



## Testimony in Opposition to House Bill 6005 House Committee on Finance Submitted by Douglas Hall, Ph.D. May 31, 2017

The Economic Progress Institute strongly opposes **H6005 AN ACT RELATING TO TAXATION – SALES AND USE TAXES**, a bill that would decimate Rhode Island’s revenue base, and undercut Rhode Island’s ongoing economic recovery.

According to the May 2017 Revenue Estimating Conference, the Sales and Use Tax currently accounts for \$1.0 Billion, or 27.4 percent of all General Revenues. This bill, if passed, would place more than half a billion dollars (\$572.0 million) in jeopardy (Figure 1).

Rhode Island would not be the first state to buy the “supply side snake-oil” that promises economic growth resulting from deep tax cuts.

Two recent case studies bear our attention. The Kansas Miracle touted by Governor Sam Brownback has fallen far short of the lofty promises used to justify deep tax cuts in Kansas. The result has decimated both state finances (Figure 2), and the state economy (Figure 3). These figures compare Kansas to its neighboring state, Nebraska, which has a very similar economy, but avoided deep tax cuts as it emerged from the Great Recession.

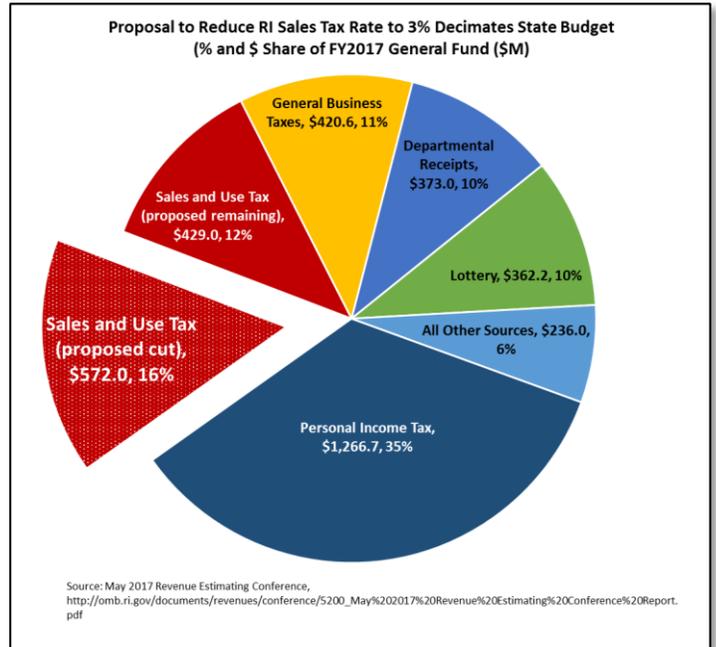


Figure 1

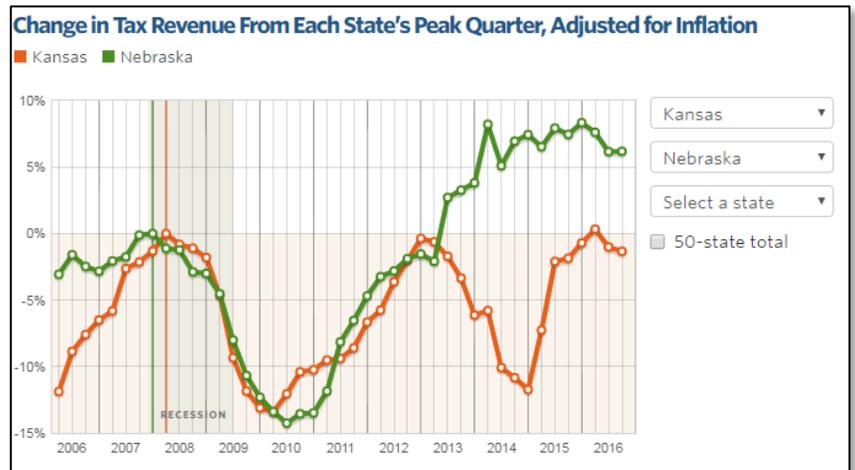


Figure 2 Source: The Pew Charitable Trusts: Fiscal 50: State Trends and Analysis

Another pair of states provide further evidence that deep tax cuts do not spur economic growth, (but progressive tax increases do). Scott Walker was elected Governor of Wisconsin in 2011. His attack on the public sector, and accompanying tax cuts were headline news for months. Those who have continued to pay close attention know that Wisconsin's economy has sputtered compared with its neighboring state, Minnesota, where a progressive income tax was adopted as the way to weather the prolonged recovery from the Great Recession. We see the results of these very different approaches in Figures 4 and 5.

