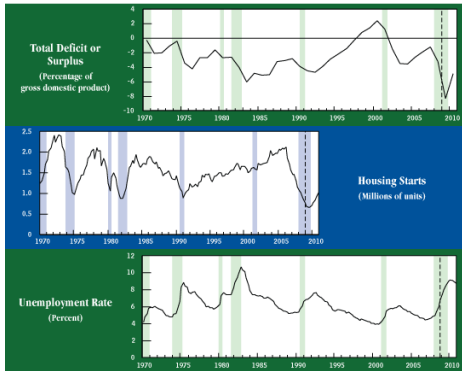
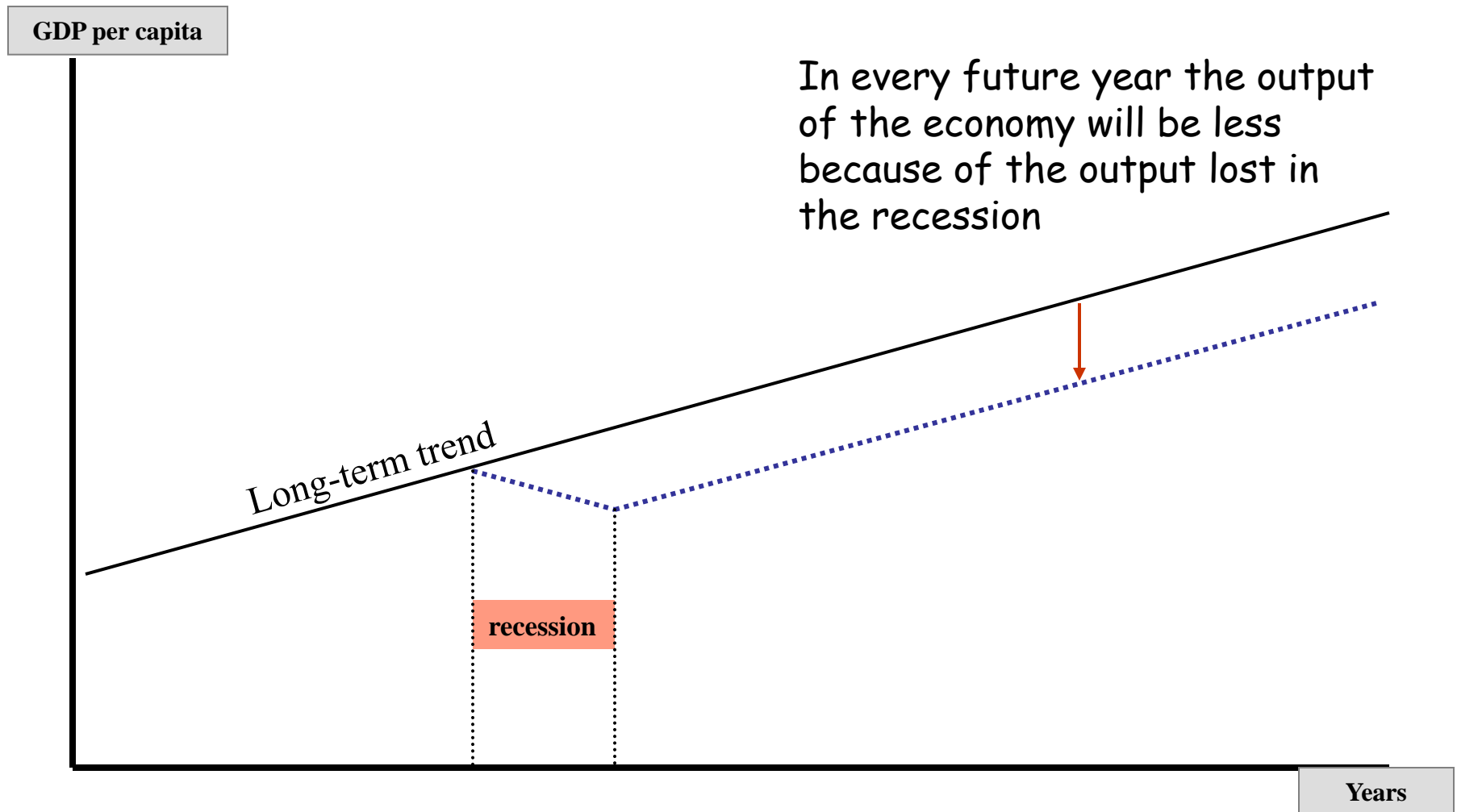


