

Economic Sense - Thirty-First Edition

A Bold Reform Proposal to Save Aerospace (and Other Manufacturing) Jobs

Bottom line up front:

Washington needs to act **now** to preserve the future of aerospace (and other manufacturing) in our state. Waiting until the Legislature meets in January will be too late.

It's expected Boeing will soon announce the future production location of its 787 jetliner. The decision could affect tens of thousands of high-paying jobs in our region.

News reports already point to South Carolina as the company's choice.

Rather than sit idly, Washington should put its best foot forward by reducing its manufacturing tax rate to 0%.

A 0% manufacturing tax rate would likely permanently secure the future of the aerospace industry in our state. The policy also would be a much-needed boost to the nearly 200,000 non-aerospace manufacturing jobs in Washington, which have suffered a 20% job decline in the 21st century.

To ensure the state budget is not adversely affected, this proposal would impose sales tax on legal services in Washington. The net fiscal impact (0% manufacturing tax, impose sales tax on legal services) would amount to a wash.

So, the policy question:

Is it better to impose a tax rate on a declining manufacturing industry and see our state's largest employer move tens of thousands of high-paying family wage jobs out of the state, while keeping legal services free of sales tax? Or is it better to tax legal services and eliminate the business tax on manufacturers throughout the state?

This is the opportunity before us. And this is the choice.

A. Boeing & Its Washington Workforce are an Irreplaceable State Treasure

For a visual depiction of the hollowing-out of the working class, look no further than the map below. It shows the largest employer in each state.

In 21 states, Walmart is the largest employer. In all but five states the largest employer is either Walmart, a health-care system (which have been consolidating greatly in recent years), or a university.

Washington is one of those exceptions. Our largest employer is Boeing, which also pays employees an average of over \$100,000 a year.

BOEING IS LARGEST EMPLOYER IN WA

- Washington is an outlier
 - In 45 states, largest employer is:
 - Walmart
 - Health Care System, or
 - University
 - Five states not the case:
 - MGM Resorts (Nevada)
 - Denver Int'l Airport (Colorado)
 - General Motors (Michigan)
 - Wakefern Food (New Jersey)
 - Boeing (Washington)

WALMART NATION

Walmart is the largest private employer in 21 states



Source: <https://doyouremember.com/92270/largest-employer-in-each-state>

AEROSPACE AVG PAY: \$108,000

- Just shy of 90,000 aerospace employees in state
 - 70,000 direct employees of Boeing
- Average pay: \$108,000 (in 2017)

We are incredibly fortunate.

We are the aerospace capital of the world, a position that brings tens of billions of dollars to our state and supports hundreds of thousands of jobs when the multiplier effect is taken into account. The industry and its workforce are a true blessing to our state.

B. Non-Aerospace Manufacturing Employment Has Declined by Over 40,000 Jobs in the 21st Century (Pre-Pandemic)

The chart below depicts 21st-century job growth in Washington. The figures are through January 2020, thus they don't reflect the job losses from the pandemic. In the 21st century, nearly every industry has seen sizable employment growth. The one industry with net job losses? Manufacturing.

A Look at Employment in Washington in 21st Century - Prior to Pandemic						
<i>Job Numbers in Thousands</i>						
		Jan 2000	Jan 2020	21st Century Change		
				Thru Jan. 2020		
Total Non-Farm Employment	<i>Examples</i>	2,722	3,517	795	29.2%	
Retail Trade, Transpo, Utilities	<i>Amazon employees</i>	528	655	127	24.1%	
Government (State, Fed, Local)	<i>includes public K-12 & higher ed</i>	479	592	113	23.6%	
Manufacturing	<i>Boeing</i>	338	295	(43)	-12.7%	
Health Services & Private Education	<i>91% is health services</i>	316	507	191	60.4%	
Professional & Business Services	<i>lawyers, engineers</i>	299	445	146	48.8%	
Leisure & Hospitality	<i>restaurants, hotels</i>	250	357	107	42.8%	
Construction		158	222	64	40.5%	
Financial Activities	<i>banks</i>	146	161	15	10.3%	
Information	<i>Microsoft</i>	91	148	57	62.6%	

<https://data.bls.gov/pdq/SurveyOutputServlet>

And those job losses are exclusively in the non-aerospace sector. Entering 2020, aerospace employment remained at roughly the same 90,000-job level it entered the century with. The decline has been in all other manufacturing sectors, with a net total of over 43,000 jobs -- or 20% -- lost.

