TAX CUTS AND TAX CREDITS

Should Arizona cut more taxes now to spur job growth?

No. The link between tax cuts and economic growth is unproven and inconsistent. Arizona's economy has had both ups and downs during our 25 years of tax cuts. Given our current fiscal conditions, more tax cuts will mean more spending cuts that weaken our economic infrastructure and dampen job growth.

Arizona has been cutting taxes consistently for 25 years. We kept cutting taxes right through the Great Recession and beyond and some of those tax cuts are still phasing in. Despite the continuous tax cuts and the accompanying promises that they would supercharge our state economy, recovery from the recession remains painfully slow.

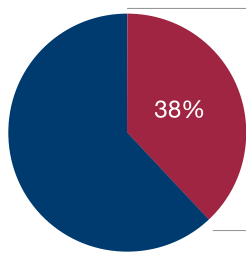
The fact is that the link between tax cuts and economic growth is a messy business. There is no clear consensus and no consistent research results to prove the argument that tax cuts grow jobs.

One thing is clear. Cutting taxes means cutting revenues. Even Alan Viard from the famously conservative American Enterprise Institute says that's obvious. In an October 7, 2012, C-Span interview he said: "It is correct of course that tax cuts are not revenue increasing. The incentive effects are not big enough so that you actually will raise more revenue."

And what happens when we reduce revenues? We have to cut spending.

The tax cuts passed by the state legislature just since the recession in 2009 account for more than one-third of the projected budget shortfall in fiscal year 2016. If we hadn't wiped out that $383 million in revenues, we could have avoided ***all*** of the new budget cuts this year to K-12 and higher education, the cuts to child safety and economic security, and the cuts to our health care system.

Tax Cuts Passed Since the Recession Account for More Than One-Third of the FY 2016 $1 Billion Revenue Deficit



38%
of projected budget deficits are due to tax cuts passed since 2009

Source: Joint Legislative Budget Committee Staff, Finance Advisory Committee Presentation, January 22, 2015; *2014 Tax Handbook.*

The spending cuts following a tax cut can cause economic damage themselves, running directly counter to the intent. As described by the WP Carey School of Business at Arizona State University: “Empirical evidence exists that public infrastructure plays a role in increasing business investment, job creation and economic growth. Similarly, tax reductions financed by cutting education, infrastructure spending, and other services valued by businesses will have a negative effect on economic performance” (*A Summary of the Arizona State Government Fiscal Situation*, March 2009).

In recent years, some Arizona leaders have pronounced that Arizona should be less like California and more like Kansas when it comes to taxes. But the real life results don’t back up the pronouncements.

In the fall of 2012 California voted to increase the state sales tax as well as income taxes for the wealthiest Californians. One executive there predicted that this temporary rate increase would cause his state’s economy to self-destruct and that more companies “would be motivated to find greener pastures.” The Greater Phoenix Economic Council announced it would offer free airfare and hotel rooms to the first 100 California CEOs and high-tech, high-wage business owners who wanted to look at moving to Arizona.

So, did the predictions of California’s demise come true? Not at all. According to the U.S. Bureau of Labor Statistics, Arizona has added 130,300 new jobs since December 2012—a 5.2 percent increase. But California grew far more jobs than Arizona—adding over 1 million jobs with a 7.1 percent increase.

	Jobs Gained (December 2012 to March 2015)	Percent Increase
Arizona	130,300	5.2%
California	1,054,700	7.1%
Kansas	42,300	3.1%
U.S.	6,090,000	4.5%

While California raised taxes, Kansas went in the opposite direction. Governor Brownback and the Kansas state legislature cut personal income tax rates significantly and made some other tax changes to replace some of that revenue in 2012 and 2013. They said the tax cuts would grow the economy, bringing prosperity to Kansans. But these two rounds of tax changes have left a large and growing hole in the state’s budget—shrinking school funding and other public services. At the same time, Kansas job growth of 3.1 percent since December 2012 has lagged ***behind*** the national average of 4.5 percent.

It’s clear that there is no automatic, guaranteed link between tax cuts and job growth. It all depends on where you start and what you do with both sides of the ledger. Whether it’s a business or an individual, economic decisions about relocation and investment depend on many factors—and taxes are far from the top of the list.