

# **The worst house in the neighborhood? Arkansas pays more for less than its neighbors**

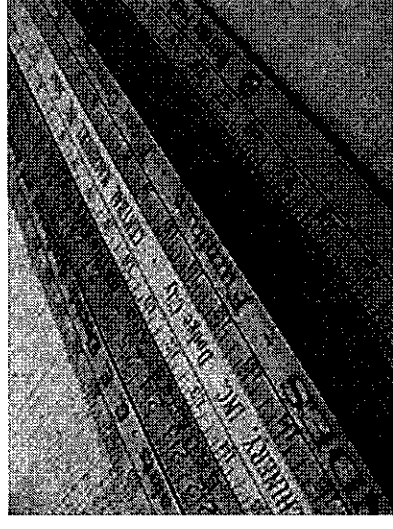
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# How does Arkansas compare to its Neighbors in Taxing and Spending?

- Yardstick Competition
  - New firms and expanding firms consider all of their options before hiring. They will compare Arkansas to its neighbors
- It directly effects the welfare of our citizens

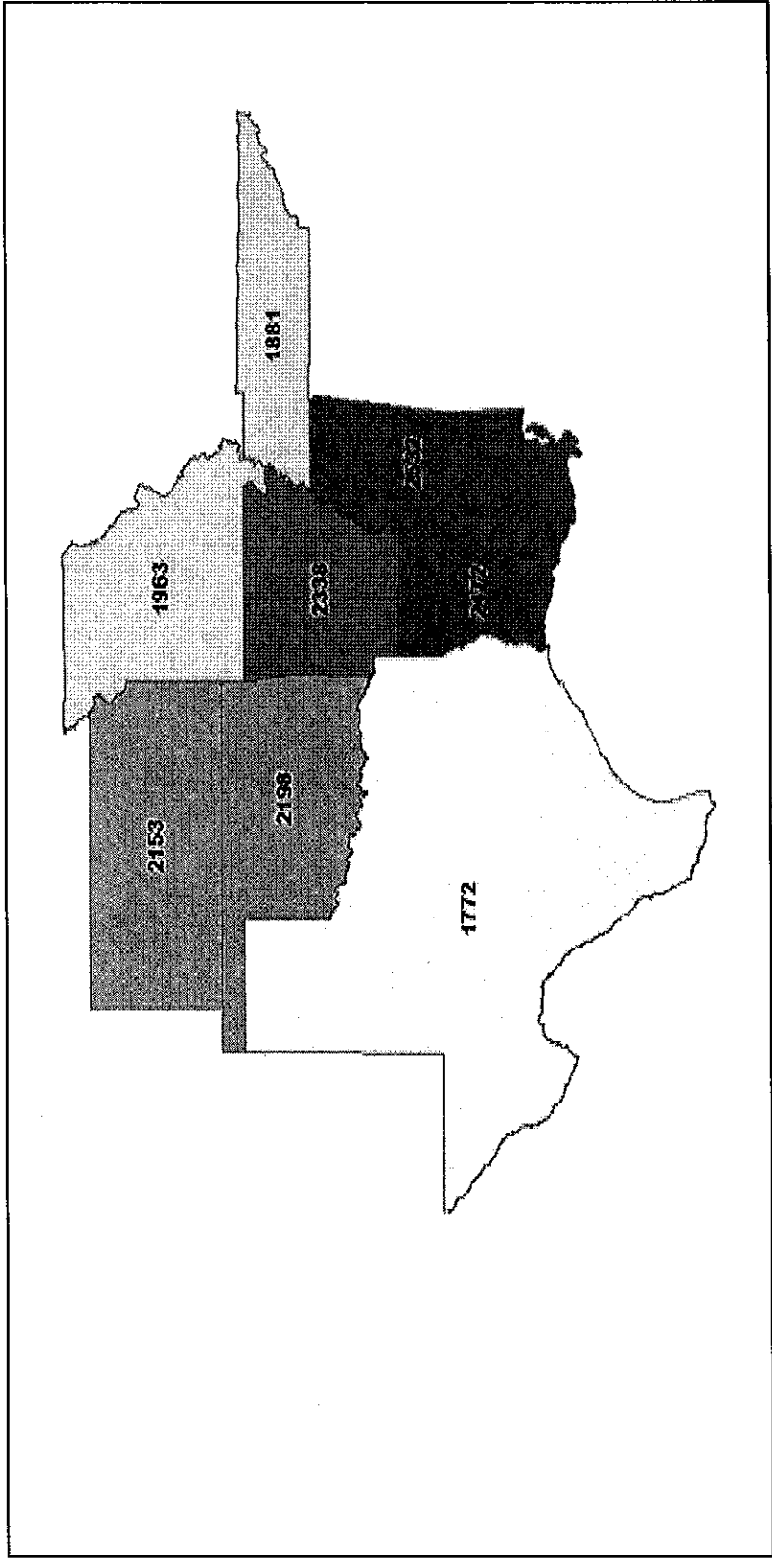


# Taxes and Expenditures are the Same Thing

- Money for programs and expenditures has to come from somewhere.
- States can't print money like the Fed.
- Arkansas has a balanced budget requirement.