The Linkage Between Taxes, Education, and South Carolina's Long-term Economic Future

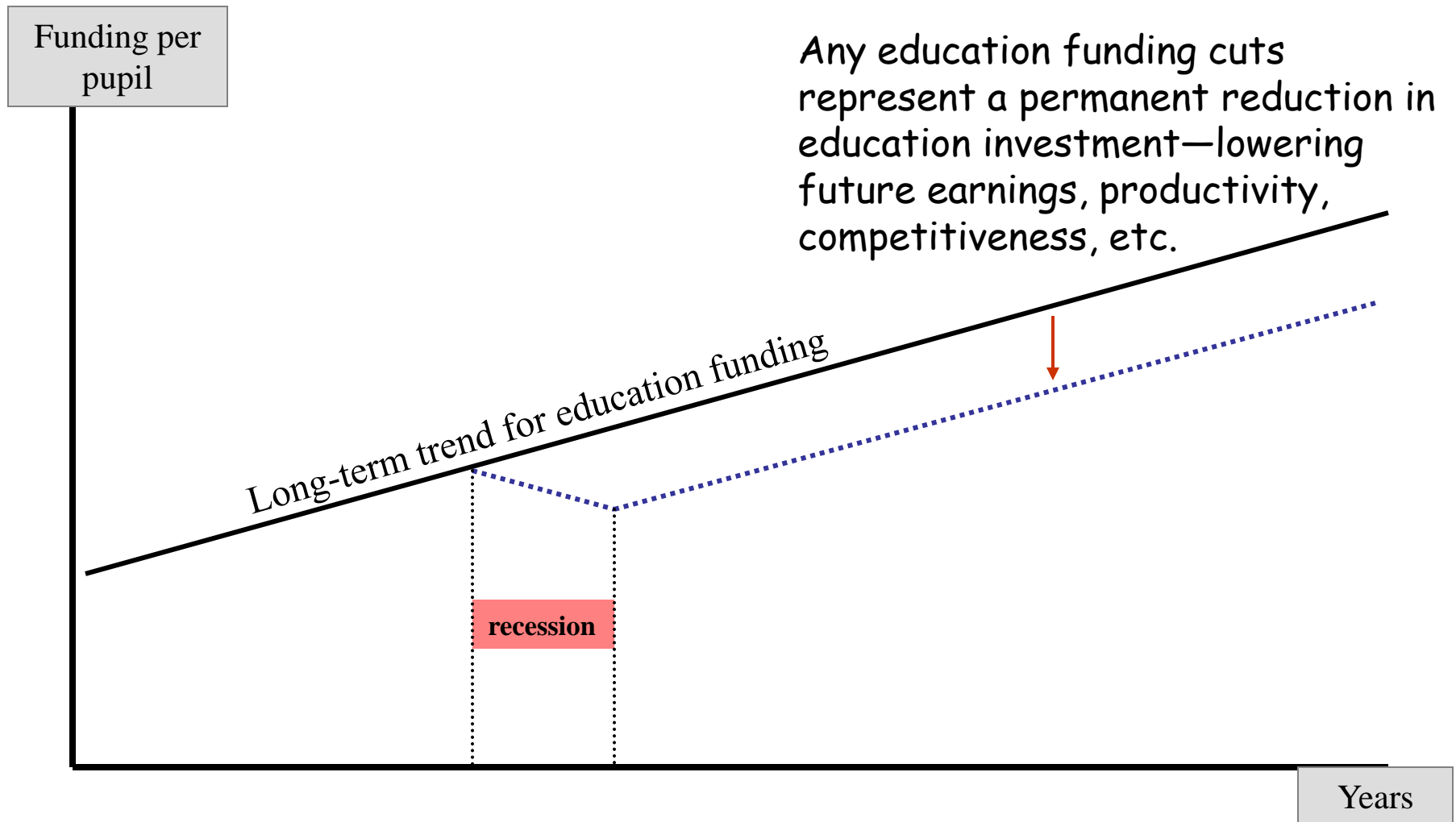