In 2017 legislators gave strong approval to a bill to gradually lower the non-aerospace manufacturing tax rate until it matched the aerospace rate. Unfortunately, the governor vetoed this important reform, which was expected to stem the decline of jobs in the non-aerospace sector. Fortunately, many of the 33 senators and 83 representatives who voted yes on SB 5977 are still serving in the Legislature and have another opportunity to offer tax relief to manufacturing, at a time when it would be even more meaningful.

C. Manufacturing Jobs Typically Among Highest Paying in Community

Statewide, in 2018, manufacturing jobs paid 126% of the average state wage. The average manufacturing job salary in the state? Nearly \$75,000.

County	Manufacturing Average Salary	Countywide Average Salary	% Difference	\$ Difference
Statewide	\$74,632	\$59,090	126%	\$15,542
Adams County	\$50,966	\$37,308	137%	\$13,658
Asotin County	\$40,398	\$35,710	113%	\$4,688
Benton County	\$55,683	\$52,587	106%	\$3,096
Chelan County	\$44,189	\$37,480	118%	\$6,709
Clallam County	\$46,403	\$37,510	124%	\$8,893
Clark County	\$56,387	\$48,852	115%	\$7,535
Cowlitz County	\$66,616	\$45,759	146%	\$20,857
Douglas County	\$44,197	\$35,188	126%	\$9,009
Franklin County	\$40,893	\$38,168	107%	\$2,725
Grant County	\$52,026	\$38,573	135%	\$13,453
Grays Harbor County	\$51,623	\$38,053	136%	\$13,570
Island County	\$52,940	\$37,297	142%	\$15,643
Jefferson County	\$55,597	\$36,831	151%	\$18,766
King County	\$86,298	\$76,828	112%	\$9,470
Kitsap County	\$46,591	\$48,439	96%	-\$1,848
Kittitas County	\$37,198	\$38,968	95%	-\$1,770
Klickitat County	\$80,243	\$46,327	173%	\$33,916
Lewis County	\$51,819	\$39,018	133%	\$12,801
Lincoln County	\$19,416	\$35,077	55%	-\$15,661
Mason County	\$44,963	\$38,272	117%	\$6,691
Okanogan County	\$35,375	\$30,839	115%	\$4,536
Pacific County	\$35,958	\$33,906	106%	\$2,052
Pend Oreille County	\$75,694	\$46,436	163%	\$29,258
Pierce County	\$61,661	\$47,847	129%	\$13,814
San Juan County	\$39,658	\$33,871	117%	\$5,787
Skagit County	\$63,993	\$44,191	145%	\$19,802
Skamania County	\$43,889	\$35,677	123%	\$8,212
Snohomish County	\$92,377	\$57,443	161%	\$34,934
Spokane County	\$52,286	\$44,782	117%	\$7,504
Stevens County	\$46,920	\$36,444	129%	\$10,476
Thurston County	\$52,530	\$47,809	110%	\$4,721
Wahkiakum County	\$28,384	\$34,200	83%	-\$5,816
Walla Walla County	\$50,577	\$41,255	123%	\$9,322
Whatcom County	\$60,084	\$43,233	139%	\$16,851
Yakima County	\$44,761	\$36,665	122%	\$8,096

* Columbia, Ferry, Garfield, Whitman excluded to avoid disclosure of data for individual employer.

Source: ESD

D. A Simple Policy Choice: Tax Legal Services or Manufacturers?

Eliminating the manufacturing B&O tax would mean an estimated loss of around \$500 million of revenue per biennium to the state budget. (That figure includes tax revenue from aerospace manufacturing; if Boeing moves 787 production entirely out of state, it will become sizably smaller.)

What is a better tax policy that could replace those revenues, while still stimulating manufacturing growth and employment in our state?

The answer: Imposing sales tax on legal services.

Our state already imposes sales tax on a variety of services, including construction, physical fitness, tattoo parlors, and tanning salons.

The Department of Revenue estimates the sales tax on legal services would increase state revenues around \$500 million per biennium, enough to essentially offset the cost of the 0% manufacturing B&O tax policy.

Conclusion

In what has been an incredibly trying year, the Legislature is confronted once again with a historic opportunity to make a real difference in the lives of Washingtonians.

We must contend with the fact that Boeing's impending announcement about 787 production may cost tens of thousands of aerospace employees their livelihoods, with trickledown impacts that affect communities throughout the state.

Rather than sit by idly, we have the power to do something toward saving aerospace jobs in our state and stemming the tide of non-aerospace manufacturing jobs losses as well.

In this moment, the citizens of our great state deserve bold and decisive action and leadership from the Legislature. There is a better way. We should take it.