More Spending Requires More Taxes  
Because they are the same thing

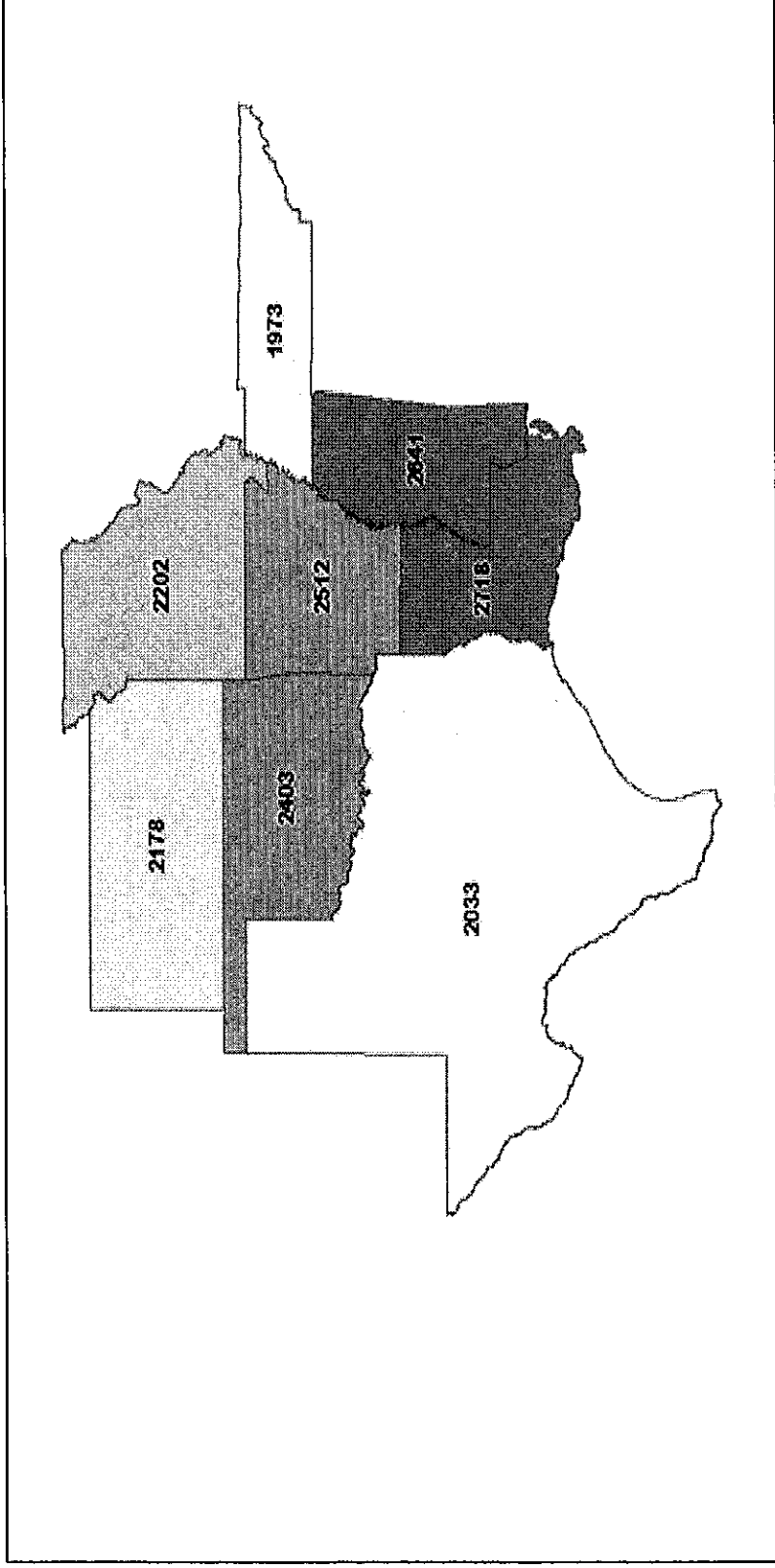
# Neighborhood Expenditures



Per Capita Expenditures, inflation adjusted: Averaged from 1998-2008

**Arkansas spends more than Texas, Tennessee, Missouri, Kansas, and Oklahoma.**

# Neighborhood Revenue



Per Capita Revenue, inflation adjusted: Averaged from 1998-2008

**Arkansas taxes more than Texas, Tennessee, Missouri, Kansas, and Oklahoma.**

## Comparative Budget Overview

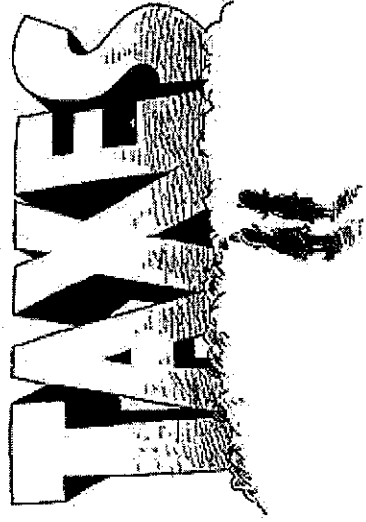
Inflation-adjusted, per capita dollars, averaged over 1998-2008

<u>State</u>	<u>Total Revenue</u>	<u>Rank</u>	<u>State</u>	<u>Total Expenditure</u>	<u>Rank</u>
Tennessee	1973.26	1	Texas	1771.78	1
Texas	2033.15	2	Tennessee	1880.56	2
Kansas	2178.15	3	Missouri	1962.54	3
Missouri	2201.94	4	Kansas	2153.21	4
Oklahoma	2402.84	5	Oklahoma	2198.39	5
Arkansas	<b>2512.25</b>	<b>6</b>	<b>Arkansas</b>	<b>2338.24</b>	<b>6</b>
