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DON'T BE FOOLED BY JUNK ECONOMICS:

OCPA/LAFFER TAX CUT PLAN CONTAINS SERIOUS FLAWS

Do states without an income tax enjoy stronger economic growth? This is the central claim made by economist Arthur Laffer in a report published by the Oklahoma Council of Public Affairs and echoed by proponents of eliminating Oklahoma's income tax. However, a new report from the Institute on Taxation and Economic Policy (ITEP) shows that Laffer's claim is based on a highly misleading analysis. ITEP identified several major flaws in Laffer's work:

1) Laffer cherry-picked metrics tied to population growth.

The Laffer analysis distorts reality by focusing on variables that are very closely related: population growth, total employment growth, and total growth in economic output. More people in a state of course means a higher total output and number of jobs, but it does not mean individual families within the state are doing any better.

2) Population is growing in no-income tax states for many reasons unrelated to taxes.

Six of the nine states without a personal income tax are located in the South or West and have benefitted from lower population density, more accessible suburbs, higher birth rates, Hispanic immigration, and warmer weather. This regional trend is not related to taxes, as it is also bolstering population growth in higher income tax states like Oregon, Hawaii, Idaho, and North Carolina.

3) In more accurate measures of growth, no-income tax states aren't doing better.

The nine "high rate" states identified by Laffer have seen more *economic growth per capita* in the last decade than the nine no-income tax states. While the *median family income* has declined in most states over the last decade, those declines were considerably smaller in "high rate" states than in no-income tax states. Finally, the *average unemployment rate* between 2001 and 2010 has been essentially identical across both types of states. And on all of these measures, Oklahoma is already doing better than two-thirds of the no-income tax states.

4) Laffer's analysis measures the effect of state tax rates incorrectly.

Laffer claims to predict the effect of changes in state tax rates, but his measure of "tax rates" combines state and federal taxes. When noise created by changes in federal tax rates is removed, the supposed growth effect of state tax cuts disappears.

5) Laffer ignores a wide variety of other factors that affect economic growth.

The report makes no effort to measure the impact of other factors, from coastlines to oil production, that explain state growth. For example, no-income tax states likes Alaska, Wyoming, and Texas benefit from large mining sectors. Their prosperity largely depends on ample natural resources, not tax rates.

The flaws in Laffer's analysis are so fundamental that its findings cannot be taken seriously. Radically changing Oklahoma's tax system based on the Laffer report would be a huge mistake.

See the ITEP reports and more information on the income tax debate at http://okpolicy.org/tax-reform-information

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