



HOUSE BILL 448 TESTIMONY  
MARCH 14, 2007

GOOD AFTERNOON. MY NAME IS JIM ASTRACHAN AND I AM PRESIDENT OF THE ADVERTISING ASSOCIATION OF BALTIMORE, A TRADE ASSOCIATION OF APPROXIMATELY 400 MEMBERS.

CREATIVE TALENT IS AN IMPORTANT DRIVER OF MARYLAND GROWTH. WHY DOES TALENT CONCENTRATE IN SOME PLACES AND NOT OTHERS?

RICHARD FLORIDA, IN HIS TREATISE ON THE CREATIVE CLASS, CITES THE CLASSIC LUCAS-JACOBS HUMAN CAPITAL EXTERNALITIES EFFECT:

TALENT ATTRACTS TALENT

AREAS THIN ON TALENT DO NOT ATTRACT TALENT. THEY LOOSE TALENT. AREAS WITH TALENT POOLS ATTRACT TALENT. HUMAN TALENT IS MOBILE AND HUMAN CAPITAL LEVELS DIVERGE SIGNIFICANTLY BY REASON. CITIES LIKE AUSTIN AND RALEIGH-DURHAM ARE LEADERS ON ANYONE'S CREATIVITY MEASURES IN RANKING CREATIVE CLASS CONCENTRATION. MARYLAND BUSINESSES MUST COMPETE WITH THESE REGIONS IN A VERY FLUID TALENT MARKET.

IN THE PAST, BUSINESSES HAVE BEEN IN A POSITION TO DICTATE TO EVEN THE MOST HIGHLY EDUCATED AND SKILLED CREATIVE WORKER WHERE THEY WOULD MOVE TO OBTAIN A LIMITED NUMBER OF JOBS.

BUT TODAY, FOR THE FIRST TIME IN 40 YEARS, IT IS BUSINESSES THAT HAVE TO THINK OF WHERE TO LOCATE TO ATTRACT AND RETAIN QUALIFIED WORKERS.

THIS IS THE CLIMATE THAT MARYLAND BUSINESSES FACE. IT'S JUST NOT THE BEST PLACE FOR CREATIVES TO LIVE – TRUE, BUSINESSES CAN THROW MONEY AT CREATIVES TO ATTRACT THEM BUT THAT'S NOT AN ATTRACTIVE OPTION – IT KILLS PROFITS.

TALENT POOLS ATTRACT BUSINESS. CREATIVE PEOPLE WANT TO LIVE WHERE THERE ARE AMENITIES AND NUMEROUS JOB OPTIONS. EMPLOYERS WANT TO LOCATE WHERE THERE IS A JOB POOL.

A SALES TAX ON CREATIVE SERVICES, PUBLIC RELATIONS, DIRECT MAIL, PHOTOGRAPHIC ART AND BUSINESS CONSULTING SERVICES WILL PUT MARYLAND BUSINESS AT A DISADVANTAGE VIS-À-VIS THE SAME BUSINESSES LOCATED OUT-OF-STATE AS THOSE BUSINESSES WILL NOT CHARGE A SALES TAX TO MARYLAND CUSTOMERS.

THIS TAX WILL CAUSE SOME MARYLAND BUSINESSES TO RELOCATE INCLUDING USERS OF TAXABLE SERVICES WHO WILL NOT HAVE TO PAY USE TAX IN ANOTHER STATE. IT WILL CAUSE SOME WHOSE MARGINS ARE THIN TO FAIL. THAT WILL CAUSE FEWER CREATIVE PERSONS TO MOVE TO MARYLAND; THAT WILL CAUSE MORE CREATIVE BUSINESSES AND THEIR CUSTOMERS TO LEAVE MARYLAND.

IMPOSING A SALES TAX ON CREATIVE SERVICES NOT ONLY SENDS THE WRONG MESSAGE ABOUT DOING BUSINESS IN MARYLAND, IT WILL ENCOURAGE MARYLAND BUSINESSES TO LEAVE THE STATE AND CAUSE BUSINESSES TO FAIL.

KIPLINGER REPORTED THIS WEEK THAT NEW SALES TAXES WILL CAUSE BUSINESSES AND CONSUMERS TO HEAD TO NEIGHBORING STATES TO DODGE THESE NEW TAXES. PORTABLE SERVICES SUCH AS CREATIVE SERVICES WILL BE THE FIRST TO GO. IT'S NOT A COINCIDENCE THAT THE ONLY STATE THAT TAXES ALL SERVICES IS THE ONLY ONE WHERE GOING NEXT DOOR IS IMPOSSIBLE – HAWAII.

THE RESULT WILL BE FAR LESS SALES AND INCOME TAXES COLLECTED.