Montana State Legislature

Exhibit Number: 10

The following exhibit is a booklet that exceeds the 5-page limit therefore it cannot be scanned. The booklets' cover has been scanned to help you when requesting information. The exhibit is on file at the Montana Historical Society and can be viewed there.

104th Congress
2nd Session

JOINT COMMITTEE PRINT

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STATE AND LOCAL TAXATION AND ECONOMIC GROWTH: LESSONS FOR FEDERAL TAX REFORM

A STUDY

prepared for the use of the

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

ONE HUNDRED FOURTH CONGRESS

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LETTER OF TRANSMITTAL

December 1995

To the Members of the Joint Economic Committee:

I am pleased to transmit to you this study entitled, "State and Local Taxation and Economic Growth: Lessons for Federal Tax Reform" prepared by Dr. Richard Vedder, Distinguished Professor of Economics at Ohio University, and John M. Olin Visiting Professor at the Center for the Study of American Business at Washington University for the Joint Economic Committee. The study examines the relationship between the level of state tax burdens and the resulting effects on the economic vitality of those states.

According to the study, "The experiences of the states and their localities tell us that taxes matter, and, indeed they matter a great deal. While governments cannot control the sunshine, the availability of natural resources..., they *can* control the taxes that they levy. State and local governments that have maintained low taxes have grown faster than jurisdictions that have relatively high tax burdens."

These findings provide a clear lesson for the national economic policy debate. That lesson is: lower tax burdens at all levels are an important ingredient in providing an environment of climbing incomes and secure futures for America's workers.

Connie Mack, Chairman
Joint Economic Committee

EXECUTIVE SUMMARY

The experience of the states over the past third of a century provides a unique laboratory for investigating the effects of tax policy on economic growth. States vary widely in the method and magnitude by which they raise revenues, and this paper examines the resulting effects on economic well-being within states.

Through a comprehensive statistical analysis, this study concludes that higher state and local taxes had a distinct and significant negative effect on personal income growth over the period extending from 1960 to 1993. That is, when state and local taxes were raised, personal income growth slowed markedly. By the same token, states with lower taxes enjoyed substantially higher personal income growth.

Key findings include:

- Relatively low-tax states grew nearly one-third faster than high-tax states. This difference in growth rates translates into higher income of about $2,300 per person or $9,000 for a family of four for people living in low-tax states compared to those living in high-tax states.
- On average, an increase in state and local tax burdens equal to one percent of personal income lowered income growth by over three and a half percent. Since states raised tax burdens by an average of nearly two percent of personal income over this period, an average family of four lost almost $2,900 in income.
- Income taxes have a particularly adverse impact on income growth. Had a representative state kept its level of income taxation at the same share of personal income over the course of this study, personal income in that state would be over 30 percent greater today.
- Flat-rate income taxes are significantly more favorable to economic growth than progressive taxes. Personal income in flat-rate income tax states grew about 25 percent faster than did personal income in states with a progressive rate structure.