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A needed increase in taxes won't hurt Arizona's economy

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The state is facing a huge deficit as far as the eye can see. (It's between \$3 billion and \$4 billion, or 30 percent to 40 percent of Arizona's 2007 general-fund budget.) This deficit is structural and cannot be solved solely by spending cuts. Taxes must be increased, and spending must be reduced as well.

There is a populist belief that taxes should be cut to stimulate the economy or, conversely, taxes can never be raised without hurting the economy. Not true. The Legislature has made 42 tax cuts to the three major general-fund revenue sources (sales, income and corporate income taxes) since 1992, and it has also eliminated statewide property taxes that accrued to the general fund. Tax cuts imposed since the mid-1990s are the equivalent of cutting \$2.6 billion annually from today's revenues, after adjusting for the cost of living and population growth.

The series of tax cuts did not make the economy stronger. Rather, the surpluses that were created during Arizona's cyclical upswings allowed the Legislature to cut taxes - precisely the reverse of populist thinking about cause and effect.

Rather than cutting taxes, the responsible thing would have been to recognize the extreme cyclical nature of Arizona's revenues and generously fund the Budget Stabilization Fund.

Raising taxes will not hurt Arizona's economy. Proceeds are not burned, buried or flushed; they are re-spent in the state employing people, paying vendors and providing needed services to Arizonans. Those dollars are put right back into the economy.

There are additional reasons to support higher taxes. First, a portion of Arizona's taxes are "exported" to non-Arizonans, such as sales taxes paid by visitors. Further, state income taxes, state and local property taxes, and to a lesser extent sales taxes, are deductible from our federal income taxes, resulting in portions of our taxes being "exported" or "shifted" to the federal government.

Second, Arizona imposes a very low tax burden on its residents, so taxes can increase without hurting Arizona's competitiveness; Arizona ranked 41st in 2008, according to the Tax Foundation, a Washington, D.C., think tank.

Third, low taxes are not the only factor businesses consider when selecting locations. They require a quality work force, which is largely dependent on the health and education systems of the state, and infrastructure, much of which is provided by the public sector.

Raising the sales tax by 1 cent per dollar is a step in the right direction, but it will raise only \$1 billion per year.

The state also should roll back some of the prior cuts to the individual income tax and impose a state property tax. This would improve the balance of the state's revenue sources and bring the system into better alignment with the three-legged-stool ideal of public finance (based on income, wealth, and consumption).

The people we elected to the Legislature won't vote for a tax increase because they are afraid they won't get re-elected.

That leaves it up to voters to approve tax increases. Let's hope they do, for Arizona's future standard of living is at stake.