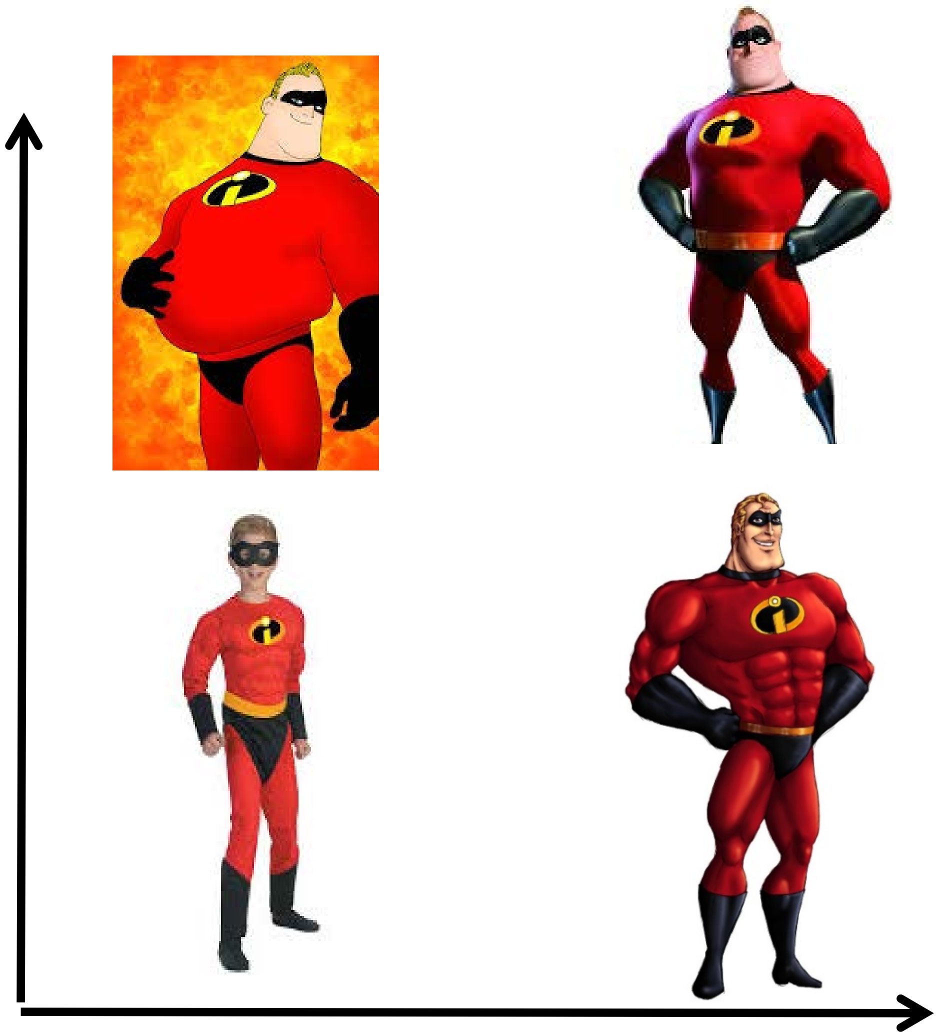
Challenge: Tax & Spending Choices

Tax rates (dis-incentives)



Public Infrastructure (enhances growth)

What would be good evidence?