<i>US States</i>	<i>2627.95</i>	<i>N.R.</i>	<i>US States</i>	<i>2445.04</i>	<i>N.R.</i>
Mississippi	2640.96	7	Louisiana	2471.67	7
Louisiana	2718.08	8	Mississippi	2532.12	8

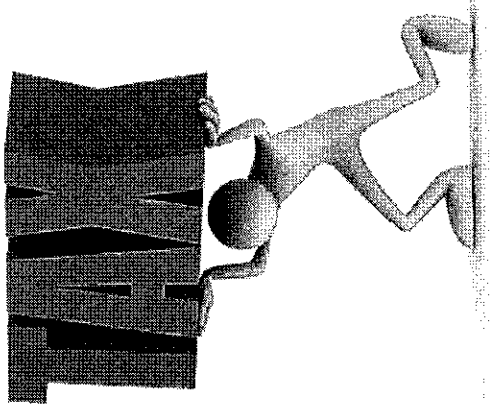
Arkansas taxes and spends more than most of its neighbors though LA and MS tax and spend more than the US average.

# What are the Effects of High Taxes

- Taxes can deter but not attract wealth producers to Arkansas.
- Affects migration
  - People
  - Businesses



**TAXES**



# Tax Reform Isn't Enough

- We need spending reform.
  - Spending reform is the actual cure
  - Tax reform treats the symptom but not the disease
- Tax reform can't stick without spending reform



## No current government can limit a future government

- The current legislature can't promise to do something in the future because future legislatures can't be forced to do it.
- The current legislature can't promise to fix things in the future because future legislatures will have the key to any limits placed upon them.

