states. Most single sales factor states grew more slowly than the national average.

During the Senate debate on House Bill 2281, Iowa, Missouri, Illinois, and Michigan were identified as being among of the first states to adopt the single sales factor, and as states that have benefited from the change and should be emulated. The list is misleading; only Iowa and Missouri were among early adopters of the single sales factor. Michigan does not have a corporate income tax and cannot therefore be considered an example of a single sales factor state. Illinois did not adopt the measure until 1998, and it was not fully phased in until 2000.

More importantly, the BEA data show that these states are hardly models of economic growth. For instance, Iowa, which adopted the single sales factor in the 1970s, experienced extremely slow growth in recent years. In 1998 there were only two states that grew more slowly than Iowa, and in 1999 there were only four. Missouri, which also adopted the single sales factor in the 1970s, performed better than Iowa, but was ranked 24th among states for growth in real GSP. Midwestern states without the single sales factor, including Wisconsin and Minnesota, performed considerably better than either Iowa or Missouri.

These states’ low unemployment rates were cited as a reason why Oregon should adopt a single sales factor.

There are several problems with this argument. First, many states in the Midwest without the single sales factor have low unemployment, including Indiana (3.2 percent in 2000), Wisconsin (3.5), Minnesota (3.3), North Dakota (3.0), and South Dakota (2.3). In the late 1990s, states in the Midwest experienced low unemployment rates regardless of their corporate income tax apportionment formulas.

Second, since the unemployment rate measures the labor force as well as employment levels, low unemployment can be the result of slow population growth as much as it is of rapid employment growth. This helps explain some of the difference between Oregon’s unemployment rate and states in the Midwest. In the late 1990s, Oregon’s population expanded rapidly, growing nearly 1.5 percent per year between 1995 and 2000. Iowa, on the other hand, expanded at just 0.3 percent annually. To the extent that Iowa faces a labor shortage and needs to import workers, as was alleged during the Senate debate over HB 2281, it is quite unlikely that the single sales factor has played any role whatsoever. Slow population growth is more likely the cause.

Table 2. Unemployment Rates in Oregon and Iowa

	1979	1981-82	2000
Oregon	6.8%	10.7%	4.9%
Iowa	4.1%	7.7%	2.6%
GAP	2.7%	3.0%	2.3%

Source: US Bureau of Labor Statistics

Finally, while there is a gap between the unemployment rates of Oregon and states such as Iowa, this gap has shrunk over time. As shown in Table 2, the difference in the unemployment rates dropped from 2.7 percent in 1979 to 2.3 percent in 2000.

While it was asserted in the Senate debate over HB 2281 that Oregon and Iowa had similar unemployment rates in the early 1980s recession, Table 2 shows that this is not the case. The gap in unemployment rates was larger in 1981-82 than it was during the business cycle peaks in the late 1970s or the late 1990s. While Oregon’s unemployment rate is higher than Iowa’s, this is not a new development, and the gap is smaller now than in the past

Oregon’s Manufacturing Growth Already Among the Best

Supporters of the single sales factor claim that the policy will have a powerful impact on the manufacturing sector. States adopting the policy, however, have not experienced particularly strong manufacturing employment growth, especially relative to Oregon. With its current three-factor corporate income tax formula, Oregon had one of the fastest growing manufacturing sectors in the country between 1995 and 2000. Manufacturing employment in Oregon grew 1.6 percent per year: only one single sales factor state, Nebraska, grew as quickly (Table 1).

Several of the single sales factor states saw their manufacturing employment shrink in the late 1990s. Massachusetts, for example, lost over 10,000 manufacturing jobs between 1995 and 2000. Reviewing the results of the single sales factor policy, a *Boston Globe* report concluded “More than four years after Massachusetts enacted a controversial tax break to save manufacturing jobs in the state, there’s scant evidence the policy has worked as advertised.”[7] Another long-time single sales factor state, Missouri, lost 17,000 manufacturing jobs over the same period.

Oregon’s Competitors, Including Arizona and California, Are Not Rushing to Adopt the Formula

Arizona, California, and Texas were identified during the Senate debate on HB 2281 as Western states that compete with Oregon for manufacturing jobs. Arizona was alleged to have adopted the single sales factor, and California was alleged to have taken the first of two steps to adopt the single sales factor. In fact, neither state has adopted the measure in 2001 legislative sessions.

Texas did adopt the single sales factor formula in the early 1990s. Manufacturing employment in Texas grew between 1995 and 2000, but at a slower pace than in Oregon. Oregon also experienced stronger GSP growth than Texas in the late 1990s. To date, the only state adopting the single sales factor during 2001 legislative sessions has been Maryland, a state that does not compete with Oregon for manufacturing jobs.

Conclusion

House Bill 2281 will cut taxes on 2,500 corporations, raise taxes on 5,700, and reduce state revenue by over $100 million in the 2003-05 biennium alone.[8] Responding to the discussion over the single sales factor in Massachusetts, one employer replied, “Anytime we pay less in taxes, we like it. But it probably won’t have a huge effect on us one way or the other.”[9] Similarly, Oregon employers want to pay less in taxes, but HB 2281 will not result in the economic growth promised by supporters, and some companies will pay more.

The campaign for the single sales factor is part of what has been referred to as an un-winnable “economic war between the states.” Each state competes against the other, trying to steal jobs by offering up corporate tax cuts. The end result is lower corporate taxes and reduced public services or shifts in funding government from businesses to households, or both, without the promised economic growth. Instead of playing into this trap, Oregon has the option of using public resources to make long-overdue investments in public services, such as education and infrastructure, which make an important contribution to economic growth.

---

[1] The Senate amended the bill to allow telecommunications and utilities to choose whether they want to be taxed under the current law or the new scheme embodied in HB 2281. The House chose not to concur with the Senate amendments and the bill is in Conference Committee.

[2] Available at www.ocpp.org/2001/es010601.htm. Currently Oregon taxes a portion of corporate net-income based on the amount of property, payroll, and sales a company has in Oregon. Employment and property each account for one-fourth of the portion of net income taxable in the state, while sales are “double-weighted” and account for half. Twenty-four states use “double-weighted” sales formulas, while 12 states weight the three factors equally. The proposed new “single sales factor” formula would only tax companies based on the amount of sales in Oregon.

[3] Thanks to OCPP intern Blake Goud for research assistance.

[4] Legislative Revenue Office OTIM results for HB 2281.

[5] Oregon was among the ten fastest growing state economies in four years between 1995 and 1999, and it was ranked number 12 in 1997.

[6] Two additional states, Connecticut and Illinois, adopted single sales factor formulas between 1995/6 and 2000. Illinois’ was not fully phased in until calendar year 2000 and Connecticut’s was not adopted until 2000. As of this date, Maryland is the only state to have adopted a single sales factor formula this year.

[7] Kerber, Ross, “Has ‘Single-Sales Factor’ Done the Job?,” *Boston Globe*, January 16, 2000.

[8] Legislative Revenue Office Impact Statement on HB 2281A-4, May 24, 2001.

[9] Jeff Bowman, executive at Malden Mills in Lawrence, MA, quoted in “Economists at Odds over Success of Tax Break,” Associated Press, 1/17/00 in South Coast *Standard Times*.