Dr. Richard G. Sims, NEA Chief Economist
July 21, 2010

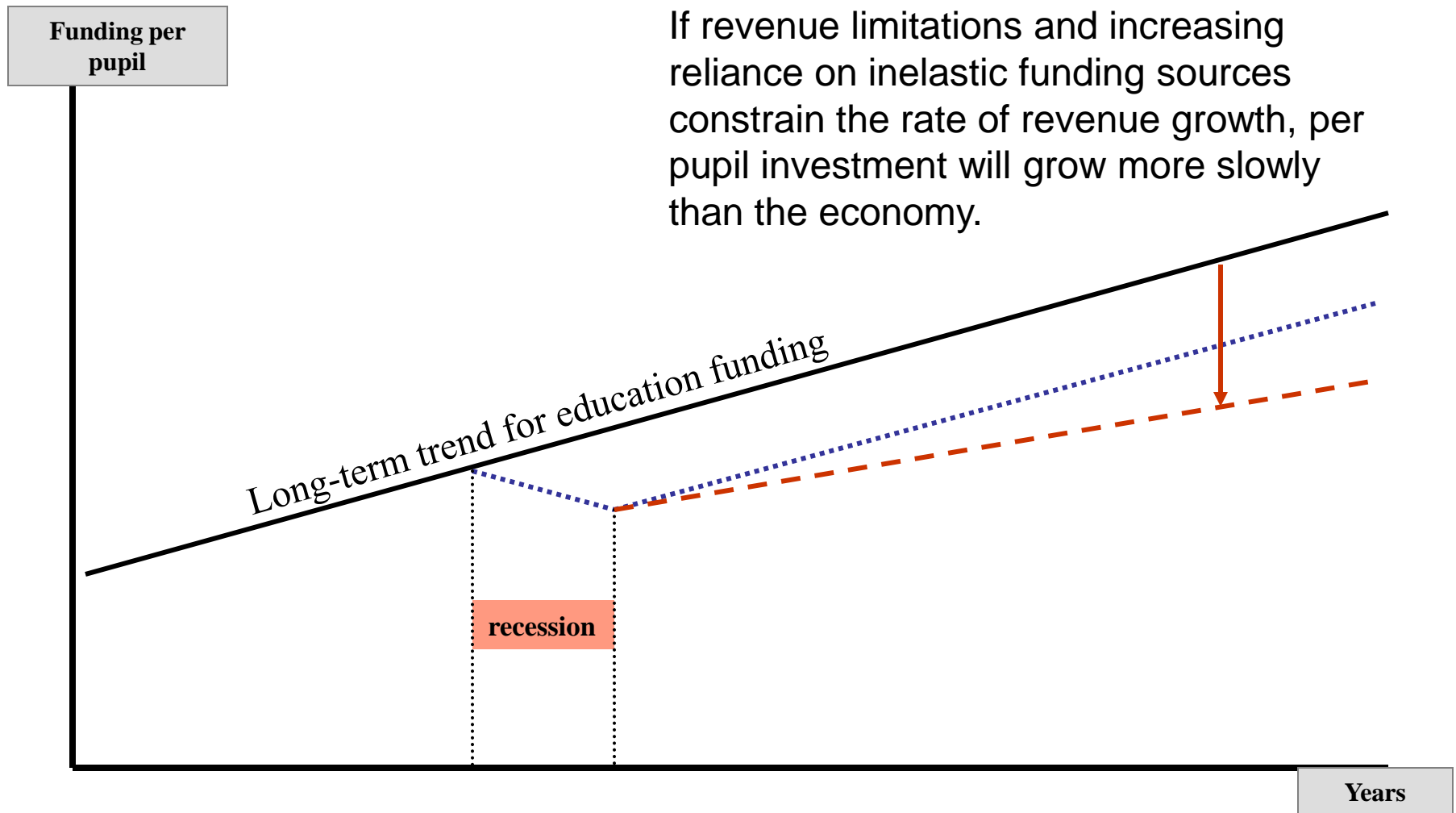
The recession will have permanent affects on the economy



