

Choosing an Economic Strategy

Spending Cuts, the Path to Job Creation

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Taxation > Sales Taxes > 3.0% > 2

In the first document of this series, the RI Center for Freedom & Prosperity presented numbers showing that attempting to make an elimination of the local car tax “revenue neutral” for the state and municipalities would not only be more costly for the state government than the total amount of that particular tax, but also be a 3,000-job killer in the private sector. The data presented in this document shows that compensating for a car tax elimination by reducing government spending would turn that negative jobs effect positive. However, reducing the sales tax to a 3% rate would create almost 11 times as many jobs.

Again, we ran the two policies through our RI-STAMP modeling tool, from the Beacon Hill Institute, using numbers collected a few years ago. The results in the table to the right would therefore have been the outcome if the policies had been enacted in the 2014–2018 timeframe.

The first document in this series explained our assumptions about the two policies and their implementation in STAMP. For this simulation, however, rather than increase sales and income taxes to make the reductions revenue neutral, we’ve assumed that the state government would make up the difference with spending reductions.

As a tax-policy model, STAMP doesn’t allow adjustments for different ways in which the state government could save money. It therefore looks to reductions in state-government employment for the necessary savings. In practical terms what this means is that, for the purpose of calculating economic effects on the private sector and on government revenue, the model assumes that the economic effect of whatever changes the government makes will be equal to the economic effect of reducing the government workforce. In our view, this makes the positive projections for both policies very conservative, because our past analysis and annual review of budgets and legislation have led us to conclude that the state government could produce the necessary spending reductions with almost no economic effect.

Although both tax-reduction policies would generate jobs and investment, the magnitude of the effect is hugely different, and not only because the sales tax reduction would be a more significant change from the start. The changes in revenue — several of which would be negative under the car tax plan — indicate that the cost of reducing spending would, indeed, be a drag on the positive effects

Effects of Car Tax Elimination and 3.0% Sales Tax with Spending Cuts Five Years Out

	Car Tax Elimination	3.0% Sales Tax
Economic effects		
Private employment	1,163	12,300
Investment	0.5	288.9
State revenue	-229.7	-82.3
Sales tax	1.8	-492.3
Corporate/business tax	-0.0	27.1
Personal income tax	-18.0	219.4
Cigarette tax	0.3	37.1
Other taxes	0.1	16.9
Other sources	1.2	105.9
Transfer to munis	-215.0	0.0
Municipal revenue	0.3	111.6
Sales tax	-0.0	2.3
Residential property tax	-215.0	0.0
Business property tax	-0.1	77.9
Other taxes	-0.0	4.2
Other sources	0.3	27.2
Transfer from state	215.0	0.0
Total revenue	-14.7	29.3

Notes: Dollar amounts are millions. Rounded numbers may not total as shown.

of the policy. That is, the unexpected outcome is that government revenue would actually drop *more* than the sticker price of the elimination.

The sales tax reduction to 3.0%, by contrast, would unambiguously have a positive effect on the state’s economy and not only *not* cost state government anywhere near the sticker price, but be positive when local revenue is included, again providing municipalities, collectively, with about half of the revenue they would need to eliminate the car tax on their own.