JUNE 10, 1987

TAX CLIMATE IN WISCONSIN

1. Wisconsin taxpayers bear the third heaviest tax burden in the nation, and that burden has been increasing since 1980.

Measured as tax collections per $1,000 of personal income, Wisconsin's tax burden is a full 118% of the national average. Only Alaska, Minnesota, New York, and Wyoming collect higher taxes; of these states, two (Alaska and Wyoming) export a large share of their taxes to out-of-state taxpayers through extractive mineral taxes. Arguably, Wisconsin taxpayers bear one of the three heaviest tax burdens in the country.

Wisconsin's tax burden ranks third heaviest by a second measurement. The Advisory Commission on Intergovernmental Relations' "tax effort index" shows Wisconsin's tax burden to be approximately 30% above the national average. Only Alaska and New York impose heavier burdens according to this measure.

Chart 1 illustrates how tax burden in Wisconsin has been consistently above the national average. Tax burden peaked in 1970 at 124% of the national average, declined to 109% by 1980, and has since risen again to approximately 120%.

2. Since 1980, economic growth in Wisconsin has lagged behind that of the rest of the nation.

Personal income growth in Wisconsin has consistently lagged behind that of the rest of the nation. Since 1968, Wisconsin has lost ground during periods of national recession, and has failed to recover this ground during periods of economic recovery. As a consequence, personal income per capita has been consistently below the national average.

Wisconsin's population has also been growing more slowly than that of the rest of the nation. From 1970 to 1983, Wisconsin's population grew only 7.5%, half the national growth of 15%.

Finally, while employment growth in Wisconsin exceeded the national average during the 1970s, it too has slowed during the first half of the 1980s. Between 1979 and 1985, the percentage increase in nonagricultural employment in Wisconsin was a mere 1%, compared to a 9% increase for the nation as a whole. Manufacturing employment in Wisconsin decreased by 14% during the same period, while manufacturing employment in the nation decreased by just 8%.

Chart 2 illustrates the dramatic decrease in the rate of job creation in Wisconsin since 1980.

3. Increasing tax burdens in Wisconsin are responsible for at least some part of this dismal economic record.

Surveys conducted for the Wisconsin Department of Development, the National Federation of Independent Business, and the accounting firm of Grant Thornton have found that taxes dominate lists of issues of concern to businessmen. Firms specializing in business relocation also give heavy weight to state and local taxes when advising businesses.

Beginning in 1978 with a study by Robert J. Genetski and Young D. Chin, many researchers have found empirical support for the hypothesis that high and rising tax burdens have a negative effect on economic growth rates. Eighteen studies supporting this conclusion are cited in the Heartland Policy Study. The emerging consensus among economists is that tax levels and their direction of change significantly effect economic growth rates.

4. Reducing tax burdens in Wisconsin would stimulate job creation and economic growth.

Surveys reveal unanimous support in Wisconsin's business community for tax reform. Wisconsin's experience in the 1970s, and the experiences of other states since 1980, shows that businesses respond quickly and positively to reductions in net tax burden. An effective tax reform agenda would include broad tax relief (rather than short-term tax breaks for specific businesses), reductions in personal income tax collections, and creation of institutional barriers to higher government spending.

This *Executive Summary* is based on Heartland Policy Study No. 16, "Tax Climate in Wisconsin: An Analysis of State and Local Taxes," by Joseph L. Bast, Charles Breeden, Robert J. Genetski, William J. Hunter, George P. Lephardt, and John Skorburg. Copies of the 28-page study are available for $4.50 each from The Heartland Institute, 59 East Van Buren, Suite 810, Chicago, Illinois, 60605. Telephone 312/427-3060.

Chart 1

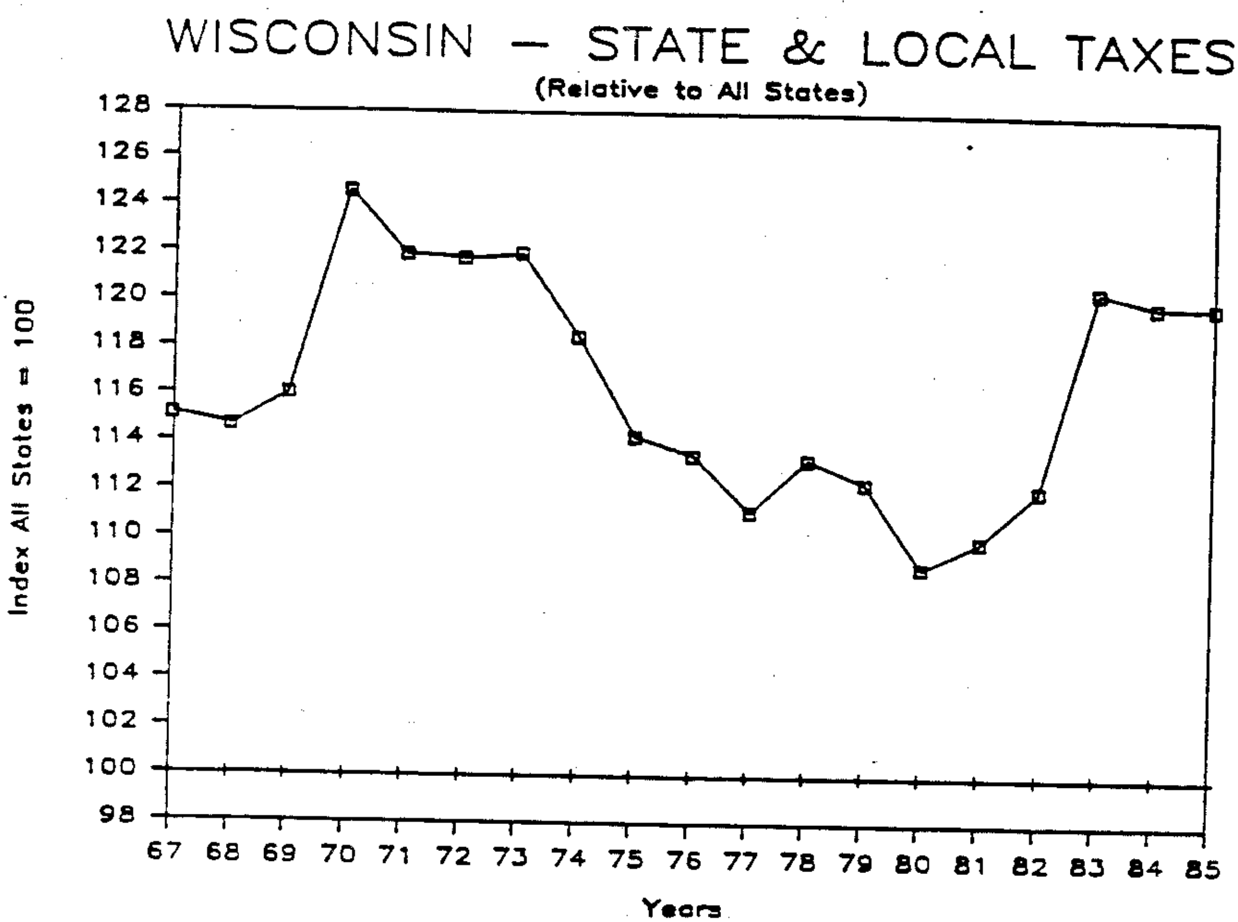
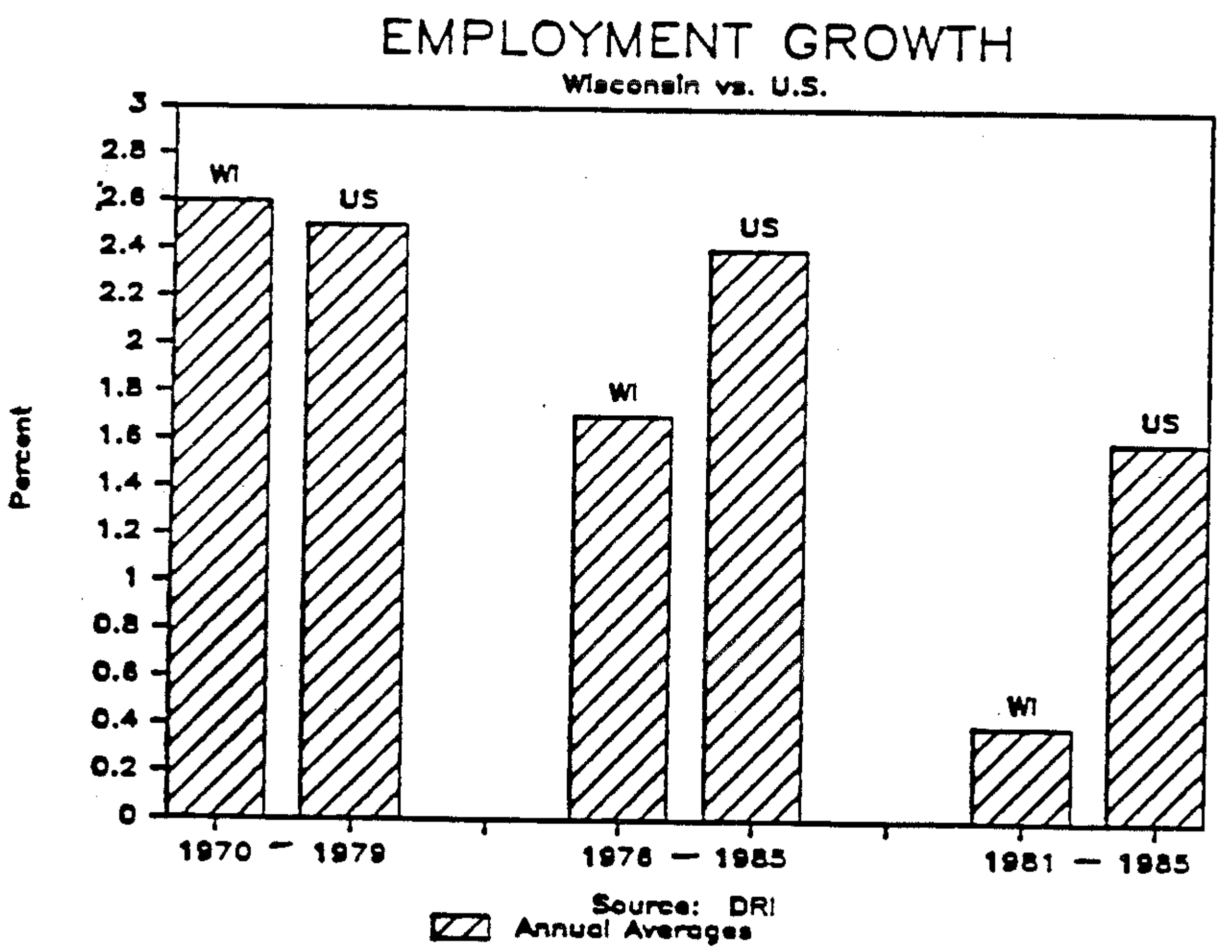


