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The ALEC Study: Revival of Voodoo Economics

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ALEC, the American Legislative Exchange Council, just released a study by Arthur Laffer and Stephen Moore (http://www.alec.org/fileadmin/newPDF/ALEC_Competitiveness_Index.pdf) called *Rich States Poor States*. For anyone unfamiliar with ALEC, it's the right-wing version of the National Council of State Legislatures (NCSL). Like Laffer's earlier 1970s studies (remember supply-side economics? George H.W. Bush called it "voodoo economics"), this study has serious methodological and logical flaws.

First, the ALEC study is one-sided — like Enron's single-entry bookkeeping practices. Taxes are just one side of the ledger. If a state cuts taxes, it must also cut spending and investments to balance budgets (as required by state constitutions) or increase debt on future generations. The tax-cut approach has been tried in many countries and in many states. The results (along with other items in the ALEC study, such as deregulation) are consistent: higher debt for future generations, higher poverty, and economic apartheid. Just look at the last seven years of the George W. Bush administration. After several massive tax cuts, America has higher poverty, more debt, and greater income disparities, not to mention the current economic crisis.

Second, this study is premised on the belief that lower taxes mean higher economic growth. There is no evidence to support such a contention. Peter Lindert, in *Growing Public,* analyzed nearly 100 years of data in almost all developed countries, including the United States, and found that countries with relatively high levels of taxation grew faster than countries with lower levels. Our own analysis of America's 50 states supports this conclusion.

Third, the ALEC authors ignore mainstream literature on economic growth and competitiveness. David Warsh, in *Knowledge and the Wealth of Nations,* and Elhanan Helpman, in *The Mystery of Economic Growth,* clearly show that all of the latest economic literature points to the fact that investing in human capital is a key determinant of economic prosperity. Instead, Laffer and Moore rely heavily on their own work and the work of other right-wing think tanks. They ignore the impact of aggressive tax cuts on states' capacity to invest in public education — in our human capital — and in other public services that businesses value, especially transportation infrastructure and public safety.

Fourth, the ALEC authors pick and choose 16 factors that best fit their supply-side ideology and assign them all equal weight. In fact, few if any of their 16 factors have any objective effect on economic performance.

Finally, ask business leaders about the major challenges facing business in the 21st Century. They'll place 'skilled and innovative workforce' at the top of the list. If we cut back on our investment in public education by cutting taxes, we'll undermine our capacity to produce such a workforce. Milton Friedman, in an article in the January 1990 *Business Economics,* points out that the business community is on a path to suicide by supporting policies that come back to haunt them later.

We believe the relationship between an equitable system of taxation and investing in our collective and individual future economic prosperity must be preserved.

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