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Do Tax Cuts Stimulate The Economy?

On July 7, Gov. Jennifer **GRANHOLM** told a roundtable of reporters she would need to see data before believing across-the-board tax cuts could stimulate the economy.

"I need to see data that we will get the targeted economic growth from an across-the-board tax cut," she said. "We had $1.7 billion worth of tax cuts since 1999 and we have not seen economic growth. In God We Trust but all others bring data. Show me how an across-the-board tax cut is going to affect and grow the economy. I want to see that."

Fiscal conservatives say they've given her the data, plenty of times, but she either chooses to ignore it or has selective retention.

"All Governor Granholm has to do is a simple Google search," said Michael **LaFAIVE** with Mackinac Center for Public Policy. "Perhaps Granholm doesn't know how to do that."

For several decades economists have explored this question while looking at other factors affecting the economy such as right-to-work states or states with a lot of sunshine, LaFaive said. All of the studies suggest tax cuts equal economic growth.

LaFaive cited the March 2000 National Tax Journal study as one data source Granholm could use. The study gives statistical data proving tax climate influences where companies invest and how much capital investment they put in a particular region.

"Approximately 19 percent of U.S. capital abroad would be in a different location in the absence of any effect of taxes," according to the study.

The Anderson Economic Group conducted a study with statistical data stating the effect of tax cuts on the economy and presented it to both the House and Senate, according to Patrick **ANDERSON**, of Anderson Economic Group.

About 25 percent of a state's economic performance is due to tax cuts, Anderson said. The other 75 percent rides on a variety of other factors but "there's overwhelming imperial evidence in Michigan and the world that tax cuts work," Anderson said.
State taxes are such a minute factor in how a business determines where to locate, that nothing short of a major national across-the-board tax cut would help stimulate economic growth, said Doug **DRAKE**, of Public Policy Associates.

When a business decides where to move it's more concerned with access to raw materials, access to labor, cost of labor and transportation than state taxes, Drake said.

"Unless they're trying to specifically target one industry, it's (state tax cuts) like trying to perform brain surgery with a chain saw," Drake said. "You're not necessarily going to get what you expect out of it."

Anderson reverts back to the empirical evidence found in Michigan, the U.S., Asia, the former Soviet Union, China, Germany and Latin America. In the 1980s and '90s Michigan's decision to cut taxes moved it away from being a rust belt state with one of the highest unemployment rates, to a competitive state with an unemployment rate just under four percent.

Anderson uses the increase in national economic growth after Reagan administration tax cuts as an example.

"Since 1999 Michigan hasn't been leading the states in tax cuts, in fact, it's lagging behind," Anderson said. "The correct way to compare our economy is how we compare to the rest of the country."

Not enough attention is being paid to the role of local taxes in business decisions, Drake said. Local taxes are often higher than state taxes and high property taxes deter companies and their employees from moving, Drake said.

LaFaive disagrees and again points to the study which supports his dissent.

"The evidence is pretty clear that businesses are leaving Michigan and no amount of Cool City Grants will bring them back," LaFaive said. "Michigan's labor climate is the equivalent of a giant tax on Michigan business and people."