Chart 2



No. 16 -- June 10, 1987

TAX CLIMATE IN WISCONSIN: AN ANALYSIS OF STATE AND LOCAL TAXES

by
Joseph L. Bast, Charles Breeden, Robert J. Genetski
William J. Hunter, George P. Lephardt, and John W. Skorburg

I. Introduction and summary

Tax policies in Wisconsin are often the subject of long and frequently acrimonious debates. People disagree as to how high taxes are, who pays them, and what effect they have on economic development in the state.

The authors' goal in this paper is to answer these questions, and more, with an objective and factual review of the evidence. We do not attempt to review all possible measures of tax burden or recite all of the reasons for Wisconsin's current tax system. Rather, we present as succinctly as possible the facts, theories, and explanations we believe to be the most valid and meaningful.

Whether taxes in Wisconsin should be increased or decreased, reformed or left untouched, are ultimately political questions. This paper can only provide the facts and analysis needed to assure that the decisions made are informed ones.

Our findings can be summarized as follows:

- Business opposition to state tax policies in Wisconsin is much stronger and more widespread than in other states.
- By almost every measure, Wisconsin is a high-tax state. The initial incidence of the tax burden is on individuals, rather than businesses. This leads some observers to conclude (improperly) that taxes have no harmful effect on Wisconsin's business community.

- State taxes have, in fact, had an adverse impact on per capita income and employment growth in Wisconsin since 1976. Although Wisconsin has performed better than many other states in the Midwest during the past two decades, recent trends suggest that tax burden must be reduced if the state is to be competitive nationally in the years ahead.

- While overall tax burden has been shown to be negatively related to economic growth rate, new evidence also suggests that the structure of tax systems affects economic growth. Wisconsin's relatively high personal income tax rates make recruiting or attracting highly skilled professionals into existing firms difficult, and affect the decisions of Wisconsin firms considering expansion.

We draw the following conclusions from these findings:

- More important than any change in tax rates or tax incidence will be a reduction in overall tax revenues collected. Because of the revenue enhancement effects of federal income tax reform, **the state's tax burden relative to other states will automatically increase in 1987 unless reforms are made now.**

- Tax relief, if enacted, should be as broad as possible, rather than extended only to certain groups. **Across-the-board tax reductions are more likely to promote broad-based economic development while at the same time being politically attractive.** The only exceptions to this strategy should be made when an existing tax targets an industry or class of individuals without regard to the level of public services used by that industry or class.

- The personal income tax has an adverse impact on entrepreneurship, and therefore on economic development. State policy makers should consider a low flat-rate income tax similar to that of Illinois.

- Institutional changes, including constitutional reforms, could assure spending reductions and tax changes once made will not soon be lost. Such changes will assure the business community that Wisconsin is, **and will continue to be,** a good place in which to conduct business.

- Privatization proposals that completely remove services and facilities from public control, and utilize proven ways to accommodate public employees and other interest groups, should be solicited and thoroughly examined.

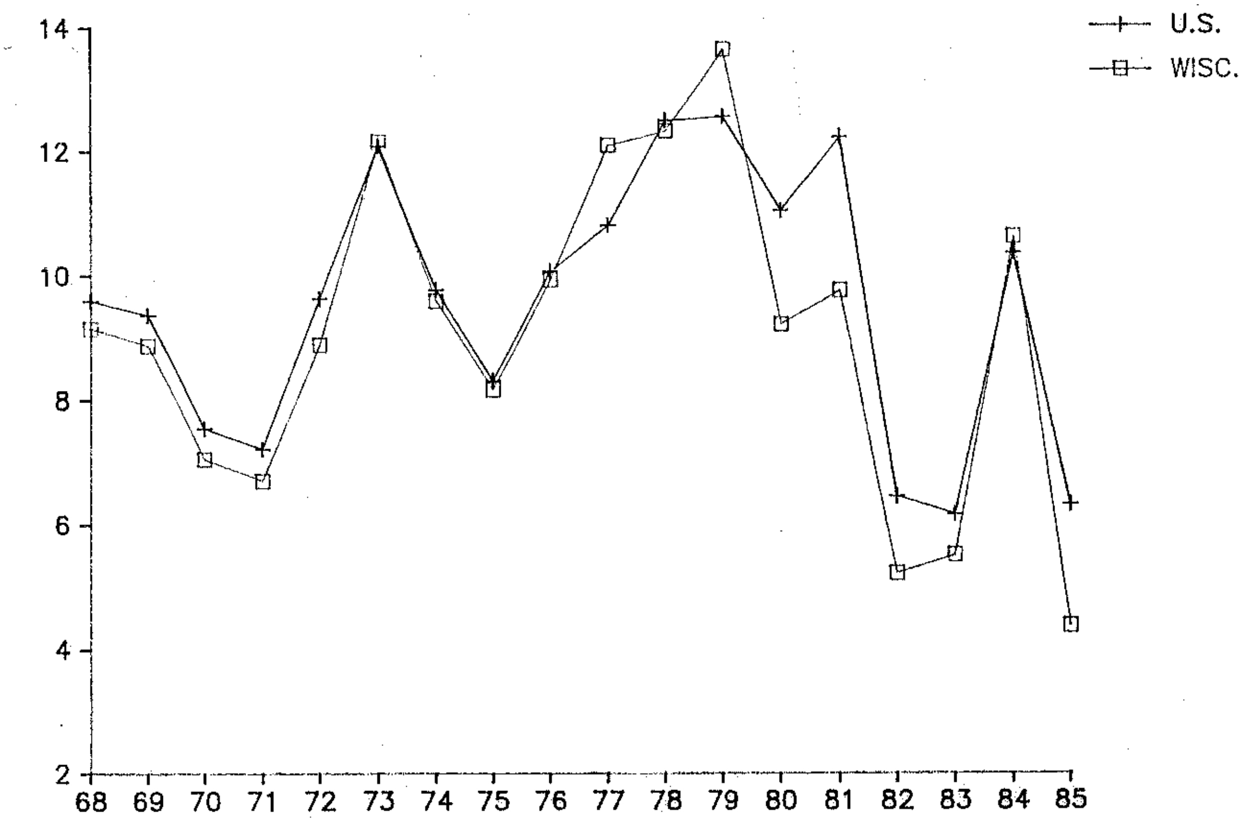
II. Interstate comparisons of economic performance and tax burden

A. Personal income growth.

Personal income growth in Wisconsin has consistently lagged behind that of the rest of the country. Since 1968, Wisconsin has lost ground to the rest of the nation during periods of national recession, and has failed to recover this ground during periods of economic recovery. Chart 1 below plots Wisconsin's poor performance.