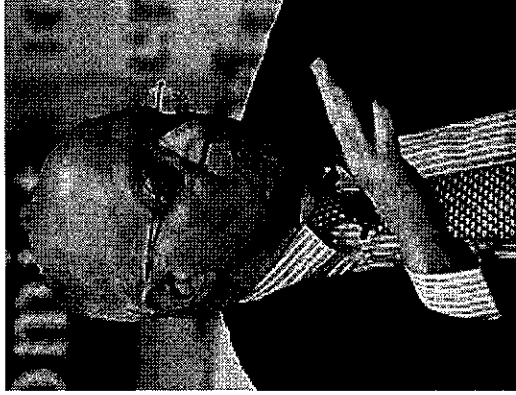


# Taxes and the Average Family

City	Total taxes paid by family with \$25,000 income	Ranked lowest to highest	Total taxes paid by family with \$50,000 income	Ranked lowest to highest
	\$25,000		\$50,000	
Wichita, KS	2,383	<u>1</u>	3,813	4
Houston, TX	2,497	3	3,003	2
New Orleans, LA	2,695	2	3,310	3
Oklahoma City, OK	2,731	4	4,079	6
Memphis, TN	2,740	5	2,959	<u>1</u>
Jackson, MS	2,808	6	4,638	7
<u>Little Rock, AR</u>	<u>3,149</u>	<u>7</u>	<u>4,053</u>	<u>5</u>
Kansas City, MO	3,203	8	5,062	8

# Costs of Collecting Taxes

- Taxes don't collect themselves
  - *Administrative Costs*
- Taxes don't just transfer wealth they reduce it
  - Consumers make fewer beneficial purchases
  - Producers sell fewer profitable items
  - *Dead Weight Costs*



Harvard economist and former Council of Economic Advisors chairman, Martin Feldstein estimated that an extra dollar of government spending costs **\$2.65**.

# Costs of Taxation

- Because Arkansas is a high tax and high spend state
- Arkansas imposes obvious costs on its economy including its citizens
- Arkansas also imposes huge hidden costs on its economy including its citizens
  - No one sees these hidden costs but they have a huge impact on Arkansans.
- Cost is more than just the tax revenue.

# Joe and Sarah

- At the level of the crudest example, the state government is taking money out of Sarah's pocket, reducing the amount of groceries that Sarah can buy this month, and giving the money to Joe, but limiting him to buying only groceries.
- Joe isn't allowed to spend the money on completing his associate's degree, or on a bulldozer. Joe's gain is offset by Sarah's loss, and neither of them was able to use the money in such a way to increase future income for anyone.