A similar permanent downward shift applies to any cuts in *education funding*

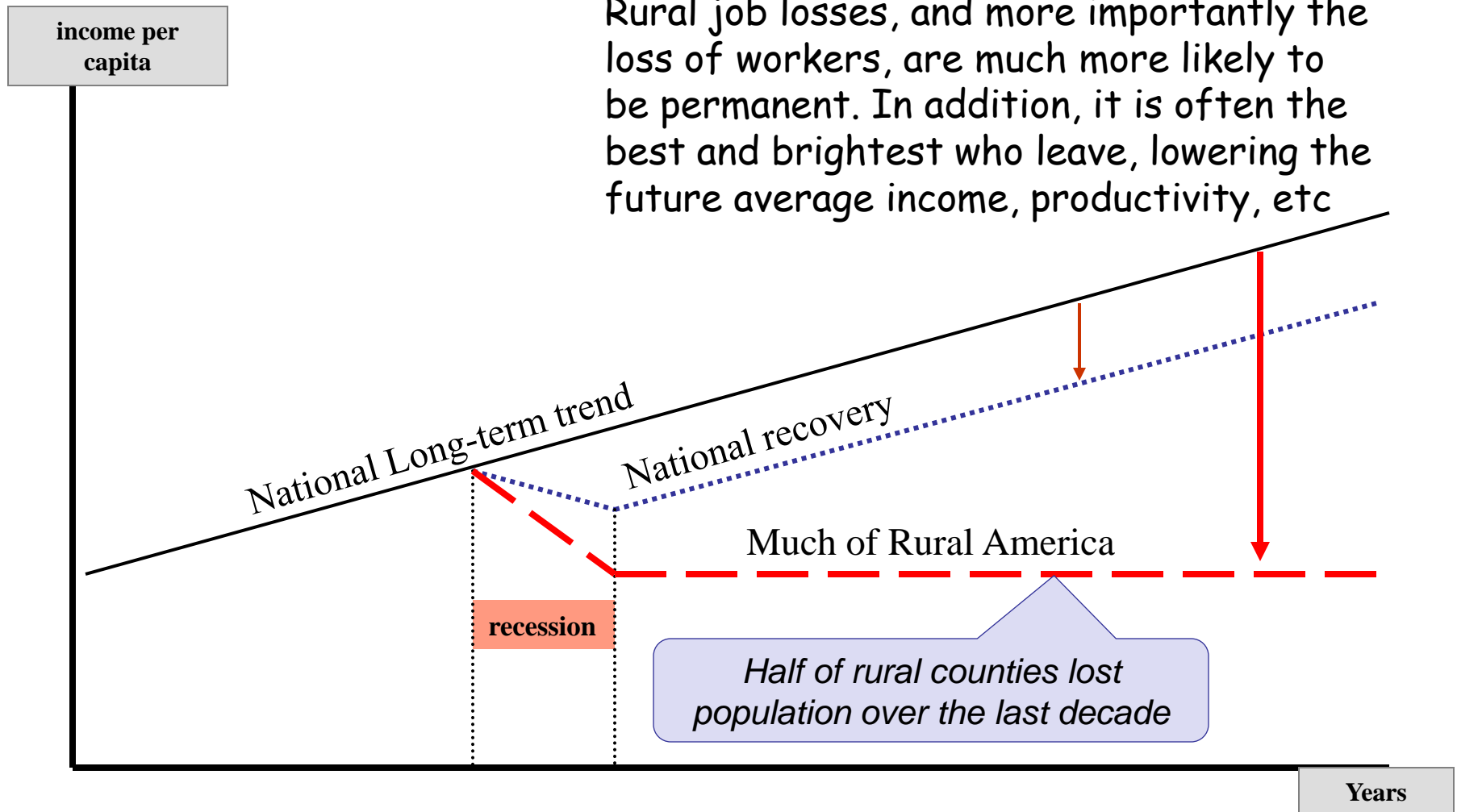


And there is no guarantee that funding will return to its long-term growth trend



The recession's permanent impact on many rural economies will be even greater

Rural job losses, and more importantly the loss of workers, are much more likely to be permanent. In addition, it is often the best and brightest who leave, lowering the future average income, productivity, etc