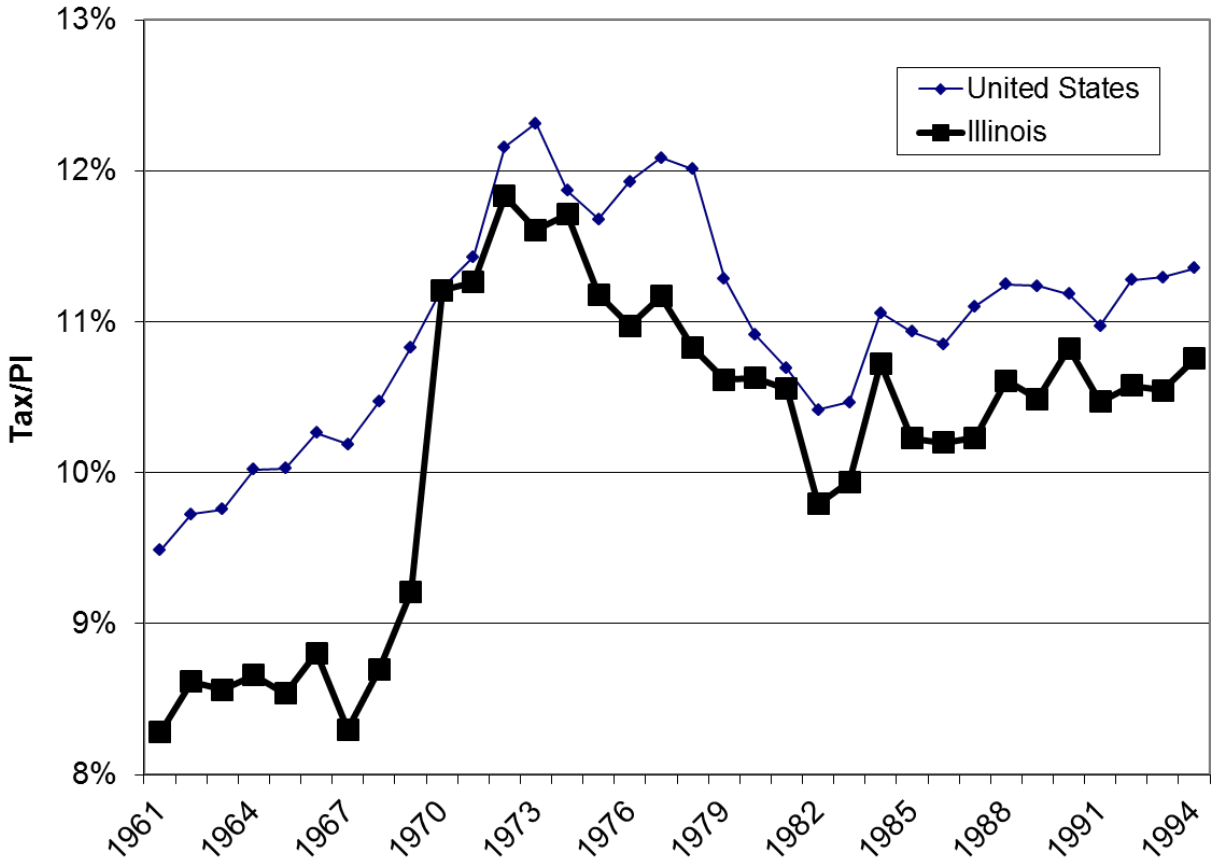
- Major tax policy changes

- Natural Experiments

Illinois' Major Income Tax Increase (1969)

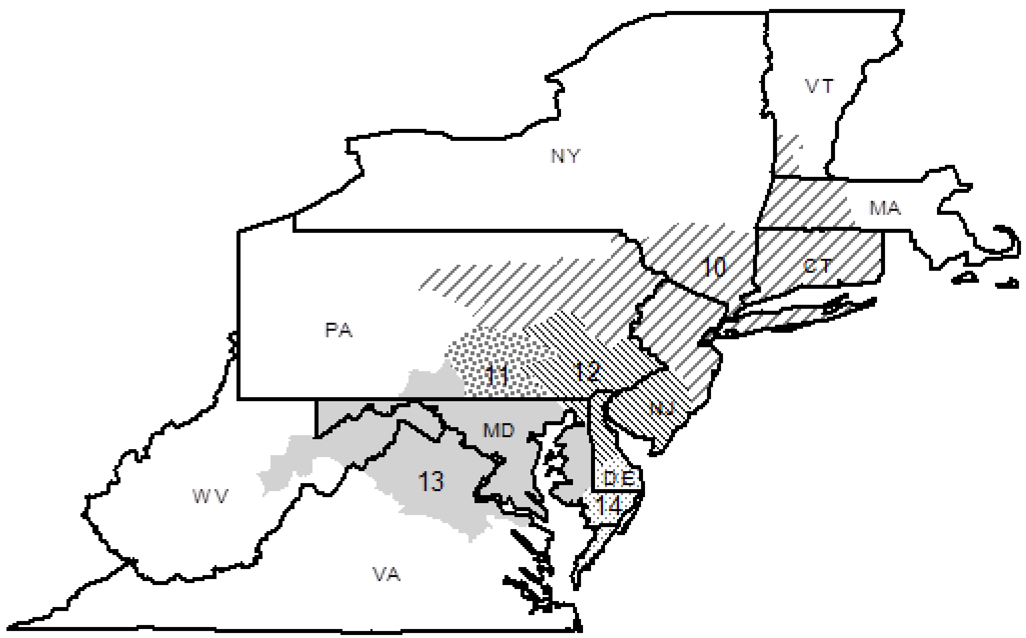
- New governor, no budget issue
- New personal and corporate income taxes
- 31% increase in S&L tax revenue
- Education/Infrastructure spending
- Compare counties in region before and after
- 1% - 3% decrease in PI
- Short-run effects estimate to be small and not significant
- (Reed & Rogers 2007)