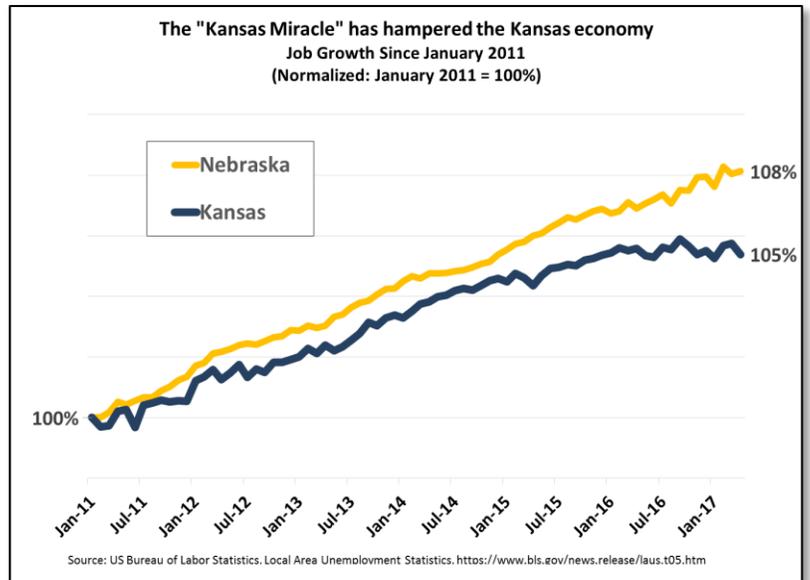


Figure 3

Supreme Court Justice Louis Brandeis hailed the United States federal system for providing states as "laboratories of democracy". We can learn from the successes, and failures, of other states. Adopting a draconian tax cut in pursuit of economic growth would be a mistake for Rhode Island.

For that reason, we urge you to withhold support for this legislation.

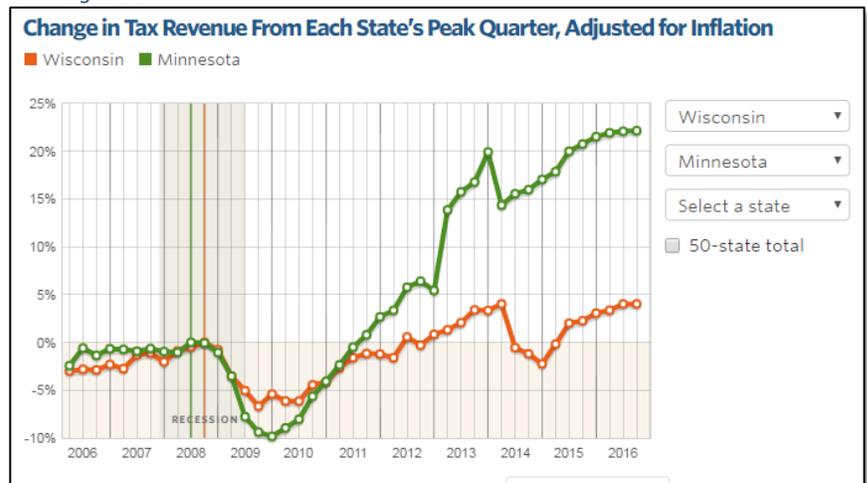


Figure 4: Source: The Pew Charitable Trusts: Fiscal 50: State Trends and Analysis

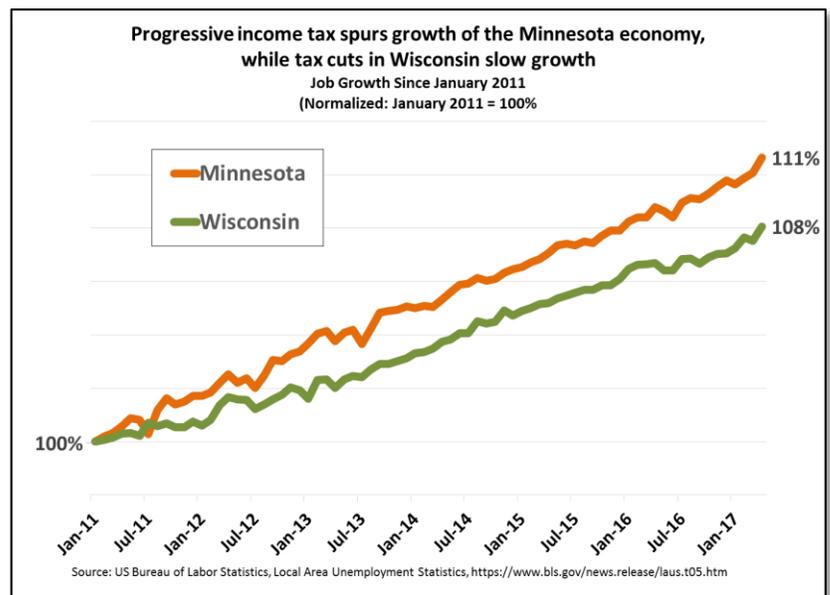


Figure 5