Chart 1
Annual Growth Rate of Wisconsin Personal Income, 1968-1985

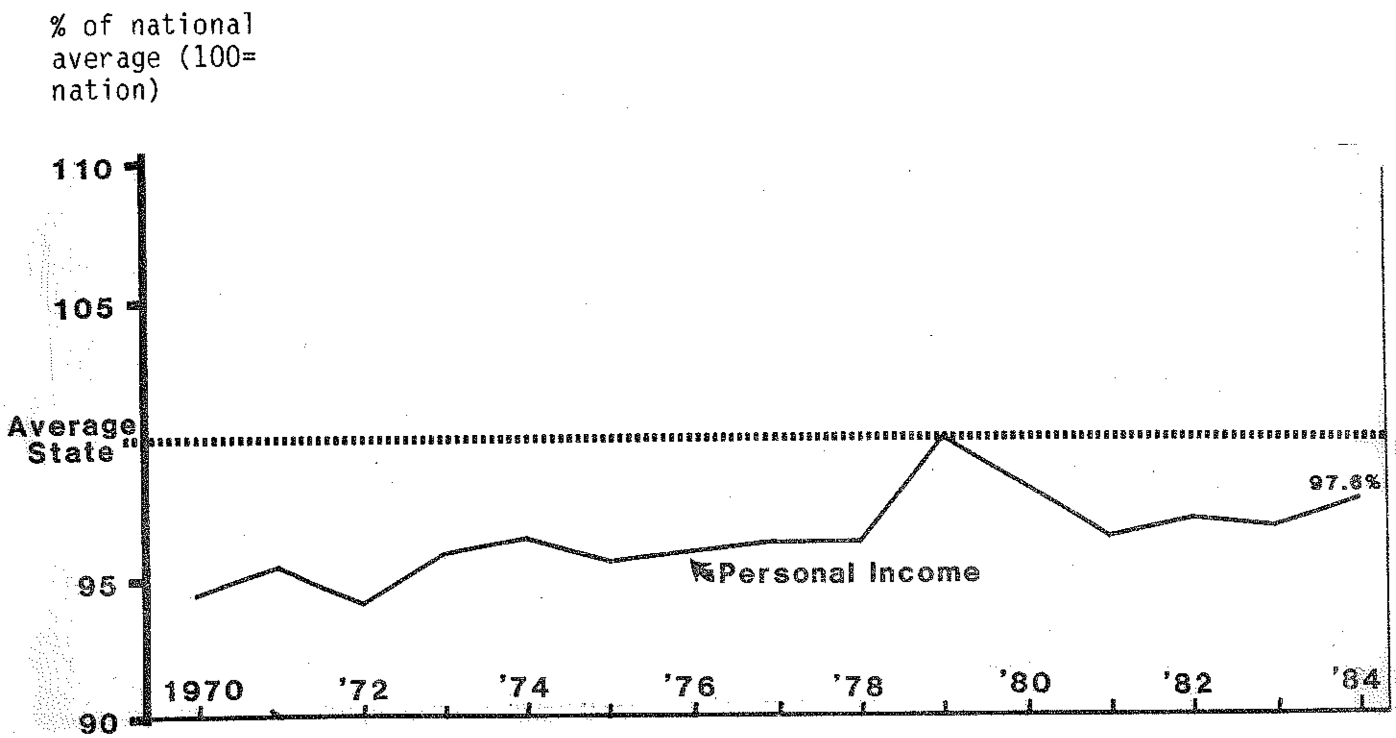
% Change



Source: U.S. Dept. of Commerce, Harris Bank.

As a consequence of this slow rate of growth, personal income per capita in Wisconsin has been consistently below the national average. Only once in the past 20 years has per capita income in Wisconsin equaled the national average; in 1984 the state stood at 97.6% of the national average. Chart 2 shows personal income trends in the past 15 years.

Chart 2
Wisconsin Personal Income Per Capita
Relative to National Average, 1970-1984



Source: U.S. Dept. of Commerce, SURVEY OF CURRENT BUSINESS; Public Expenditure Survey of Wisconsin.

Although Wisconsin's growth was below that of the rest of the nation during the 1980-85 period, it at least performed well when compared to other Great Lakes states. The most recent figures available, however, suggest that in 1986 Wisconsin lost ground to even this group of states. As Table 1 shows, Wisconsin's growth rate from the second quarter of 1985 to the second quarter of 1986 was (along with Ohio's) the lowest among Great Lakes states.

Table 1
Personal Income, State and Region
(millions)

	2nd Q 1985	2nd Q 1986	% Change
U.S.	$3,294,856	$3,479,582	5.6%
Great Lakes	565,448	593,452	5.0
Illinois	169,561	178,690	5.4
Indiana	68,473	72,124	5.3
Michigan	122,728	128,651	4.7
Ohio	141,769	148,292	4.6
Wisconsin	62,818	65,695	4.6

Source: U.S. Dept. of Commerce, Harris Bank.

Since total personal income in the state has consistently grown more slowly than in the rest of the nation, one would expect that per capita personal income in the state as a percentage of national average per capita income would be falling. In fact, as is demonstrated by Chart 2 above, per capita income in the state is low but has not been falling relative to levels in the rest of the country. The explanation for this apparent paradox rests in the fact that Wisconsin's population has been growing much more slowly than that of the rest of the nation.

From 1960 to 1983, the percentage increase in Wisconsin's population was only two-thirds that of the nation. Since 1970, the state's population growth rate has been even lower, less than half the rate of the nation. (See Table 2.) This slow growth in population is itself an indication of few economic opportunities in the state, as more people are "voting with their feet" by leaving the state than are moving to the state. But just as important, slow population growth has masked the fact that the state as a whole is losing ground to the rest of the country every year, even though **per capita** measures of income remain relatively unchanged when compared to the nation as a whole.

B. Employment growth rates.

Employment growth in Wisconsin exceeded growth rates for the rest of the country during the 1970s, but has slowed severely during the first half of the 1980s. The percentage increase in nonagricultural payroll employment in the state since 1978 has been just one-third that of the country as a whole; because employment in Wisconsin grew more rapidly between 1978 and 1979, the percent increase from 1979 to 1985 was even less--just one-ninth the national percentage increase (see Table 3).

Table 2
Wisconsin Population and Rate of Change
Compared to U.S.

	1960-1970	1970-1983	1960-1983
U.S.	13.37%	15.09%	30.48%
Wisconsin	11.79%	7.53%	20.21%
Ratio of WI to US	.88	.49	.66

Source: Dept. of Commerce, Bureau of Census; Heartland Institute.

Table 3
Nonagricultural Payroll Employment, 1978-1985*

"The number of jobs in September, 1985 was ___% greater (less) than in year ____."

	1978	1979	1982	1984
U.S.	12%	9%	10%	3%
Great Lakes States	(2%)	(3%)	6%	2%
Wisconsin	4%	1%	7%	1%
Ratio of WI to US	.33	.11	.70	.33

Source: Federal Reserve Bank of Chicago, MIDWEST UPDATE, December 2, 1985.
*parentheses indicate negative values

Wisconsin has performed better in the area of manufacturing employment, but the sharp decline in job creation rates in the 1980s is still apparent. Since 1972, the number of manufacturing jobs in Wisconsin has increased by 2.8%, twice the increase recorded by the nation as a whole. This is an impressive record of accomplishment in light of the fact that the Great Lakes region suffered a loss of 16% of its manufacturing jobs during this same period. However, as Table 4 reveals, this long-term change masks a serious slowdown in job creation in recent years, and a net loss of manufacturing jobs in Wisconsin since the late 1970s.

Table 4
Manufacturing Payroll Employment, 1978-1985*

"The number of manufacturing jobs in September, 1985, was ___%
greater (less) than in year ____."

	1972	1978	1979	1982	1984
U.S.	1.4%	(7.0%)	(8.0%)	4.0%	(1.0)
Great Lakes Region	(16.0%)	(20.0%)	19.0%	3.0%	(2.0)
Wisconsin	2.8%	(11.0%)	(14.0%)	4.0%	(2.0)
Ratio of WI to US	2.00	(1.57)	(1.75)	1.00	(2.00)

Source: Federal Reserve Bank of Chicago, MIDWEST UPDATE, December 2, 1985; 1972 figures from "Assessing Illinois' Strengths and Weaknesses in a Changing National Economy," The Fantus Company, January 1986.
*parentheses indicate negative values

Wisconsin had 11% fewer manufacturing jobs in 1985 than in 1978, and 14% fewer than in 1979. Its percentage loss of manufacturing jobs since 1978 was 57% higher than the nation as a whole, and 75% higher than the nation as a whole since 1979.

Chart 3 graphically depicts changes in the total number of jobs in Wisconsin from 1970 to 1985. The reader should note how dramatically job creation has slowed in the first five years of this decade.

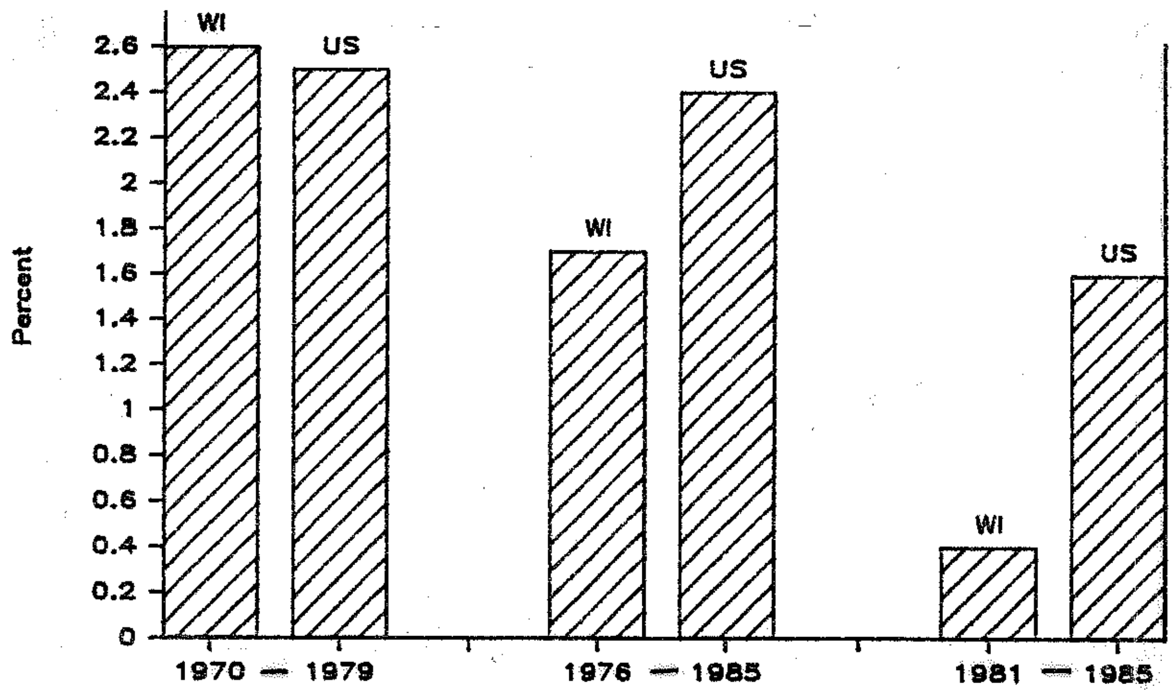
This pattern of job growth -- faster than the national average from 1970 to 1980 and slower than the average from 1981 to 1985 -- is very similar to the patterns of personal income growth and per capita income growth presented earlier in this paper. What happened in the 1970s that might have spurred the state's economic growth, and what changed in the first half of the 1980s?

