MICHIGAN LEAGUE FOR PUBLIC POLICY

Testimony to the Senate Finance Committee on SB 402

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The Michigan League for Public Policy opposes Senate Bill 402. Across-the-board cuts in the state's personal income tax will not create jobs or grow the economy in Michigan. They could, however, affect long-term prosperity by locking in cuts in funding for public schools, colleges and universities, and local communities—the very services and public structures that fuel economic growth.

Decades of research, as well as evidence from other states, show that income tax cuts will not create the good jobs our state needs, and will undermine our future by making it harder to invest in what does build a strong economy. A study of 65 years of data by the Congressional Research Service found that top income tax rates have had no discernable impact on economic growth, a finding that is consistent with most other serious studies. And the experience of states that cut income taxes deeply in the 1990s and 2000s provides no evidence that those tax cuts really worked as advertised. The states that cut taxes the most in the 1990s did worse than more prudent states in the next economic cycle, and only states with a lot of oil performed well after they cut taxes in the 2000s.

Over the last decade, Michigan budget and tax policies have resulted in deep cuts in the public services and structures that are the foundation of economic opportunity and growth. To gamble on a personal income tax cut—despite the evidence that tax cuts do little to boost the economy—puts basic public services at risk, and undermines Michigan's fledging economic recovery. Reinvesting in education must be at the top of our to-do list. A well educated workforce is essential to growing our economy. Cuts to local governments have affected their ability to provide the services that businesses want and need, including police and fire protection. We must reinvest in our communities.

And let's be honest about who would really benefit from this income tax rollback—the wealthiest taxpayers. This is not the way to help low- and moderate-income families, many of whom are still struggling to meet their basic needs and many of whom were hurt with the reduction in the Earned Income Tax Credit. Nearly one in four of Michigan households would receive no tax cut at all, including half of the state's lowest wage workers. By contrast, 60% of the tax cut dollars would flow to Michigan's wealthiest 20% of taxpayers.

The higher than expected state revenues create an opportunity to stabilize Michigan's budget and reinvest in the services that make our economy grow. This is not the time for an across the board tax cut that will not create jobs or grow the economy.