

Kentucky Can't Cut Its Way to Prosperity To Grow We Must Invest

In *Rethinking Growth: How State and Local Taxes and Services Affect Economic Development*, economist Robert Lynch analyzes hundreds of studies that have evaluated the impact of state and local tax cuts and incentives on economic growth. Lynch comes to two major conclusions.

Tax Cuts Don't Work

"There is little evidence that state and local tax cuts—when paid for by reducing public services—stimulate economic activity or create jobs."

- Taxes make up less than one percent of the cost of doing business. Because of this, Lynch notes that "state and local taxes, at their current low levels, may be largely irrelevant to business investment decisions."
- Tax cuts can damage the economy by forcing cuts to important public services. And poor public services can avert high-quality jobs.
- Tax cuts that cause loss of public services can actually increase expenses for businesses. For example, if not publicly provided, firms could be forced to pay more for worker training, security, and infrastructure—costs they may be unwilling to bear.

Public Investment Can Work

"There is evidence, however, that increases in taxes, when used to expand the quantity and quality of public services, can promote economic development and employment growth."

- Public investment can make the state a good place to do business. Investment in infrastructure, such as roads, can reduce costs for businesses while investment in education and health services can increase worker productivity.
- Numerous studies have concluded that public spending has a positive influence on the economy. Such public investment can increase personal income and the rate of private employment as well as increase the rate of small business creation.
- In a study of Michigan's state budget, economists found that raising taxes by \$925 million to balance the budget would be better for the economy than cutting spending. The economists estimated that the stimulus resulting from the tax increase would lead to 7,610 more jobs and an increase in personal income of \$309 million.

"Tax increases used to enhance *public services* can be the best way to spur the economy," and is "one of the most effective strategies to advance the quality of life of citizens."

Kentucky needs tax reform that raises revenue and invests in our future

Fairness and Investment, Right for Kentucky