# As Government Increases, So Do Economic Woes

Practicing economics can be frustrating at times. I love what I do, don't get me wrong, but the process can be trying. Let me explain.

My older brother is a zoologist and, as far as I can tell, does terrifically interesting work. I ask him occasionally about his research and he does his best to explain it to me. Usually, I only recognize a few words—"mice" and "hormones" come up a lot—and I can't pretend to know anything substantive about what he is working to achieve. I'm certainly not in the minority; according to him, just about everyone he deals with outside of his work doesn't have the first idea of what he does. On top of that, not many people presume to have an innate knowledge of zoology, and it would therefore seem a bit absurd to judge his work on this lack of knowledge. Sure enough, he has yet to encounter an untrained zoologist offering him advice or criticism.

When it comes to economics, however, nearly everyone feels they have a general understanding and an opinion to offer. Personally, I think this comfort with economics leads to more discussion, which is undoubtedly good. The problem comes when those in a position to affect economic policy do so with a deficiency in economic reasoning.

This week's example of ill-guided economic ideas leading to potentially damaging policy comes from the West Virginia Center on Budget & Policy. They issued a report concerning the possible effects of Senate Bill 680 and Senate Bill 465, which concern cutting the net corporate income tax and eliminating the business franchise tax.

The main point of the report is that tax cuts will cost the state revenue, and that this shortage of public funds will "undermine the ability of the state to provide good public services in the near future." At face value, it seems to make sense—more money for the state leads to better outcomes for all of us—but this line of thinking couldn't be more incorrect. These ideas are nothing new; economics disproved them decades ago. However, if you need an example of more government and its results in an economic system, just walk outside of your West Virginia home. Our state has been an unfortunate testing ground for the effects of more government, and the results are quite clear: More government, less wealth. Studies clearly show that less economic freedom, i.e., more government intervention into the economy, leads to worse outcomes at both the state and the national level. Question any study that shows otherwise. In a recent piece in the Charleston Gazette, studies by Oregon and California were cited as showing that cutting the public sector leads to worse outcomes, by virtue of a $100 cut in taxes generating only $18 in additional economic output, ultimately for a net loss of $82. Of course, what isn't accounted for here is the $100 more that the citizens of the state have—in welfare terms, the state now has $118 after the tax cuts, whereas before it had only $100 in tax revenue. Cutting taxes is a welfare enhancing activity; everyone is made better off by virtue of a more robust state economy.

It’s not to say that the West Virginia Center on Budget & Policy is entirely wrong; they are absolutely correct that these tax cuts will cost the state revenue.  Where they seem to fall over is thinking that this is bad.  Keeping our taxes high maintains the already significant strain on businesses and individuals within the state.  National corporations already refuse to produce within our borders, and companies serving border counties locate just on the other side of the state line so as to avoid our oppressive taxes.  Keeping our taxes where they’re at—or taking the Center’s line of reasoning to its logical end and raising taxes—just exacerbates an already bad situation.  Ironically, a scenario could exist whereby cutting taxes could actually increase the total amount of tax revenue collected. By lowering taxes and stimulating business generation, a lower tax rate imposed on more companies can generate a higher level of revenue.  After all, nobody would operate a business under a 100% tax rate—lowering the rate in this situation necessarily increases tax revenue.  Saying that cutting taxes puts a strain on government finances is like saying putting locks on doors puts a strain on thieves; it’s true, but it’s also something you want.

Instead of focusing on tax cuts, the Center instead says the government should use these takings to invest in kids.  “Investing in kids” is not unlike saying everyone should work towards social justice—the words seem like something desirable, and are very popular politically, but no two people have the same opinion of what it means.  Does invest in kids mean more schools?  More school buses?  More playgrounds?  Are kids mutual funds and we should buy shares of them?  Personally, I don’t think there’s any better way to “invest in kids” than to make the state wealthier by spurning economic growth, getting parents off of welfare and into a burgeoning labor market.  I’d say most people would attach “invest in kids” to education, but throwing more money towards public schools clearly doesn’t work unless there is some incentive for them to use that money wisely. Unfortunately, “investing in kids” often means investing in teacher’s unions.

At the bottom of the Center’s website is a message that I think we all could agree with: “Working Toward a Shared Prosperity.”  We just can’t let the foolish idea of more government prevent us from getting there.  In the words of Milton Friedman, “If you put the government in charge of the Sahara Desert, in 5 years there’d be a shortage of sand.”

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