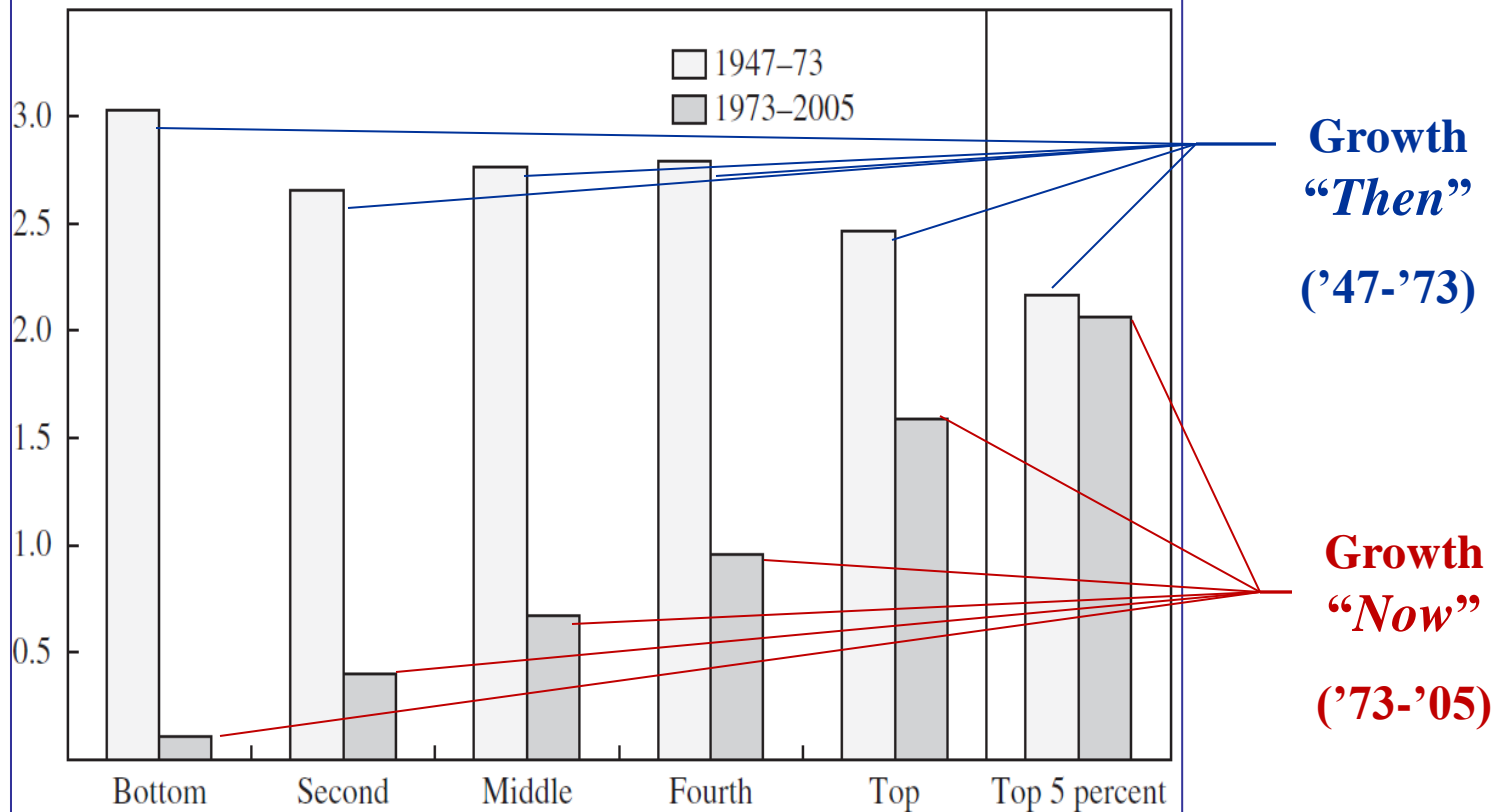


Growth in family income over the last half-century

*Those were the days, my friend
(we thought they would never end)*

Figure 1. Growth in Real Mean Family Income by Income Quintile, 1947-73 and 1973-2005^a

Percent a year



Source: U.S. Census Bureau, Historical Income Tables, tables F2, F3, and F7.

a. Money incomes before tax and after transfers are converted to constant dollars using the consumer price index research series (CPI-U-RS).



The First Principle of Public Finance

Your tax system should look like you did it on purpose.