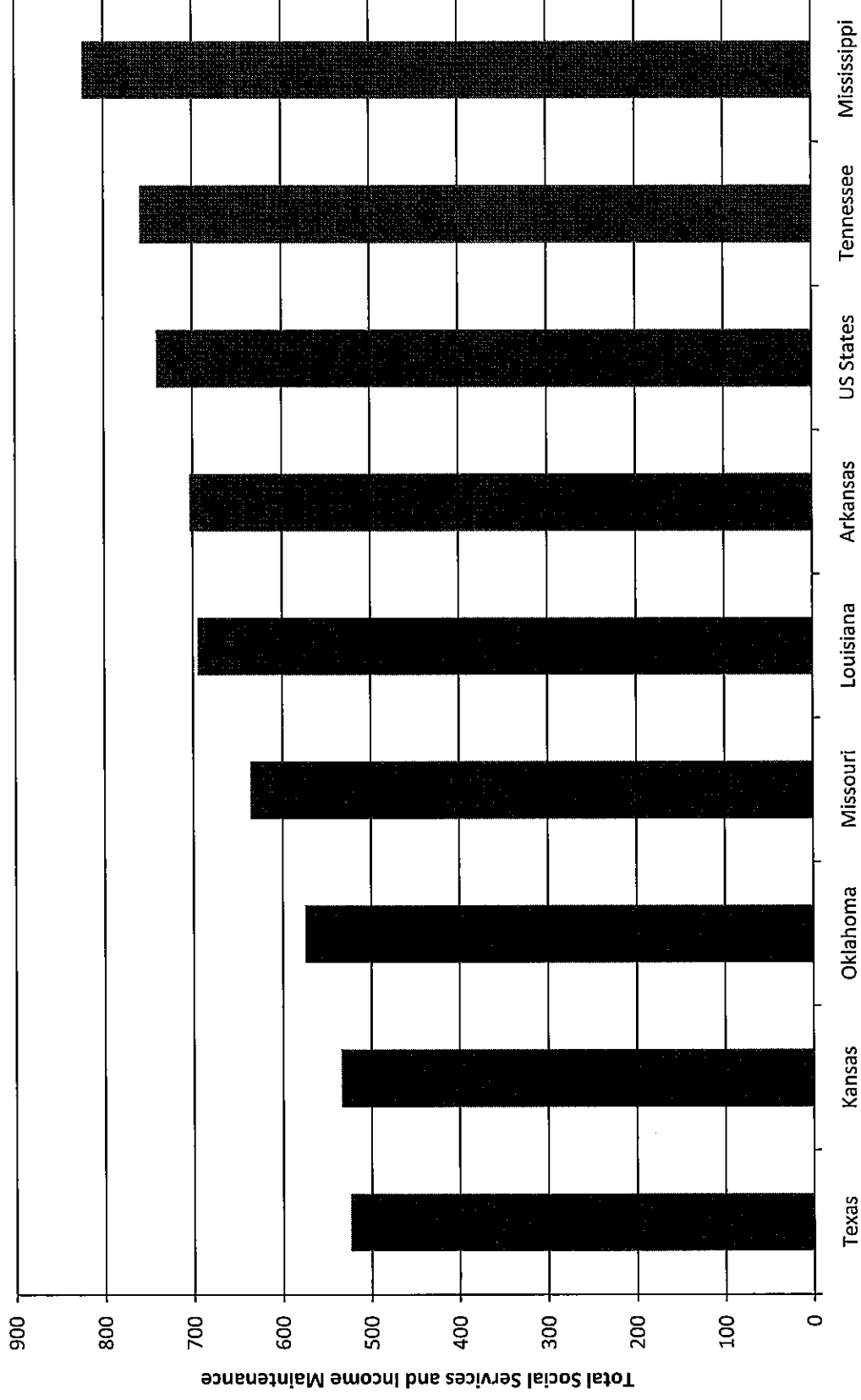
# How does Arkansas Spend its money and why does it matter?

- Arkansas spends more on consumption than other states
  - We spend more than our neighbors on the things that will require us to spend on them year after year.
- Spending on investments could be short term and lead to long term growth.
- Taxation and expenditure on current services means that the state is collecting revenues from one set of Arkansans and giving them to another set of Arkansans to fund current consumption. While perhaps laudable from a humanitarian perspective, these sorts of expenditures do nothing to help an economy develop. They do not add human capital, capital, or infrastructure to the state's economy.

**Social Services & Income Maintenance Expenditure  
Inflation-adjusted, per capita dollars, averaged over 1998-2008**

State	Total	Rank	Pct Own		Rank	State	Pct Dir'ct Exp.	Rank
			Total Rev	State				
Texas	524.22	1	Oklahoma	32.4	1	Oklahoma	34.6	1
Kansas	534.25	2	Kansas	32.9	2	Kansas	35.0	2
Oklahoma	574.59	3	Texas	35.4	3	Louisiana	36.1	3
Missouri	636.13	4	US States	37.4	N.R.	Texas	39.2	4
Louisiana	695.07	5	Louisiana	37.6	4	Arkansas	41.5	5
Arkansas	703.39	6	Arkansas	38.6	5	US States	42.4	N.R.
US States	740.69	N.R.	Missouri	40.2	6	Missouri	42.7	6
Tennessee	758.89	7	Mississippi	49.0	7	Mississippi	45.3	7
Mississippi	823.26	8	Tennessee	58.3	8	Tennessee	53.5	8

# Total Social Services and Income Maintenance Expenditure





# Takeaway

- Right now we thank God for MS, LA, and WV because they are worse off than us.
- Shrinking government leads to growth

# Where did this data come from?

- US Census Bureau
- Council on State Taxation with Ernst and Young
- Bureau of Labor Statistics



# Thank you

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