C. State and local taxes.

1. Business community concerns.

According to interviews conducted by Yankelovich, Skelly and White, Inc. for the Wisconsin Department of Development in December 1983 and January 1984, some 93% of Wisconsin businesses thought the state tax structure was a "very serious" or "somewhat serious" problem. Not a single respondent thought tax structure was "not a serious problem." Interviews conducted with businessmen in Massachusetts, North Carolina, Minnesota, and Indiana found far less dissatisfaction with state and local taxes. <1>

Chart 3
Employment Growth, Wisconsin vs. U.S.



Source: DRI, Sears, Roebuck and Co.

The Yankelovich survey, which involved in-depth interviews with 755 businessmen in the five states mentioned above, also found that Wisconsin businessmen were much more likely to feel their state's business climate had deteriorated "somewhat" or "very much" during the past two or three years. Specifically, 61% of the respondents felt the state's business climate was deteriorating; just 10% of respondents in Massachusetts, 3% in North Carolina, 56% in Minnesota, and 28% in Indiana expressed a similar concern.

The personal income tax and business taxes were ranked evenly when respondents to the Yankelovich survey were asked to identify specific taxes contributing to the state's poor business climate. Finally, when the businessmen were asked to rank location factors that were "extremely important," three were taxes and two others were substantially affected by taxes. The top seven factors identified were:

- state attitude toward business
- state business taxes
- overall cost of doing business
- good place to live and work
- community attitudes toward business
- state personal taxes
- local property taxes

Do businessmen in Wisconsin have just cause to be unanimously opposed to the current state tax system?

2. Measures of aggregate (total) tax burden.

The state and local tax burden in Wisconsin is, in fact, significantly heavier than that of most other states. State and local tax collections per $1,000 of personal income are the fifth highest in the nation and 118% of the the 50-state average. Among Midwestern states, only Minnesota imposes a heavier burden. <2> Of the four states nationwide with heavier tax burdens, two (Alaska and Wyoming) export a large share of their taxes to other states through extractive mineral taxes; arguably, taxpayers in Wisconsin bear one of the three heaviest tax burdens in the entire country.

Measuring tax burden as state and local collections per $1,000 of personal income is a sound and commonly used methodology. Another way to calculate relative state and local tax burden is the "representative tax system" approach of the Advisory Commission on Intergovernmental Relations (ACIR).

The ACIR approach applies the national average tax rate to each state under analysis to arrive at an estimate of per capita tax collections. This estimate can be compared to the state's actual per capita tax collections in a particular year and a "tax effort index" constructed. An effort index of 100 is the national average; indexes above 100 indicate above average levels of tax burden. According to this approach, "tax effort" in Wisconsin is nearly 30% higher than the national average. The state has the third highest tax burden in the United States, behind only Alaska and New York. Table 5 gives the effort index and ranking for the 15 highest tax states.

Table 5
Tax Effort of State and Local Government, FY 1984
"Representative Tax System" Approach

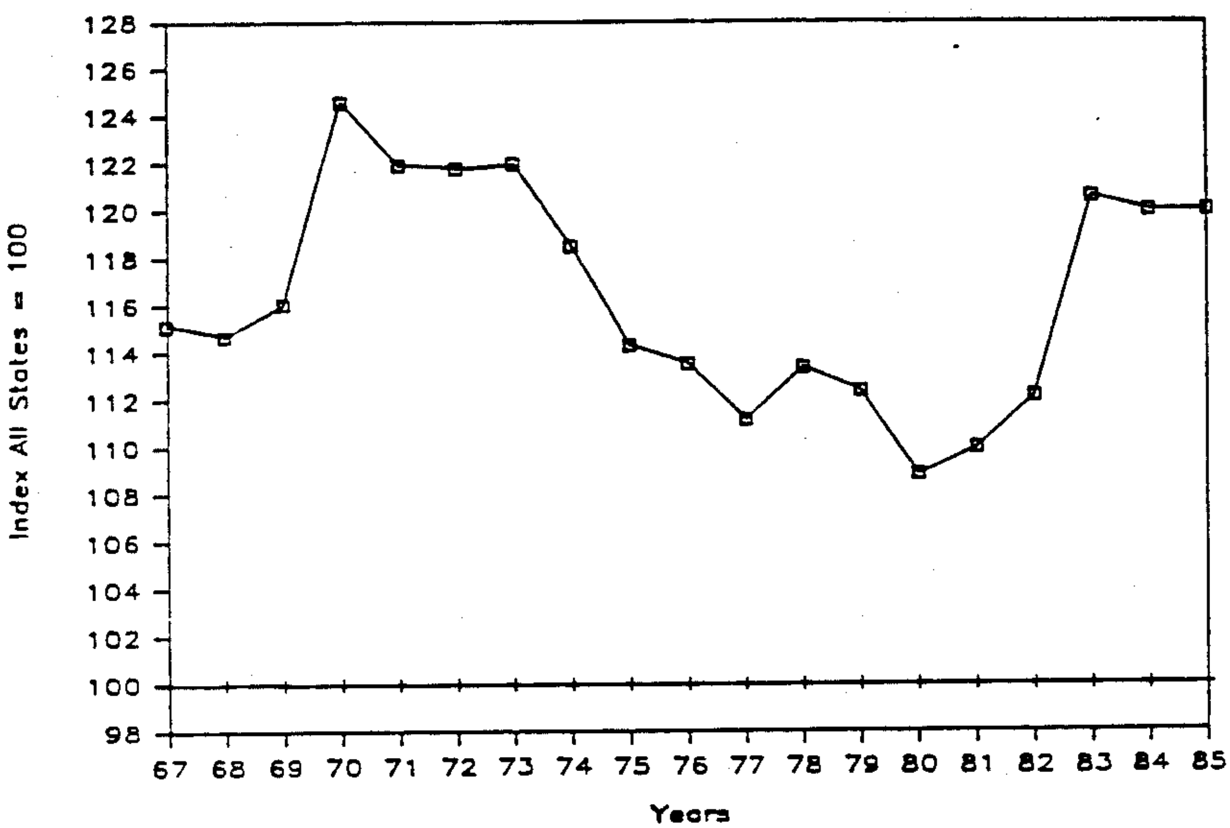
Rank	State	Effort Index	Rank	State	Effort Index
36	Alabama	104.4	44	Rhode Island	111.6
37	North Dakota	105.2	45	Iowa	111.7
38	West Virginia	105.6	46	Michigan	124.7
39	Washington	106.8	47	Minnesota	125.6
40	Utah	107.0	48	Wisconsin	127.1
41	Oregon	107.7	49	Alaska	128.5
42	Mississippi	108.1	50	New York	145.0
43	Wyoming	108.9			

Source: "Fiscal Capacity and Tax Effort," STATE BUDGET AND TAX NEWS, State Policy Research, Inc., Alexandria, VA, September 23, 1986.

State and local tax burden (per $1,000 of personal income) in Wisconsin has changed, relative to other states, over the years. While it has been consistently above the national average, tax burden peaked in 1970 at 124% of the national average, declined to 109% by 1980, and has since risen again to approximately 120%. Chart 4 illustrates the rise and fall of tax burden in the state.

The reader will note relative tax burden in Wisconsin declined from 1970 to 1980, and then sharply rose during the following five years. This trend closely tracks changes in job growth rates -- high from 1970 to 1980, low from 1980 to the present -- described in Section B of this chapter.

Chart 4
Wisconsin State and Local Taxes Per $1,000 Personal Income, Relative to National Average (average =100)



Source: Center for Business and Economic Research, University of Alabama and Sears, Roebuck and Co., Dept. 980F.

3. Tax burden disaggregated.

In 1986, thirty states, including the neighboring states of Michigan, Illinois, and Indiana, had corporate income tax rates lower than Wisconsin's. <3> Twenty-eight states had sales taxes lower than Wisconsin's, with another nine states imposing sales taxes at the same level. Midwest states with lower sales taxes included Michigan, Iowa, and Missouri. <4>

Wisconsin's personal income tax is also very high by national and regional standards. Measured either by tax receipts per capita or per $1,000 personal income, Wisconsin ranks sixth highest in the nation and second highest in the Midwest (behind Minnesota). <5> Table 6 below shows how much above national average each tax is in Wisconsin.

