

GLOBAL INSIGHT MEASURES COST OF STATE AD TAXES IN JOBS AND LOST SALES DOLLARS

State Legislatures and city councils throughout the nation for the past two decades have contemplated and some have proposed the expansion of their state and local sales taxes to business payments for advertising. While they justify this as a way to raise additional revenues by “broadening the base” of their sales taxes, in reality it is a tax on information in the marketplace. Moreover, unlike virtually all sales taxes that are applied to the sale of a product or service at its end use, a tax on advertising is a tax on an interim process – not a final step – in the delivery of the item to the consumer. Thus, the cost of the advertising plus the tax on the advertising is compounded in the final price paid by the consumer.

The world recognized economic consulting firm Global Insight has completed a study that estimates and forecasts the impact of imposing a sales tax on advertising expenditures in each of the states. The analysis quantifies the effect that a cost increase on advertising would have on the willingness of businesses to spend money on additional advertising. In this case, the cost increase is the imposition of a sales tax on advertising expenditures.

This study was prepared at the request of the Newspaper Association of America, the American Advertising Federation, the American Association of Advertising Agencies, the Association of National Advertisers, the Magazine Publishers of America, and 31 of the state broadcast associations in the country. The study is a successor to the study Global Insight conducted for The Advertising Coalition to examine the positive impact advertising has in helping generate economic activity and jobs in the U.S. economy.

Global Insight’s state-of-the-art models and forecasts are widely used by over 3,300 clients in corporations, government agencies, financial institutions, utilities, and many other organizations to make investment, management, marketing, and policy decisions. The national economic study was prepared under the direction of Michael J. Raimondi, Executive Managing Director of Global Insight’s IT/Telecom Consulting practice, and Dr. Lawrence R. Klein, Benjamin Franklin Professor Emeritus of Economics at the University of Pennsylvania. Dr. Klein was awarded the Nobel Prize in Economics in 1980.

The national study demonstrates that advertising will help generate more than \$5.2 trillion in sales and economic activity throughout the U.S. economy in 2005. That represents 20% of the nation’s \$25.5 trillion in total economic activity. The total economic activity measurement is approximately twice the nation’s GDP. This economic stimulus will provide support throughout the economy for more than 21 million jobs, or 15.2% of the U.S. work force.

The sales tax study of the impact of potential sales taxes on advertising tracks the linkages among all suppliers to the industries that use advertising to sell and promote their products and services. The study forecasts the impact of a sales tax on advertising expenditures on all levels of economic activity that are supported by advertising. Thus, the study provides a comprehensive view of the effects of imposing a sales tax on advertising expenditures – not merely the effect that the cost increase has on advertising itself.

A sales tax on advertising will increase the cost of advertising. This in turn causes a decrease in ad spending and related employment relative to a business environment without the increase in cost. Less advertising causes a decrease in advertiser sales and related employment.

As a result, supplier sales and related employment are also lower. This ripples throughout the economy and leads to lower interindustry sales and related employment.

The study utilizes Global Insight's integrated large-scale econometric models of U.S. macroeconomic, industry, and regional economic activity. It also utilizes the comprehensive and detailed model of advertising activity in the U.S. economy that was developed by Global Insight in 2004 for The Advertising Coalition.

Global Insight has examined four levels of economic activity in its analysis. The first tier encompasses dollars spent on and jobs dedicated to developing and implementing advertising activities to stimulate demand for products and services in each industry. The model quantifies the reduction in the growth of advertising expenditures that occurs as the imposition of a sales tax increases the cost of advertising. Slower growth in advertising also leads to slower growth in advertising employment.

In the second tier, Global insight's models illustrate how advertising stimulates demand for products and services throughout the economy. This is a net gain in industry output as advertising makes household and business consumers aware of additional products and services. Since the increased cost of advertising caused by a sales tax will reduce the growth in advertising expenditures, the total growth in the value of sales generated by advertising also slows. This in turn reduces employment growth across all industries in all states in the U.S.

The third tier of the analysis identifies the supplier economic impact. It quantifies the sales and jobs supported by first-generation suppliers to the industries that increase their sales through advertising. Since advertiser sales growth is expected to be slower due to slower growth in advertising expenditures, this ripples through to reduce growth in supplier sales and supplier employment.

The final level of economic activity identified in the model is the interindustry economic impact. This includes the sales and jobs supported by all the remaining levels of suppliers to the first generation suppliers identified in the supplier economic impact. Since supplier sales are slower in response to slower sales from the slower advertising activity, each successive level of supplier activity is a little smaller than it would have been if the sales tax on advertising had not been imposed. This also leads to less employment at this level.

This report summarizes the economic impacts that would occur if a sales tax is imposed on each state. Due to the details built into Global Insight's econometric models and the focused advertising model, Global Insight has quantified the impacts in terms of the changes in ad spending and the effects on advertiser sales, supplier sales, and interindustry sales throughout each states economy. The change in sales at all levels affects employment. So, the changes in employment are also quantified at all levels including advertising employment, advertising-supported sales production employment, advertising-related supplier employment, and advertising-related interindustry employment. The reported economic impacts due to imposing a sales tax on advertising quantify the changes in sales or revenue as well as employment relative to Global Insight's baseline forecast.

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