Figure 1. State and Local Tax Burden: Illinois and United States



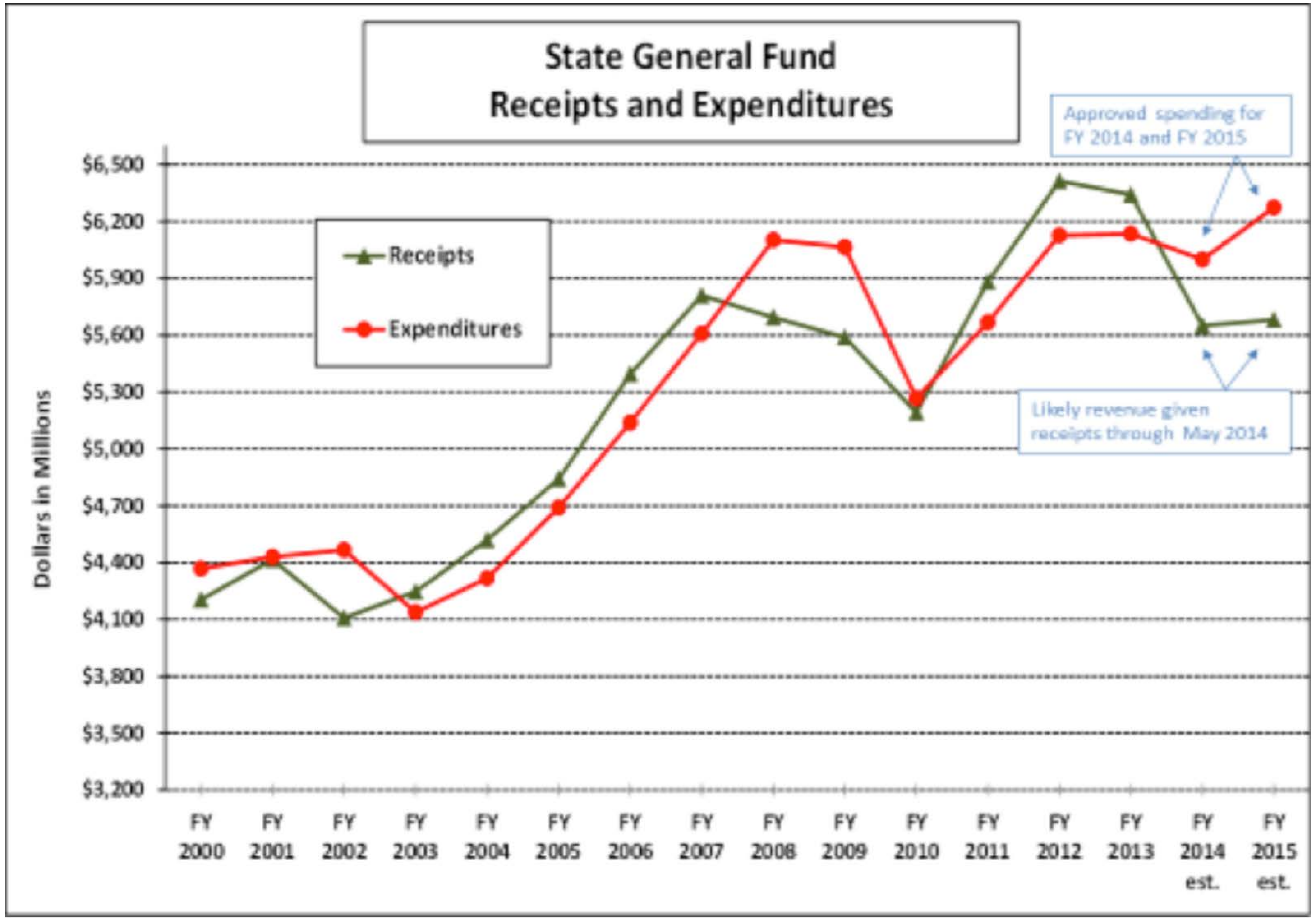
New Jersey’s Tax & Spending Cuts (1994-96)