Table 6
Wisconsin Tax Collections
per $1,000 Personal Income, by Type of Tax

	% above average	rank*	Tax/$1,000 income
total revenue	10.9%	14	$220
total state and local taxes	18.2	5	138
state and local property taxes	28.5	13	45
state income tax	37.4	6	34
state sales tax	3.9	20	24

Source: Wisconsin Tax Facts, Madison, WI: Public Expenditure Survey of WI, June 1986.
*1 is heaviest tax burden in nation; 50 is lightest burden.

Although the fact that Wisconsin collects more revenue through an income tax than do most other states is itself meaningful, the impact of the state income tax on any individual or group is more complex than this comparison suggests. Because state income taxes vary considerably in tax brackets and tax rates, average tax receipts and individual tax liabilities may not be correlated.

According to an analysis of state income tax structures conducted by William J. Hunter and Charles E. Scott in 1984, Wisconsin's income tax is far less progressive than is commonly thought. Of forty states having income taxes, Hunter and Scott found that over half (21) were more progressive than Wisconsin. Hunter also found that the difference between the average income tax rate in Wisconsin and the national average is greatest for families with incomes between $12,000 and $40,000. **A family in Wisconsin earning $20,000 pays an amazing 71% more in state income taxes than the national average.** For incomes between $25,000 and $40,000, Wisconsin state income taxes are the third highest in the nation. <6>

Wisconsin's income tax burden may become even heavier as a consequence of federal income tax reforms. Wisconsin is one of 32 states in the U.S. that ties its income tax to federal tax liability (although not as closely as do some other states). Under the recently passed federal tax reform law, many exemptions that previously lowered gross taxable income have been disallowed, meaning reported taxable income should increase. The state government stands to gain an enormous "windfall" in higher income tax revenues, approximately $80 million (4% of current personal income tax collections of $2,009 million). <7> Federal tax reform will allow at least seventeen states to improve their standings vis-a-vis Wisconsin, with that number certain to grow as other states begin to modify their tax systems.

Death and gift taxes are also extremely high in Wisconsin. According to the Public Expenditure Survey of Wisconsin, these taxes produced a per capita tax yield 72% higher than the 49-state average (Nevada does not have a state death tax.) Nineteen states have only "pick up" taxes, which are fully offset by a federal estate tax credit and therefore impose no net burden on residents. Wisconsin ranked eighth in the nation in per capita death tax collections in 1985. <8> The authors note that significant steps have been taken to reduce Wisconsin's death tax burden, including increasing the exemption on gifts to closely related beneficiaries and lowering the top marginal inheritance and gift tax rate from 30% to 20%, but still the tax forces a class of individuals to carry a tax burden totally unrelated to their use of public services.

4. Direct vs. indirect tax burdens.

Taxes that are directly paid by businesses include the property tax, sales tax, franchise tax, and corporate income tax. For Wisconsin, these taxes are currently collected at the rates shown in Table 7.

Table 7
Direct Taxes on Businesses in Wisconsin, 1984

Tax	Amount
property tax	$19.31/$1,000 of full market value*
sales tax	5%
franchise tax	$10
corporate income tax	7.9%

Source: CORPORATE TAX CLIMATE: A COMPARISON OF SIXTEEN STATES, Wisconsin Department of Revenue, February 1983, and authors' update.
*statewide average rate

In a study released in February 1983 by the Wisconsin Department of Revenue, six hypothetical corporations were modeled and their direct tax burdens in each of sixteen states estimated. Wisconsin ranked 16,13,16,14,15, and 12 for the six corporations, with 16 being best (lowest cost) and 1 being worst (highest cost). This is a remarkably good performance. The study found that hypothetical corporations locating in Wisconsin paid only 59% of the average property taxes for the fifteen remaining states, 29% of average sales taxes, and just .05% of average franchise taxes. The state fared less well in the category of corporate income taxes, with corporations here paying 126% of the fifteen-state average. (The states included in the study were Alabama, California, Georgia, Illinois, Indiana, Iowa, Louisiana, Michigan, Minnesota, Mississippi, New York, North Carolina, Ohio, Tennessee, Texas, and Wisconsin.) <9>

In April 1984 a similar study was conducted by the Chicago accounting firm of Arthur Anderson and Co. This study, which involved ten states (California, Georgia, Illinois, Indiana, Massachusetts, Michigan, Minnesota, North Carolina, Ohio, and Wisconsin), also found that hypothetical companies locating in Wisconsin would bear relatively light direct tax burdens. For example, Wisconsin typically ranked 1 or 2 in property taxes paid by businesses, 5 or 6 in corporate income taxes, and 1 in total tax liability, with 1 being best (lowest cost) and 10 being worst (highest cost). <10>

Studies such as these have led some observers to claim that Wisconsin's tax climate is favorable to business; that state and local taxes, while high, pose a burden on individuals rather than businesses. This is a misleading conclusion for a number of reasons.

For many small businesspersons and entrepreneurs, the individual income tax is the single largest tax liability incurred. Because Wisconsin's income tax bears so heavily on persons who are likely to be entrepreneurs, this tax cost should not be excluded from estimates of business taxes.

In its most recent survey of its members, the National Federation of Independent Business found taxes were ranked as the single most important problem faced by small businesses. The previous three surveys all ranked taxes number one as well. <11> The views of small businesses on this issue should be very important in Wisconsin, since very small businesses dominate the job creation process here. According to a study of job creation in Wisconsin from 1969 to 1981 by the Wisconsin Department of Development, businesses with twenty or fewer employees:

- created more than twice as many net new jobs as their share of total employment would predict, usually more than all other businesses combined;

- alone generated more jobs than they lost during the 1979-1981 recession years;

- were found to be a consistent and somewhat countercyclical source of net new jobs, as opposed to the sensitivity to national economy cycles demonstrated by large firms. <12>

The hurtful effects of the personal income tax on small businesses in Wisconsin makes it extremely important that income taxes be included in any measure of business taxes in Wisconsin.

Even large corporations cannot escape indirectly paying for the high income taxes that are paid directly by their employees. Typically, higher incomes are received by those with better or more rare skills. In order to successfully bid against out-of-state firms for persons with these skills, corporations in Wisconsin must offer wages high enough to compensate for the progressive income tax structure. In essence, the tax results in higher labor costs for an in-state firm -- making the firm less competitive -- or it causes the firm to create positions for highly skilled persons at out-of-state locations. That businessmen interviewed for the Yankelovich study, described earlier, ranked the personal income tax evenly with business taxes suggests that the business community is well aware of the cost it bears for this indirect tax.

The possibility that the income tax is preventing the creation of positions for highly skilled people in Wisconsin is a particularly frightening one, since for each skilled position lost, the state may lose one or more support positions. In manufacturing, the support positions are typically those of maintenance and technical support; in office work, they are maintenance and secretarial. Persons occupying highly skilled jobs are hurt less by the decision to move to another state than are less-skilled persons occupying support positions. The latter are much less mobile, and have fewer job opportunities awaiting them in the state.

Corporations also indirectly pay for other taxes that don't show up in usual measures of "business tax burden." The Arthur Anderson study cited above, which found that the direct tax burden on businesses in Wisconsin was the lowest of ten states studied, also surveyed nontax costs of business in Wisconsin. Of the ten states examined, Wisconsin ranked between three and seven in net income for the corporation, three and seven in total nontax costs, and never better than five for labor costs. (Once again, one is best and ten is worst.) The reader should note that **labor costs in Wisconsin tend to be high even though per capita income in the state is below the national average.** The reason for this apparent contradiction is also suggested by the study.

The Arthur Anderson study compared the cost of living for persons living in Wisconsin with that of persons living in the other nine states. With one being lowest cost and ten being highest cost, Wisconsin never did better than sixth place, ranking eighth in sales tax burden on individuals, ninth in income tax burden (eighth for blue collar), seventh in total taxes, and eighth for nontax expenses (sixth for blue collar). These rankings indicate that the cost of living in Wisconsin tends to be relatively high, at least in part because tax burden is very high. The nontax cost of doing business in Wisconsin is high, then, because the tax cost of living in Wisconsin is very high.

This analysis suggests that the traditional distinction between "business" taxes and taxes on individuals is meaningless. Taxes paid by individuals eventually show up as the cost of doing business in a state. What matters is not who directly pays the tax, but how heavy the total tax burden is.

III. Do taxes really matter?

The preceding chapter documented Wisconsin's high and rising tax burden, and low and falling rates of economic development. Yet, it is frequently argued that taxes are only one of many factors affecting business location decisions; that other factors are probably more important than taxes in most cases; and that as a last resort a state can "tailor" its taxes to suit the needs of firms able to discriminate among states based on tax burden. There is truth in each of these assertions, but upon careful analysis one finds that none of them actually addresses the question, "Do taxes really matter?"

A. Factors cited by businesses as affecting location decisions.

One need not establish that taxes are the sole factor determining business location to understand why taxes really matter. Evidence that taxes are well represented among the other factors is sufficient to prove that high taxes will, over time, have an observable negative effect on economic growth.

