MONTANA BUDGET & POLICY CENTER

Reality Check
Tax Cuts Won't Grow Our Economy.
March 2013

Jobs and the economy are popular topics at both the Montana Legislature and in Washington, DC. Used as "buzz words" to promote policies for both parties, the concepts of jobs and the economy are often misused and even more often misunderstood. One of the most common policies tied to these concepts are tax cuts.

This paper will serve to debunk some of the myths around the role tax cuts play in creating jobs and growing the economy. As a number of tax cuts continue to be proposed in the 2013 Legislature, the talking points included in this document can serve to guide your conversations around effective tax policy.

Tax cuts won't build the foundation for economic growth.

When Montana cuts taxes, we lose out on the opportunity to invest in our public schools and universities, job training, research, and infrastructure- the very things that attract new businesses to Montana and allow our existing businesses to flourish.

Montana got where we are today because the people who came before us made the right decisions to build schools and roads, make college affordable, and create strong, safe communities. Abandoning these commitments will undermine our economy and hold jobs back. Now more than ever, we need the kind of investments that help to create good jobs. Tax cuts steer us off track from generations of these smart, successful investments.

Tax cuts can hurt (not help) the economy.

The best way to stimulate the economy and create jobs is to ensure that dollars are flowing on Main Streets across Montana. While proponents of tax cuts say that their proposals can do all this and more, the reality is quite different. In an analysis of 65 years of data, the nonpartisan Congressional Research Service found no relationship between tax cuts for upper-income earners and resulting savings, investments, or productivity growth.[1] Likewise, hundreds of econometric, survey, and representative firm studies have found that tax cut strategies are unlikely to stimulate substantive economic growth.[2]

We should keep Montana's money in Montana.

There's no guarantee that tax breaks for corporations or high-income earners will be spent in Montana. Tax breaks for big business are more likely to end up as executive bonuses or higher dividends for shareholders, –many of whom probably don't live in Montana. Plus, high-income taxpayers are the least likely to turn around and spend a tax cut on Main Street; they will likely save this additional money or use it on vacations other luxury purchases.

If we want to keep our money local and stimulate the economy, tax cuts for low-income Montanans are the best policy solution. Low-wage earners spend the additional income almost immediately to meet their

Reality Check is a series of reports that focuses on dispelling myths related to the Montana budget and Montana taxes. The purpose of the Reality Check series is to provide the public, community advocates, and policy makers with accurate information, beyond the sound bytes, they need to effectively engage in important fiscal policy debates that help shape the health and safety of our communities.

families' needs. They pay rent, buy groceries, and support their local businesses. In fact, studies show that tax cuts for low-income individuals are one of the most effective ways to stimulate the economy

State spending is a real job creator.

Cutting taxes for a business does not guarantee that the business will hire people or reinvest that money in our state. What businesses really need are customers with money in their pockets. No business uses a tax cut to hire if they aren't selling more. A growing body of research suggests that state tax cuts cannot create jobs in a cost effective manner.[3] Such studies have cited extremely high costs per job created, costs that are above the salary of the job.

So, not only will tax cuts not guarantee new jobs, they can actually eliminate the ones we already have. Tax cuts undermine the most effective ways to promote jobs and economic growth. They can undermine our ability to continue generations of investments in our schools, health care, and public safety. When we lay off teachers, bus drivers, clinicians, and police officers, our communities feel real and immediate impacts. The health and safety of our communities shouldn't be jeopardized to reduce taxes.

Businesses aren't buying in.

Tax cuts don't attract businesses. In fact, many factors are more important than taxes when making business location decisions.[4] Businesses need to know they can hire skilled workers and have access to suppliers and markets for their product.

Paul O, Neill, a former Alcoa executive, once said, "*I never made an investment decision based on the tax code...If you are giving money away I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements."*

Just say "no" to tax cuts.

Our elected officials are the stewards of our future and our economy. As such, it is important that the Montana Legislature makes responsible policy decisions that build a foundation for economic growth. We owe it to our children and grandchildren to continue the legacy of good schools, safe communities, and clean air and water. As Montanans, we do this by continuing the generations of shared investments in our public services. Tax cuts stand in the way of this legacy and will limit the state we love.

---

[1] Hungerford, Thomas L., "Taxes and the Economy: An Economic Analysis of the Top Tax Rates Since 1945 (Updated)," Congressional Research Service, December 12, 2012, http://democrats.waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/Updated%20CRS%20Report%2012%3A13%3A12.pdf.

[2] Lynch, Robert et al., "Building a Strong Economy: The evidence on combined reporting, public investments, and economic growth," Economic Policy Institute and Massachusetts Budget Project, June 2007, http://www.massbudget.org/reports/pdf/BuildingStrongEconomyJune07.pdf.

[3] Lynch, Robert et al., "Building a Strong Economy: The evidence on combined reporting, public investments, and economic growth," Economic Policy Institute and Massachusetts Budget Project, June 2007, http://www.massbudget.org/reports/pdf/BuildingStrongEconomyJune07.pdf.

[4] Lynch, Robert, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development," Economic Policy Institute, March 2004.