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'Taxes Bad' Mantra Is Wrong

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Last week I led with John Maynard Keynes' famous remark that "practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back."

I guess I just did again. Lurking in most policy debates are not just raw power and bloodied victims, but contending views of how the world actually works. If policy is to be effective in achieving its end, it helps to have the right view.

Take our current discussion of Wisconsin's budget deficit. My comments on it the past few weeks have concentrated on factual mistakes promoted in discussions of it. These have principally concerned the government burden in Wisconsin, the size and scope of our current deficit, and the distributive consequences of current proposals for briefly closing it.

In a nutshell, the truth is that the burden is not exceptional, especially on business; the deficit is bigger and more structural, and thus more serious, than you're being told; and the combination of cutting shared revenue and "taking taxes off the table" promotes unneeded misery, and ensures that the burden of getting out of our current budget mess will not be fairly shared.
But leaving lies and misrepresentations aside, the current budget discussion suffers from another failing. It is slave to "defunct economists" and "academic scribblers" who, we know now, are simply wrong in their view of what best promotes economic development in a state, and what the role of government should be.

The chief offender here, again, is our present governor (though the silence from Democrats does not assure that they have a coherent alternative view). In Scott McCallum's view, taxes are a primary retardant on income growth, and directly and negatively drive new investment decisions. I'd bet most voters think the same thing, with their differences then consisting of how much of this bad thing we can afford, either to take care of the poor or provide all of us with quality public goods of various kinds.

But this view is simply wrong. If you look at the data, you'll find that higher tax states tend to have higher income growth rates than low tax states. They also have higher productivity growth, and generally do better on measures of innovation - e.g., the incidence of "new economy" firms and sectors with heavy reliance on advanced technology.

Indeed, if you looked to see where the firms paying the best wages and making the coolest new products and services tend to locate and expand, it also tends to be disproportionately in high tax states and regions. You'd almost think business actually liked paying taxes!
Surprising, huh?

Now to observe this is not to promote the stupid view that taxes are unqualifiedly "good" - an obverse to the stupid view that they are unqualifiedly "bad." And it doesn't explain why we see this strong association, or "correlation," between high taxes and high income growth, productivity and innovation. As social scientists at least sometimes remind themselves, "correlation is not cause." The fact that two things go together doesn't mean one produces the other.

I can prove to you that during Sarah Hughes' childhood, I was lighting cigarettes with the same frequency she was lacing up her skates. But that doesn't prove that I produced her gold medal, or that smoking in general is good for would-be Olympians. Indeed, even suggesting as much would be ridiculous, right? Laughable, if not pitiable.

So we still need some explanation here - some account of how government spending and other activity connect to economic development. I'll turn to that next week.

But in the meantime, if you hear any politician or business leader repeatedly grunting "taxes bad, taxes bad, taxes way bad, I hate taxes, we hate taxes, all God's children hate taxes" - especially one confusing these grunts with an argument about what the state should now be doing - just laugh at them, OK? It's just a really stupid view.

The only thing stupider, in fact, is letting those who hold it decide our future as a state.

Joel Rogers is director of COWS, the Center on Wisconsin Strategy, at UW-Madison. COWS is sponsoring "Sustaining Wisconsin," a statewide dialogue about the future of Wisconsin. Go to www.sustainingwisconsin.org for more information. This is the fourth in a series of articles on the current state budget deficit.