Different taxes grow at different rates

Some Typical State Tax Elasticities

<i>STATE</i>	elasticity
Individual income tax	1.83
Sales tax	0.81
Corporate income tax	0.78
Alcoholic beverage tax	0.39
Beer and wine tax	0.53
Cigarette/tobacco	0.43
Motor fuel tax	0.43
Property tax	0.76
Most fees, license and use taxes	0.5 to 0.7

Sources: *Southern Economic Journal*, 2006, Bruce, Fox & Tuttle; *North Carolina Tax Guide 2002*; various state studies.

Tax Foundation's Top 10 and Bottom 10 Business Tax Climates States

Tax Rank	TOP 10 STATES	Avg. Growth	Growth Rank
1	Wyoming	5.3%	1
2	South Dakota	4.5%	9
3	Nevada	4.3%	17
4	Alaska	3.5%	49
5	Florida	4.2%	31
6	Montana	4.4%	15
7	New Hampshire	4.3%	21
8	Texas	4.6%	8
9	Delaware	3.9%	46
10	Oregon	4.0%	43

Average growth: 4.3%

Tax Rank	BOTTOM 10 STATES	Avg. Growth	Growth Rank
41	Maine	4.1%	38
42	Minnesota	4.4%	13
43	Nebraska	4.2%	30
44	Vermont	4.5%	10
45	Iowa	4.2%	27
46	Ohio	3.8%	48
47	California	4.1%	39
48	New York	4.2%	35
49	New Jersey	4.3%	23
50	Rhode Island	4.2%	29

Average growth: 4.2%

Sources: Tax Foundation, 2007 State Business Tax Climate Index; Income data from U.S. Department of Commerce, Bureau of Economic Analysis

**"Best Business
Climate"
Rank**

**Avg.
Growth**

2003-07

1	North Carolina	36
2	Tennessee	39
T3	Alabama	18
T3	Texas	14
5	Indiana	49
6	Florida	12
7	Ohio	48
8	Virginia	25
9	Illinois	29
10	Georgia	50
11	New York	9
T12	Kentucky	42
T12	Missouri	47
14	South Carolina	35
15	Pennsylvania	28
16	Michigan	51
17	Mississippi	17
18	Iowa	33
T19	Maryland	16
T19	Minnesota	34
21	Kansas	23
22	Louisiana	2
23	Arizona	30
24	Oklahoma	5
25	California	19

Business Climate Rankings

According to the November 2008 issue of
Site Selection magazine

Of the top 10 ranked states,
zero were among the 10 fastest growing states—
but three were among the slowest 10.

Of the top 25 "*Best Business Climate*" states,
Only 10 grew as fast as the 50 state average.

