RHODE ISLAND CENTER FOR FREEDOM & PROSPERITY

MEDIA RELEASE

# Sales Taxes Hike would Cost Jobs for Rhode Island

## Lesson in Capitalism: Sales Tax Hike vs Sales Tax Cut

***Center introduces new economic modeling tool for RI***

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January 23, 2012

Providence, RI -- The Rhode Island Center for Freedom and Prosperity released a Policy Brief today that categorized the tax hikes, recently suggested by the Governor's office to balance the budget, as harmful and short-sighted, and that would cost jobs for the state. The RI Center for Freedom introduced its new economic modeling tool, RI-STAMP, to demonstrate the negative consequences of a general sales tax increase on state and municipal economies as compared to the positive results of a sales tax cut.

"Our state is already suffering from a depressed economic environment because we are not competitive from a tax and regulatory perspective with our New England neighbors or nationally", said Mike Stenhouse, CEO for the Center for Freedom. "No matter how they may be disguised or packaged, any attempt to raise total sales tax revenues will only worsen our situation and will further deteriorate our state's dismal jobs picture. Balancing the budget is precisely the wrong goal for the Ocean State as it will not, alone, enhance our standing. Expanding our economy and increasing our capacity to compete for the vital human and capital resources we will need to re-invigorate our economy can only happen if we reduce taxes and reduce spending. Our RI-STAMP projections show this very clearly", he continued.

While the details of the Governor's tax hike plan are not yet known, in the Center's Policy Brief, two general tax policy scenarios are evaluated: the first assumes a sales tax hike, while the second assumes a sales tax cut. According to RI-STAMP, in the tax hike scenario, Rhode Island would see increases to state revenues far less than anticipated, but would also see a reduction in the state's economic output, a loss of jobs, a loss in municipal revenues, and a loss in overall investment in our state.

Conversely, in the sales tax cut scenario, state revenues would be reduced, but far less than expected, but would also see an increases the state's economic output, a gain in jobs, a gain in municipal revenues, and a gain in new investments in our state.

According to the author of the Policy Brief, J. Scott Moody, an adjunct scholar to the RI Center for Freedom and Prosperity and a nationally recognized economist, there is ample empirical evidence in New England to support the core projections of RI-STAMP. Past studies have documented that hundreds of millions and billions of dollars of retail sales are lost annually by Vermont and Maine to the zero-sales-tax state of New Hampshire.

"As we have seen with recent tax increases in Illinois, California and even Greece, tax increases never generate the necessary revenue to close a budget gap" said Paul Bachman, Director of Research at the Beacon Hill Institute, which developed the RI-STAMP tool. "Spurring economic growth and jobs in the private sector generates the revenue to close budget gaps."

Full details of the comparative economic analysis can be found at the RI Center for Freedom website at [www.RIFreedom.org](www.RIFreedom.org).

"Our Center invested in RI-STAMP to utilize this tool as one means to provide ongoing analysis of various tax policies presented for the Ocean State. The many benefits of lower taxes, as part of a return towards true Capitalism, are often unappreciated. Too many citizens have been deceived into supporting high tax policies that may have an emotional or surface appeal, but which, in reality, have a destructive effect on our general prosperity. With RI-STAMP we can now add credible economic projections into the public debate", concluded Stenhouse.

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The Rhode Island Center for Freedom and Prosperity is the state's leading free-enterprise public policy think tank. Non-partisan, yet firm in its belief that freedom is indispensable to citizens' well-being and prosperity, the Center for Freedom's mission is to restore competitiveness to Rhode Island through the advancement of market-based reform solutions.

J. Scott Moody has worked as a Tax Policy Economist for over 12 years. He is the author, co-author and editor of over 100 studies and books. He has testified twice before the House Ways and Means Committee of the U.S. Congress. He has been interviewed by countless newspapers and radio and television stations. His work has appeared in Forbes, CNN Money, State Tax Notes, The New York Sun, the Portland Press Herald, and the Hartford Courant, among others.

RI-STAMP (State Tax Analysis Modeling Program), which was customized and developed for Rhode Island by the Beacon Hill Institute in Massachusetts, projects the multiple "dynamic" impacts of various tax policies on state and local economies, as opposed to the more simplistic "static" method often used in support of proposed tax policies. Using state historical government data to construct the model, the tool calculates dynamic projections of the effects of tax policy for such items as state and municipal revenues, net employment, disposable income, investment in the state, and gross state product, as well as for many other industry and demographic categories. STAMP has been applied in 25 states and 6 municipalities, including New York City. A link to more information about STAMP can be found in the end notes of the Brief.

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