The Fantus Company, a consulting firm, each year assists thousands of companies seeking to relocate or expand outside their current state of business. In a recent study prepared for the Illinois Department of Commerce and Community Affairs, the firm presented lists of factors upon which it bases its recommendations. Of 24 factors of "operating costs" listed under "typical locational criteria," eleven are state and local taxes and two (wage levels and clerical salaries) will be affected by a state income tax. (See Table 8.) One of the nation's most experienced business relocation firms, then, seems to agree that taxes are important. The Fantus Company also recommended that Illinois reduce its taxes. <13>

Manufacturing firms have also expressed their concern over taxes. For the past seven years, the accounting firm of Grant Thornton (previously Alexander Grant) has published a survey of manufacturing business climates in the states. For its 1986 report, the firm surveyed 36 state manufacturers' associations to select and then weigh 22 factors used to conduct the business climate rankings. These associations represent over 90,000 manufacturing firms in the United States. Of the ten most heavily weighted factors, two concerned state and local taxes (total taxes per $1,000 personal income and percentage change in total taxes over three years) and two concerned wages (annual average hourly manufacturing wage and percentage change in hourly wages over three years). Since Wisconsin's high income tax raises wage costs, we conclude that four of the ten most important factors affecting location decisions by large firms are sensitive to state and local tax burdens. <14>

Table 8
"Typical Locational Criteria: Operating Costs"
("*" marks tax-related variables)

*Wage & Fringe Benefit Levels
*Clerical Salaries
Workers' Compensation
Unemployment Insurance Costs
Proximity to Markets
Electric Power Costs
Fuel Costs
Water and Sewer Costs
*Property Tax Costs
*Inventory Tax Costs
*Machinery & Equipment Tax Costs
*Personal Income Taxes
Building Costs
*Sales & Use Tax
Financial Assistance
*Enterprise Zone
State-financed Incubator
*Corporate License
*Tax Incentives for R&D
Free Land for Industry
*Tax Incentives for Industry
*Tax Incentives for Jobs
*Corporate Income Taxes
Industrial Site Costs

Source: ASSESSING ILLINOIS' STRENGTHS AND WEAKNESSES IN A CHANGING NATIONAL ECONOMY, prepared for the Illinois Department of Commerce and Community Affairs by The Fantus Company, January 1986, p. 16.

B. Statistical analysis of taxes and economic growth.

In 1950, total state and local government tax revenues in the United States amounted to $20.2 billion, or seven percent of Gross National Product (GNP). It is probably correct to say that this level of taxation had little net impact on business location decisions. By 1984, however, state and local governments were collecting over $555 billion a year in taxes, or 14.7% of GNP that year. Common sense suggests that at some point these tax collections began to affect business location decisions. Beginning in 1978 with a study by Robert J. Genetski and Young D. Chin, a number of researchers began to find and measure this effect. <15>

One such analysis was conducted in 1981 by Richard K. Vedder (Ohio University) for the Subcommittee on Monetary and Fiscal Policy of the Joint Economic Committee of the U.S. Congress. In this study, Vedder found evidence to support the following conclusions:

- economic growth varies inversely with the burden of state and local government taxes; the fastest growing states, by and large, are the states with relatively low tax rates;

- changes in tax burden are inversely related to economic growth States with rapidly growing tax burdens tend to grow slower than states with a stable or falling tax burden;

- during the 1970s even states with high but falling tax burdens grew, whereas states with high and rising taxes grew at a rate 3% below that of the nation as a whole. <16>

More recently, the Center for Business and Economic Research at the University of Alabama, in cooperation with Sears, Roebuck and Co., conducted a careful analysis of two measures of economic growth (change in employment and change in personal income) and four measures of tax burden (average per capita tax collections, average per $1,000 personal income, change in per capita collections, and change in collections per $1,000 personal income) for the period from 1967 to 1983. The authors conclude:

> Within the given period, 1967-1983, tax burden had a significant negative impact on economic growth. This negative relationship was evident between economic growth and average tax burden as well as between economic growth and changes in tax burden... Further, a significant negative relationship has been identified and estimated between tax burden and economic growth for most states in the United States. <17>

The authors of this study recommend that "the supply effect of state and local taxes must be considered when formulating state and local development strategies."

A recent article in Inc. Magazine highlighted the close relationship between state taxes and economic growth. Inc. found that eight of the ten fastest growing states in the country had decreased their tax collections per $1,000 of personal income from 1978 to 1983. Four of the ten states have no income taxes, and one (Delaware) has cut its top personal income tax rate from 19.8% to 10.7%. Inc.'s findings appear in Table 9.

Table 9
% of Personal Income Going to State for Ten Fastest Growing States, 1978 and 1983

States	percent of income going to state 1978	1983	% change
Arizona	17.9	16.7	- 6.7
Alaska	15.3	11.4	-25.5
Texas	14.2	13.6	- 4.4
New Hampshire	13.4	12.4	- 7.2
Georgia	15.5	16.0	+ 3.3
Maryland	16.7	15.3	- 8.2
Florida	14.5	13.2	- 9.0
Delaware	16.7	17.0	+ 2.4
Massachusetts	17.6	14.6	-17.1
Virginia	14.2	13.6	- 4.0

Source: Inc. Magazine, October 1986, based on Census Bureau data.

Repeated statistical analysis on the same data bases by Vedder and the University of Alabama group and also by Robert J. Genetski at Harris Bank (Chicago) <18>, A. James Heins at the University of Illinois-Champaign <19>, and A. B. Laffer Associates <20> has built a very powerful case for the negative relationship between high or rising local and state taxes and slowing economic growth rates. Additional scholarly studies are listed in this paper's appendix.

Combined with the survey results reported earlier, the history of other states that have reduced their tax burdens, and Wisconsin's own experience since taxes began to increase in 1980, it seems irrefutable that taxes really are important.

C. True tax reform vs. tax breaks.

Among those who agree that tax burden affects economic growth are some who believe that a tax code can be "fine-tuned" through exemptions and special incentives so as to both maximize economic growth AND tax revenue. A growing number of states have adopted legislation allowing differential treatment of taxpayers in order to allow economic development officials to "lure" new or expanding firms into their state.

Can a state maximize its tax collections by discriminating between more and less mobile firms? According to work by Professor John Beck at Case Western Reserve University, the answer is yes, but only in theory. <21> According to the same source, state and local governments do not, in fact, act as revenue maximizers when implementing their economic development plans. Four causes for this failure are:

- Economic development officials have few incentives to incur costs to determine which potential new investments are truly "marginal" and which would be made in the state even without favorable tax treatment. It is easier simply to grant abatements to many new projects, marginal and inframarginal alike.

- A central planner does not possess or interpret all the information utilized by the many individual decision makers in a market economy. Consequently, it is extremely unlikely that economic development officials charged with selecting "promising" new firms or industries will make best choices.

- Businessmen contemplating a large capital expenditure consider long-term cost factors. If tax abatements are for a limited period, few businessmen will overlook other unfavorable conditions and choose to locate in the state. Those that do will expect their favorable tax treatment to continue after the original agreement, in which case fairness calls for all businesses to get the tax reductions.

- Granting public officials the discretion to grant or deny tax abatements encourages businesses to invest in satisfying government agencies, rather than individual consumers. This distortion of business incentives brings about an inappropriate use of scarce resources, and creates new opportunities for corruption.

For these reasons, the authors of this report strongly advise that a program of selective tax abatements be avoided, and instead an even-handed program of tax reform be implemented. Only when the existing tax code imposes burdens on industries unrelated to their use of public services should industry-specific reform be considered.

IV. Making reforms permanent.

A considerable body of research, grouped under the label "public choice theory," supports the thesis that piecemeal reform of democratic governments is extremely difficult. This research is quite new, having been done largely within the last twenty years. The research has yet to become widely known among public commentators and policy analysts, though the award of the Nobel Prize in Economics to James Buchanan, an acknowledged founder of public choice theory, may cause this to change quickly. This body of research can play a vital role in assuring that spending reductions in Wisconsin are made intelligently, fairly, and permanently.

A. Why government grows.

The difficulties of the moderate, gradual, piecemeal approach to reform of governments lie in the workings of practical political life. The Wisconsin state legislature represents all of the citizens of Wisconsin, yet the impact of citizens upon their state government is hardly equal. Members of certain groups (such as farmers, state government employees, and auto workers) have disproportionate influence upon the legislative process because of their well organized, very well funded, and extremely effective representation in Madison. There is a reason this situation has emerged.

For every proposed program, it is possible to identify two groups: those who receive the benefits of the program and those who pay for it. The more general the tax method used to pay for the program, the more widespread is the burden of the tax cost, and the less likely it is that the payers will organize to resist the program. On the other hand, the benefits from spending programs are frequently bestowed upon the few who, although fewer in number, have greater individual incentive to become politically active.

Consider, for example, the recent subsidization of American Motors Corporation and its workers. Many more workers in Wisconsin pay taxes than work on cars, yet in a political contest the autoworkers and AMC won handily because their interests are more effectively organized. Representatives of the union and the firm, because they stood to receive large benefits relative to their own fortunes, actively lobbied for greater benefits and favors to AMC. Wisconsin workers and taxpayers who did not work on autos were by and large indifferent, because the increase in taxes was not significant for any one individual. This sort of transaction, usually on a smaller scale but frequently even larger, occurs virtually every day the legislature is in session.

