November 7, 2006 TEF Series – Volume 2

Top 10 Reasons Why Tax Cuts Don't Grow the Economy

Do tax cuts grow the economy? The answer is No. Tax cuts do not grow the economy. Here are the top 10 reasons why tax cuts don't grow the economy.

1. **Tax cuts don't grow the economy because** they undermine our ability to invest in public education and in the infrastructure necessary to maintain our leadership in the new, global, knowledge-based economy. What grows economies is innovation, like the steam engine, electricity, biotechnology, telecommunications, and the Internet. Did any of them come from tax cuts? No. Not one of them did. All were the direct result of investing in an infrastructure that ensures the safety of property rights, of a free market economy, and of the free flow of goods and services. All were the direct result of investing in human capital.
2. **Tax cuts don't grow the economy because** no empirical evidence has ever demonstrated or supported that they do. The economies of states with higher overall tax levels actually grow faster than the economies of states with lower tax levels. For example, analysis of data from the Department of Commerce, the Bureau of Economic Analysis, and the Federation of Tax Administrators shows that whereas the top 10 fastest growing states in the U.S. had a top corporate tax rate of 7.1%, the bottom 10 slowest growing states all had the same tax rate — 6.2%. *Site Selection Magazine*'s top 25 most business-friendly states (low overall taxes, low regulations) grew slower (3.9%) than their bottom 25 least business-friendly states (4.3%). This is what the empirical evidence demonstrates and supports. This is what is true.
3. **Tax cuts don't grow the economy because** no historical evidence has ever demonstrated or supported that they do. An analysis of over 100 years of economic history shows that the economies of developed nations (especially in the European Union and North America) with higher tax levels grow faster than the economies of nations with lower tax levels. Peter Lindert, in *Growing Public*, analyzed the relationship between the level of public spending on social programs and economic growth in the developed countries of Europe and North America since 1880. Lindert concluded that the higher the public investment (*i.e.,* higher taxes) the higher the rate of economic growth. The same holds true for his analysis of the 50 states in the U.S.
4. **Tax cuts don't grow the economy because** our economy grows mainly through consumer spending, and only a portion of a tax cut ends up in the kind of consumer spending that stimulates a local or regional economy. The rest (10−20%) ends up in often out-of-area savings and investment, even outside America. Nobel laureate Joseph Stiglitz and Peter Orszag of the Brookings Institution argue that raising taxes would have a greater positive impact on economic growth than cutting taxes, especially during a recession.
5. **Tax cuts don't grow the economy because** they have a negative impact on public programs, especially public education and infrastructure. In fact, the negative impact of tax cuts on our economy is significantly greater than their benefits. For example, applying the standard regional economic model to a typical state shows that $100 million in income tax cuts would create 2,100 new jobs but the state would lose 4,400 jobs due to cuts in programs like K−12 education. That's a net loss of 2,300 jobs as a result of the tax cut.

Over

Top 10 Reasons Why Tax Cuts Don't Grow the Economy *(cont.)*

6. **Tax cuts don't grow the economy because** they cause huge budget deficits. Empirical evidence shows that tax cuts without corresponding cuts in public investment cause budget deficits. This has happened twice in the last 25 years — Remember Reagan's tax cuts? And now Bush's tax cuts? Both created huge budget deficits. Budget deficits mean borrowing from foreign nations and/or devaluing our currency, either/both of which ultimately impacts our trade balance. Budget deficits also mean shifting the burden of running current government operations onto future generations. Finally, budget deficits mean higher interest rates. Overall, budget deficits produce significantly greater negative impacts on our and our children's economy than they produce immediate benefits.
7. **Tax cuts don't grow the economy because** they don't get spent on the kinds of economic development and infrastructure that directly and positively impact local or regional economic growth. For example, part of a tax cut may be spent on consumer goods and part may be saved and invested outside the area (or outside the country), but none of it would be spent for the public good (*e.g.,* repair a bridge or school).
8. **Tax cuts don't grow the economy because** government spending actually supports private spending. There is a direct, positive correlation between government spending and private spending. During the past five years, government contracts with private sector companies amounted to more than $1.2 trillion. If government spending is cut, private sector spending is cut. The result is a decrease in consumer spending in a local economy and job loss.
9. **Tax cuts don't grow the economy because** they diminish the social investment needed to provide taxpayers with quality services, especially health care, job training, and pensions.
10. **Tax cuts don't grow the economy and** no reputable, credible economic theory demonstrates or supports that they do. In fact, reputable, credible economic theory demonstrates and supports that they don't. Remember "voodoo economics"?

Let's be clear on why we pay taxes at all. Taxes are our collective investment in the safe, civilized, prosperous society we live in. Taxes are a collective investment in everyone having a fair shot at the American Dream. To create and maintain our society, taxes should not be too high and they should not be too low. They should be just right, and everyone should pay their fair share. An analysis of the last 30 years of tax data from all 50 states clearly shows that policymakers have rendered our tax structures purposeless, full of loopholes, and hugely unfair — largely under the false premise that we have to cut taxes to grow our economy.

For more information contact TEF@nea.org.

NEA
NATIONAL EDUCATION ASSOCIATION
nea.org
Great Public Schools for Every Student