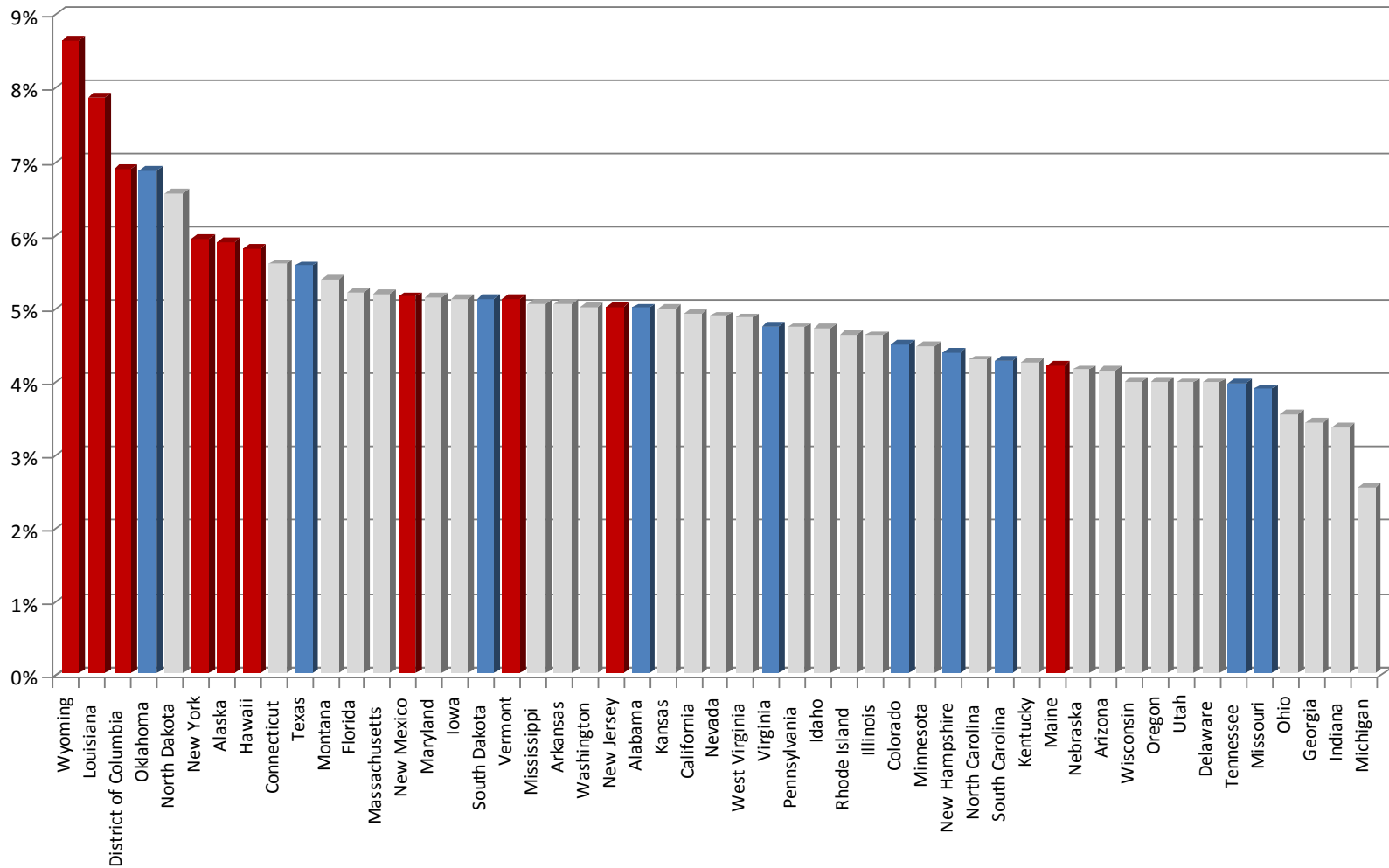
Of the top 25 "*Best Business Climate*" states
were among the 10 worst performing states.

Small government = high growth. Right?