- Governor ran on tax-cut program, no budget surplus
- 30% cut in Personal Income taxes from 94 to 96 (10 % per year)
- Spending cuts: layoffs of several hundred state workers, frozen aid to most municipalities and public schools, delayed retirement benefits, $1.8 billion in one-shot nonrecurring savings
- NJ’s growth was shared by region
- No significant employment growth due to tax cuts



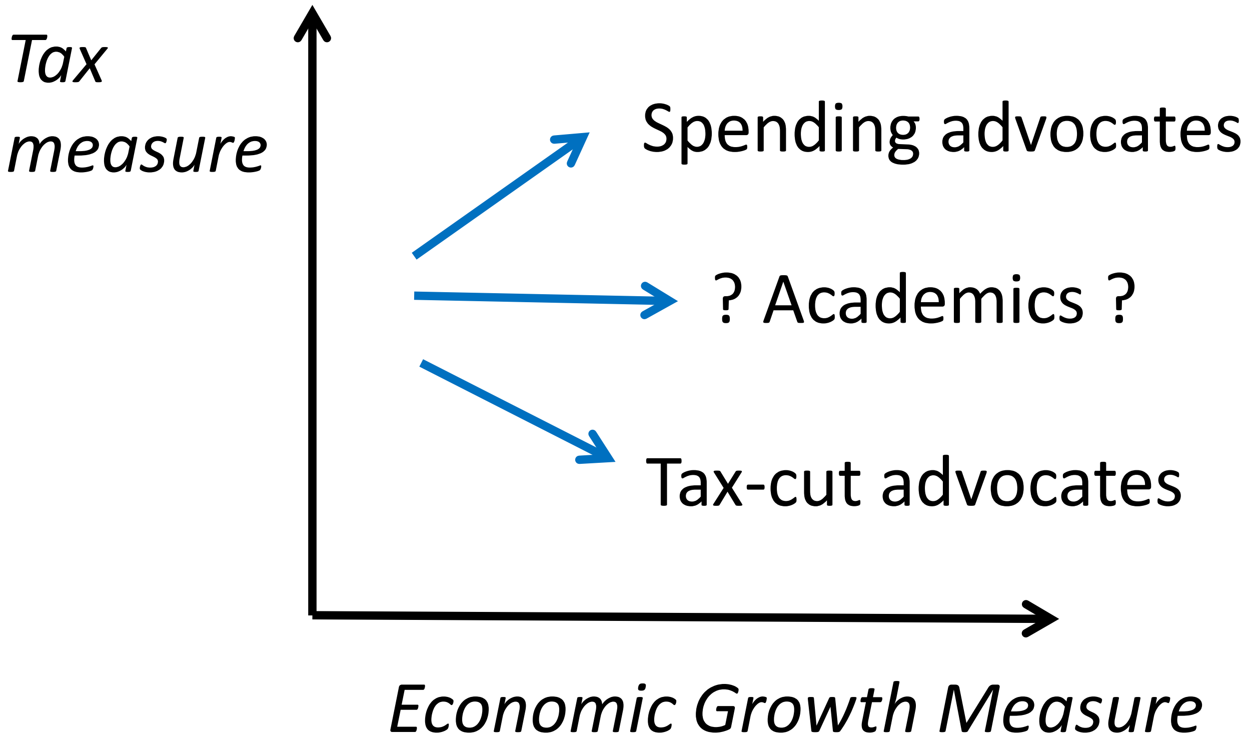
Kansas Experiment: Change in Tax Mix

- Major drop in top income tax rate (about 1/4th), eliminated taxes on business profits "passed through" from businesses to their owners
- Huge budget holes: $289 m FY14, $400 m est. FY15
- Increased Sales Tax rate from 5.7 to 6.15%
- Change in mix has big equity impacts
- State economy is not appear to be outperforming rest of US so far



Cynthia Rogers, Professor of Economics, OU, OK Policy Summer Institute, 2015

Taxes and Economic Growth: Fact of Fiction?



Easy to cherry pick

- Measures: growth & tax
- Sample: states, time

Hard to control for other factors

- Explanatory variables, method

Comparable studies disagree

- Reed (2008): robust negative
- Gale, Krupkin & Rubin (2015): not stable