When a group secures the passage of legislation giving it benefits in excess of its lobbying costs, it has secured a "rent" by its political activism. This benefit is called a "rent," rather than a profit, because it is in many respects a government-created right to a future income stream. Rent-seeking activities are unproductive and socially wasteful, because they are aimed simply at redistributing existing social product among various groups, but use scarce, real resources in the process.

The activity of rent-seeking fuels a process whose effect is to transfer wealth and purchasing power <u>from</u> the politically powerless <u>to</u> the politically powerful. Often this involves a transfer of resources from those who lack access to political power (generally the poor or unorganized middle class) to those who are politically well positioned (frequently the wealthy or organized middle class), in direct opposition to the stated goals of the legislation. More often this involves merely a rearrangement of wealth among those of modest means. In either case, government is given more control over more resources to accomplish the rent-seekers' ends. This process takes resources from those able to use them most productively and produces countless unintended consequences assuring still more calls for redistribution.

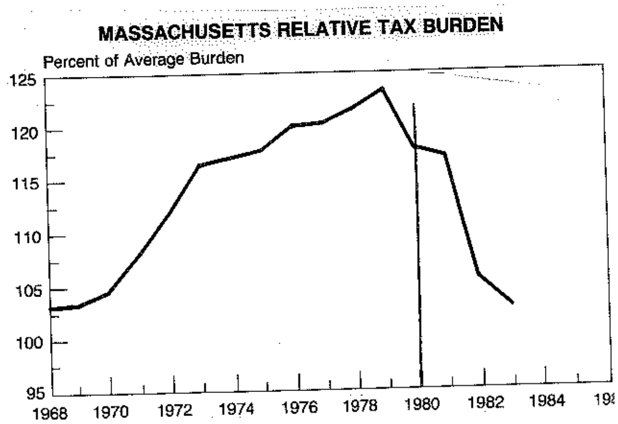
B. How to break the rent-seeking process.

Attempts at piecemeal reform will fall victim to the very same special interests that initiated existing programs and enjoy the current benefits. Gradual, moderate reforms of the direction of Wisconsin state government will be difficult and probably self-defeating. However, if the negative-sum and wasteful nature of rent-seeking activities at the state government level can be made apparent to voters and legislators, a broad-based constituency for major institutional and constitutional reforms could be created. Such "counter-coalitions" would pursue reforms to address the underlying structures that make rent-seeking in Wisconsin profitable.

Wisconsin can benefit from the experiences of other states in this area. Three policies that have been tried with some success are:

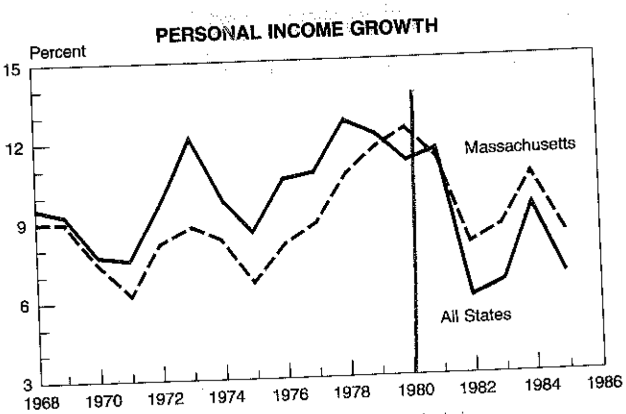
1. **Creation of a state-level process whereby citizens may, by petition, initiate referenda on state taxing and spending policies.** In 1984, 24 states allowed citizen petition-based referenda, with petition requirements ranging from 2 to 15% of votes cast in previous elections.<22> The best models for this sort of process are California (where Proposition 13 was passed in 1978) and Massachusetts (Proposition 2-1/2 in 1980). California requires petitions to bear signatures in an amount equal to five percent of votes cast in the last general election for governor to place a referendum on the ballot; Massachusetts requires 2%. Both states experienced remarkable, lasting declines in their relative tax burdens following passage of the referenda, as well as positive effects on their economic growth rates. Charts 5 and 6 below show Massachusetts' record of achievement.

Chart 5



A state's tax burden consists of its State and Local Revenue (less federal grants of aid) as a percent of its Personal Income.
Relative tax burden is the ratio of a particular state's tax burden to that of all other states.
Source: U.S. Department of Commerce; Bureau of the Census.

Chart 6



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Source: Harris Bank

2. **Constitutional limits on taxes and spending** have been used successfully by other states to restrain government growth. Seventeen states had so-called "Tax and Expenditure Limits" (TELs) in 1984, with the majority of these linking growth of government expenditures to growth in state personal income.<23> TELs are difficult to enforce because state government financing and expenditure channels can be quite complex; moreover, a TEL may only serve to fix rather than reduce current spending levels. Nevertheless, a stringent TEL can change the starting point for budget debates and gain widespread support. By passing a strong TEL after a major tax and spending reduction, the benefits of these reductions can be preserved.

3. **Legislation requiring privatization of services, similar to Proposition A in Los Angeles County or OMB Circular A-76 for federal agencies, can reduce incentives for bureaucracies to expand.** Proposition A was passed by an overwhelming majority of voters in Los Angeles County in 1978. A committee created to oversee the implementation of privatization projects recently dissolved itself, in accordance with a "sunset" provision, after reporting that its job had been completed. The committee estimates Proposition A saves county taxpayers $26 million each year.

OMB Circular A-76 is a federal policy directive requiring every department to separate "commercial" from "governmental" activities, estimate the lowest cost of producing the commercial service in-house, and then solicit bids from private firms to perform the service. Approved bids of 10% or more below the department's estimated lowest cost must be accepted. <24> To overcome opposition from government employees, the federal Office of Personnel Management is distributing model documentation for a plan (the Federal Employee Direct Corporate Ownership Opportunity Plan, or FED COOP) that would encourage government employees to join private companies to form new corporations to bid for the services they now provide.

There are real possibilities for applying this kind of thinking at the state level. By giving government employees incentives to critically examine the tasks they currently perform and to search for ways to lower their in-house costs, substantial savings might be obtained. Creating a mechanism whereby selected services or entire departments can be "spun off" to the private sector is the surest way to end the influence of special interest rent-seekers in state government.

V. Conclusions.

As was said at the outset, the decision to increase or decrease taxes, or to reform them or leave them unchanged, is a political one. However, we hope that policy makers will keep in mind these four conclusions drawn from our analysis:

A. REDUCING TOTAL NET TAX COLLECTIONS WILL PROMOTE ECONOMIC GROWTH.

During the past six years, elected officials in Wisconsin have presided over an unprecedented increase in tax collections relative to collections in other states. This increase in tax burden CAUSED a major slowdown in job creation in the state. The increase followed on the heels of ten years of gradually declining tax burden, a ten-year period that also saw job creation proceeding at a faster pace than in the rest of the nation.

Surveys reveal unanimous support in Wisconsin's business community for tax reform. The record in other states shows that the business community responds quickly and positively to reductions in net tax burden.

B. BROAD TAX RELIEF IS SUPERIOR TO TAX BREAKS.

State policy makers can be tempted to use their influence to "facilitate" or "foster" the paths of economic development they feel would be best for the state. For example, policy makers may wish for more "high tech" industry than the market seems to be producing, and they may wish to use public policy to encourage its development.

There is nothing wrong with removing barriers to one particular type of economic development, or acting as spokespersons on behalf of the state before certain business groups in other states or other countries. Similarly, it is not wrong to adjust the tax system to assure that those who benefit from government services also pay for them. What we believe would be wrong, though, is to assume government officials are able to determine which businesses will be best suited to a given location, and to utilize the state's tax structure as a tool to favor some paths of business development while penalizing others. This sort of strategy, whether called "selective tax abatements" or "The Five Year Plan," is sure to produce fewer lasting positive results than the alternative policy of treating all firms equally.

C. THE PERSONAL INCOME TAX DAMAGES THE STATE'S BUSINESS CLIMATE.

Wisconsin's income tax poses a crushing burden on economic growth. Tax rates and collections are high by every measure. By creating the illusion that it spares business, the income tax has split opposition to its high levies. Constant misrepresentation of the tax as being highly progressive has led to its strong support by liberals and progressives in the state.

Because of the personal income tax's high visibility, Wisconsin, more than many other states, has a real opportunity to enact significant tax collection reductions. The principal tax to be cut is not a business tax per se, but a tax on individuals. The personal income tax can be easily shown to be high by virtually any comparison, to be discriminatory in its impact on middle-income families and entrepreneurs, and to lack any distinction as being "progressive" in comparison with other states.

Wisconsin has at its border a state with a modest personal income tax. Illinois imposes a flat-rate 2.5% tax on federal adjusted gross income. A $1,000 deduction is granted for each exemption allowed for federal income tax. No itemized deductions are allowed, no personal exemptions or credits are available, and federal income taxes are not deductible. The tax is simple, and could at least serve as a point of departure for a revamped income tax in Wisconsin.

D. INSTITUTIONAL AND CONSTITUTIONAL REFORMS WOULD ASSURE THAT TAX AND SPENDING REDUCTIONS LAST.

Political administrations change, but the public bureaucracy is always there. Special interest groups, beneficiaries of public transfers or services, and public sector administrators will always act on incentives to increase state commitments and state spending. Those who are genuinely concerned by the intrusion of government into the everyday lives of taxpayers must find a way to institutionalize tax and spending reforms so they last beyond the next legislative session or next administration.