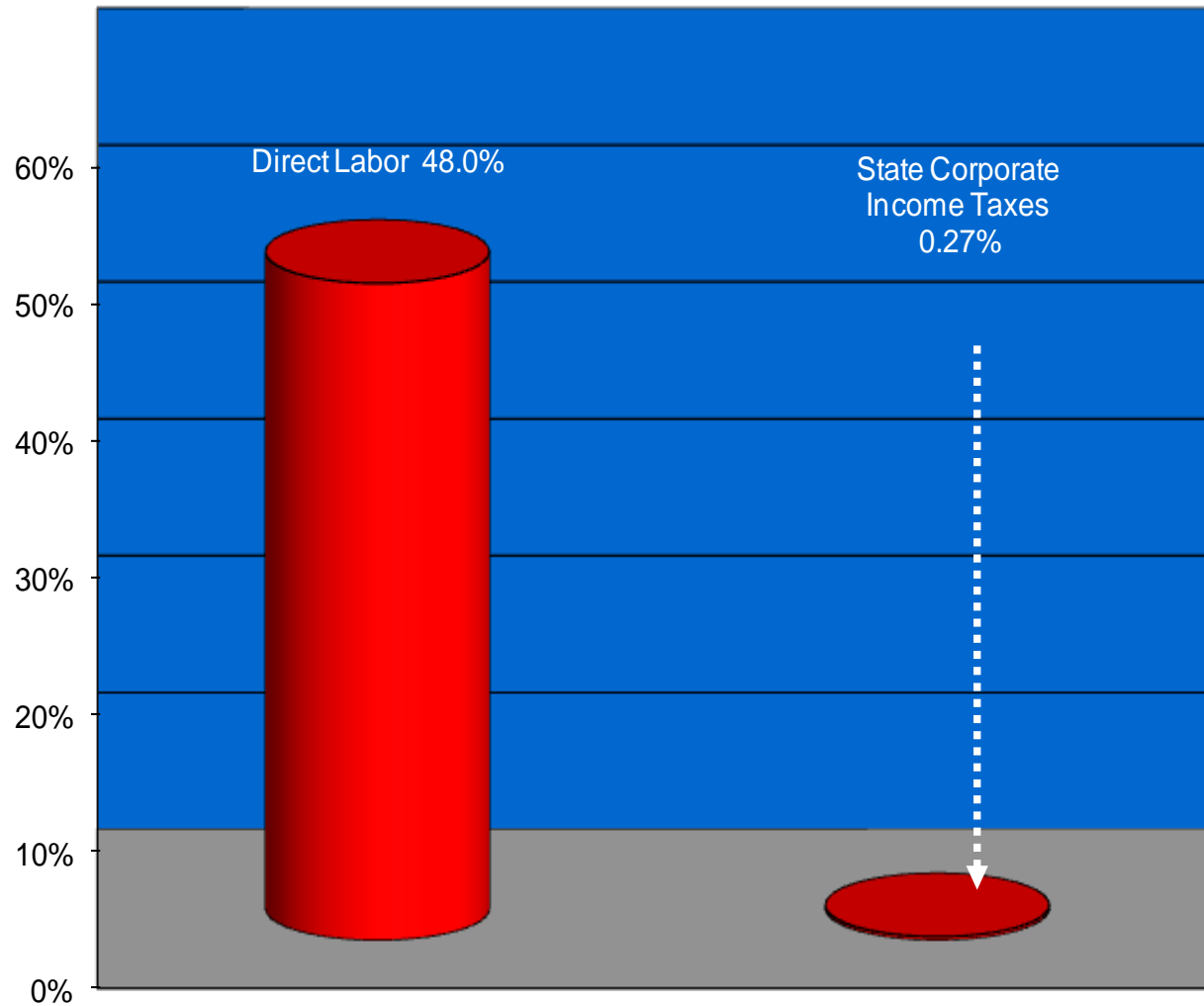
Average annual growth 2003-08

10 highest own-source tax spending as a percent of income states shown in red

10 lowest own-source tax spending as a percent of income states shown in blue



Shares of Total Business Costs



Source: U.S. Department of Commerce, National Income and Product Accounts, data for 2003.

Firms Say Labor Their Major Cost Considerations When Expanding or Relocating a Business

Cost Factor	Manufacturing (%)	Office (%)
Labor	36	72
Transportation	35	0
Utilities	17	8
Occupancy	8	15
Taxes	4	5
Total	100	100

Source: Robert M. Ady, "The Effects of State and Local Public Services on Economic Development," New England Economic Review, Federal Reserve of Boston, March/April, 1997.

From the previous article published by the *Federal Reserve Bank of Boston*:

“In summary, site selection data do not suggest any correlation between low taxes and positive economic growth, or between high taxes and slow growth. The location requirements are too many, the process too complicated, and other factors too important to justify a strong relationship.”

“The single most important factor in site selection today is the quality of the available work force. Companies locate and expand in communities that can demonstrate that the indigenous work force has the necessary skills required by the company or that have the training facilities to develop those skills for the company.”

A Report to the Legislative Post Audit Committee

By the Legislative Division of Post Audit

State of Kansas

August, 2008

Among the findings~~

“The literature we reviewed concluded that, thus far, negative and inconclusive findings are far more numerous than positive findings. Most reviews of economic development assistance find few results are achieved – a theme that audits in Kansas and other states commonly find, as well. Findings of ineffectiveness include promised jobs weren’t created, return on investment is low or negative, and incentives offered weren’t a determining factor.”

“Out of a sample of 115 companies or individuals that received economic development assistance in 1998, only a little more than one-third appear to be operating (in 2008.)”



Colorado Legislative Council

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Factors Affecting Location Decisions; Business Climates; and State and Local Tax Treatments

Summary

The most important factor in a company's location decision is the availability and skill of the labor force. Other important factors include the cost and availability of land, the local infrastructure, the proximity to natural resources, the quality of life, and the proximity to universities or research institutions. Most studies found that, when deciding where to do business, businesses considered ease of incorporation, regulatory burdens, and tax burdens less important than those factors listed above.

A U.S. Economic Development Administration Study Concluded-

“In the New Economy, knowledge, rather than natural resources, is the raw material of business.”

From: The Importance of Quality of Life in the Location Decisions of New Economy Firms, U.S. Economic Development Administration, 2002.