Constitutional reforms would allow voters in Wisconsin to vote directly on the level of taxes they pay, and would limit taxes and spending to some percentage of state personal income. In addition, institutional changes can be made that reduce incentives to expand the size and cost of government. These changes, such as laws mandating privatization of commercial activities and services commonly performed or provided by government workers, have proven to be successful in other states.

Joseph L. Bast is Executive Director of The Heartland Institute; Charles Breeden is Associate Professor of Economics, Marquette University; Robert J. Genetski is Senior Vice President and Chief Economist, Harris Bank, Chicago; William J. Hunter is Assistant Professor of Economics, Marquette University; George P. Lephardt is Associate Professor of Economics, GMI Engineering & Management Institute; John W. Skorburg is Director of Government Policy Planning and Analysis, Sears, Roebuck and Co.

Published by The Heartland Institute as the sixteenth in a series of in-depth studies concerning important issues in the Midwest. Nothing in a Heartland Policy Study should be construed as necessarily reflecting the views of The Heartland Institute or as an attempt to aid or hinder the passage of any legislation.

End Notes

<1> Wisconsin Business Climate Study, Wisconsin Department of Revenue, April 1984.

<2> Wisconsin Tax Facts, Public Expenditure Survey of Wisconsin, Madison, Wisconsin, 1986, p. 3.

<3> Michigan's corporate income tax rate is the lowest in the Midwest and lower than 43 other states in the country, yet its corporate tax collections per $1,000 personal income rank highest in the Midwest and second highest in the country. Michigan's Single Business Tax is calculated on a value-added basis and produces this paradoxical result. Rather than taxing profits (revenue less all costs), a value-added tax (VAT) is levied on the difference between revenue and the costs of raw materials. Consequently, Michigan's lower rate will collect high tax revenues because the base upon which the tax is applied is many times larger than profits alone. The Imperative of Tax Reform: A Report on Taxes and Economic Development in the Midwest (Chicago: The Heartland Institute, March 13, 1987).

<4> State Tax Handbook, Commerce Clearing House, October 1, 1986.

<5> Wisconsin Tax Facts, op. cit., p. 23.

<6> William J. Hunter and Charles E. Scott, "Wisconsin Taxes as a Factor in Business Recovery," Wisconsin Small Business Forum, Winter 1984-85. See also William J. Hunter and Charles E. Scott, "Interstate Differences in Individual Income Taxes," Public Finance Quarterly, Vol. XIV, No. 1, January 1986, pp. 69-85.

<7> Preliminary Estimates of the Effect of the 1986 Federal Tax Reform Act on State Personal Income Tax Liabilities, Washington, DC: Advisory Commission on Intergovernmental Relations, December 8, 1986.

<8> Wisconsin Tax Facts, op. cit.

<9> Corporate Tax Climate: A Comparison of Sixteen States, Wisconsin Department of Revenue, February 1983.

<10> Wisconsin Business Climate Study, Multistate Comparative Cost Study, Arthur Anderson & Co., April 1984.

<11> Quarterly Economic Report for Small Businesses, Institute for Enterprise Advancement, July 1986.

<12> The Job Generation Process in Wisconsin: 1969-1981, Report 84-2, Bureau of Research, Division of Policy Development, Department of Development, State of Wisconsin, December 1984.

<13> Assessing Illinois' Strengths and Weaknesses in a Changing National Economy, The Fantus Company, January 1986.

<14> The Seventh Annual Study of General Manufacturing Climates, Grant Thornton, June 1986.

<15> The Impact of State and Local Taxes on Economic Growth, by Robert J. Genetski and Young D. Chin, November 3, 1978, Harris Bank, Chicago, IL.

<16> Study reviewed by George P. Lephardt, "State Tax and Expenditure Policy and Economic Growth," Blueprint for the '80s, Vol. II, published by The Blaney Institute, Inc., 1983. See also Richard K. Vedder, "Rich States, Poor States: How High Taxes Inhibit Growth," Journal of Contemporary Studies, Fall 1982.

<17> A National Study of the Impact of State and Local Taxes on Regional Economic Growth, Center for Business and Economic Research, University of Alabama, July 1986. Copies available from Sears, Roebuck & Co., Dept. 980F, Sears Tower, Chicago, Illinois, 60684.

<18> The Impact of State and Local Taxes on Economic Growth, 1963-1980, by Robert J. Genetski and Lynn Ludlow, Harris Bank, December 1982.

<19> A. James Heins, The Illinois Economy: An Analysis of Economic Growth Since 1947, Illinois State Chamber of Commerce, Chicago, 1983.

<20> Victor A. Canto, et. al., The State Competitive Environment, A. B. Laffer Associates, California, August 8, 1984.

<21> John H. Beck, "Government Shortsightedness and Discretionary Tax Abatement: Local Tax Rates and Business Investment," Perspectives on Local Public Finance and Public Policy, Vol. II (John M. Quigley, ed.), (Greenwich, CT: JAI Press, 1985), pp. 203-214. See also John H. Beck, "Seclective Tax Abatements: Do They Work?" (Chicago: The Heartland Institute, March 16, 1987).

<22> The 1986 Constitutional Convention: A Primer on Key Issues, Rhode Island Public Expenditure Council, October 1985, pp. 80-83.

<23> Ibid., p 69.

<24> Supplement, OMB Circular No. A-76, Performance of Commercial Activities, Washington D.C.: Executive Office of the President, Office of Management and Budget, August 1983.

APPENDIX

Studies that Found a Negative Relationship between State and Local Taxes and Economic Growth

Benson, Bruce L., and Johnson, Ronald N. "Capital Formation and Interstate Tax Competition." In **Taxation and Capital Formation**, pp. 407-436. Edited by Dwight Lee. Pacific Institute for Public Policy Research, 1986.

Canto, Victor A., and Webb, Robert J. "Persistent Growth Rate Differentials among States in a National Economy with Factor Mobility." In **Foundations of Supply-Side Economics: Theory and Evidence**, pp. 224-255. By Victor A. Canto, Douglas H. Joines, and Arthur B. Laffer. New York: Academic Press, 1983.

Center for Business and Economic Research, The University of Alabama. "A National Study of the Impact of State and Local Taxes on Regional Economic Growth." July, 1986.

Ecker, Deborah S., and Syron, Richard F. "Personal Taxes and Interstate Competition for High Technology Industries." **New England Economic Review** (September/October 1979): 25-32.

Genetski, Robert J., and Chin, Young D. "The Impact of State and Local Taxes on Economic Growth." Harris Economic Research Office Service, November 3, 1978.

Genetski, Robert J., and Ludlow, Lynn. "The Impact of State and Local Taxes on Economic Growth: 1963-1980." Harris Economics, December 17, 1982.

Heins, A. James. "Illinois Economic Growth Study." Illinois State Chamber of Commerce, July, 1976.

Heins, A. James. "The Illinois Economy: An Analysis of Economic Growth Since 1947." Illinois State Chamber of Commerce, March, 1983.

Helms, L. Jay. "State Expenditure Patterns, Revenue Structures, and Economic Performance." In **1983 Proceedings of the Seventy-Sixth Annual Conference on Taxation**, pp. 152-157. Columbus, OH: National Tax Association-Tax Institute of America, 1984.

Helms, L. Jay. "The Effect of State and Local Taxes on Economic Growth: A Time Series-Cross Section Approach." **Review of Economics and Statistics** 67 (November 1985): 574-582.

Kleine, Robert J. "State and Local Tax Levels and Economic Growth--A Regional Comparison." In **1977 Proceedings of the Seventieth Annual Conference on Taxation**, pp. 162-172. Columbus, OH: National Tax Association-Tax Institute of America, 1978.

Newman, Robert J. "Industry Migration and Growth in the South." **Review of Economics and Statistics** 65 (February 1983): 76-86.

Plaut, Thomas R., and Pluta, Joseph E. "Business Climate, Taxes and Expenditures, and State Industrial Growth in the United States." **Southern Economic Journal** 50 (July 1983): 99-119.

Romans, Thomas, and Subrahmanyam, Ganti. "State and Local Taxes, Transfers and Regional Economic Growth." **Southern Economic Journal** 46 (October 1979): 435-444.

Vedder, Richard K. "State and Local Economic Development Strategy: A 'Supply Side' Perspective." Subcommittee on Monetary and Fiscal Policy, Joint Economic Committee, Congress of the United States. Washington, DC: Government Printing Office, 1981.

Vedder, Richard K. "Rich States, Poor States: How High Taxes Inhibit Growth." **Journal of Contemporary Studies** 5 (Fall 1982): 19-32.

Wasylenko, Michael J. "Business Climate, Industry and Employment Growth: A Review of the Evidence." Metropolitan Studies Program, Occasional Paper No. 98. Syracuse, NY: Syracuse University, 1985.

Wasylenko, Michael J., and McGuire, Therese. "Jobs and Taxes: The Effect of Business Climate on States' Unemployment Growth Rates." **National Tax Journal** 38 (December 1985): 497-511.

THE HEARTLAND INSTITUTE

59 East Van Buren, Suite 810, Chicago, IL 60605