Eliminate Income Tax, Create More Jobs

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Economics Professor Christine Ries applauds the Georgia Department of Economic Developments success in bringing many companies to the state but says "a more powerful, direct, and widely effective way to attract busines and encourage growth and expansion of companies already here. Cut taxes."

Following is the text of Ries December 5 Guest Column in the Atlanta Journal Constitution.

A reporter recently asked me whether governments can create jobs. Only indirectly. The private sector is the engine of production and feeds the government spending. Governments can hire more people, but only if companies and consumers provide the revenue.

Governments can create an environment that encourages private businesses to invest, expand, innovate, and create jobs.

One way to accomplish this is by bringing state resources together to recruit businesses to the state.

Working company by company, Georgia’s Department of Economic Development has successfully brought many companies to the state. In September 2009, the Department brought Mitsubishi to Georgia. Savannah got 500 jobs. In April, 450 jobs came to Dublin with Mage Solar (Germany). Macon got 130 jobs, in September, when TIMCO Aviation (Greensboro, NC) moved in.

But there is a more powerful, direct and widely effective way to attract business and encourage the growth and expansion of the companies already here. Cut taxes.

If you want more of something…don’t tax it. If you want more jobs, don’t tax the small companies that create by far the most jobs. That’s why the fastest growing, most prosperous states (and countries) are the ones with low tax rates.

Job creation and education were the big topics recently at Georgia Public Policy Foundation’s Legislative Policy Briefing. Everyone speaking to our legislators about job creation started by noting that nine states in the U.S. have already eliminated their income tax. Two of these are on our borders – Florida and Tennessee. Texas and Alaska are two more.
Texas, with no individual income tax, created 119,000 of the 214,000 jobs created in the U.S. from August 2009 to August 2010. That’s 56% of all the jobs created in the entire country! Their unemployment rate is a whole percentage lower than the national average and they grew 3.5% faster than the national average last year.

What would an additional 3.5% growth do for Georgia?

States with no personal income tax attract the small, innovative companies that create the most jobs.

We compete directly with states like Texas and Florida for the kinds of new and emerging companies that are big job generators. Small and emerging companies create 70% of all new jobs and nearly all of these pay their taxes through their owner’s personal income tax return.

If you want more jobs, don’t tax the activities that create those jobs.

So, how can Georgia eliminate the income tax and compete with Florida, Texas and Tennessee for those companies and jobs?

Texas has oil and Florida has tourism. Oil and tourists supply the tax revenues needed to fund government services like education, transportation and health services. Texas and Florida have the natural resources that allow them to eliminate the income tax.

How can Georgia compete with oil and tourism?

We have at least three tremendous opportunities that can put us in a global leadership position and generate the kind of state revenue that would allow us to join the other 8 states as ‘income tax free’ and open for business.

One of the most interesting and surprising is Georgia’s already enviable advantage in the global payments processing business. As big and important as oil? You bet.

For nearly every trade – every purchase and sale of anything, anywhere– a payment must be made. The buyer pays and the seller collects. As the global economy reaches deep into our lives, it is increasingly likely that our credit card purchase at Home Depot results in a string of payments from one company to another before finally reaching a worker in Asia. Every purchase. Every sale.

Your purchase is charged to your credit card account. Your credit card payment comes from your bank account. Your credit card company pays Home Depot which pays their supplier who pays their supplier…all the way down to the people in Asia who worked to produce the product.
At each step, money must be transferred (electronically) and records must be kept. Massive amounts of information must be safely managed, moved, processed, protected and directed.

Imagine the volume and the future of the payments processing business. Georgia companies like Global Payments, First Data, and TSYS are already global leaders in this business. With leadership and coordination efforts from other Georgia institutions like the Atlanta Federal Reserve Bank, we are ready to capture and hold our position as the industry’s global hub.

The Port of Savannah also offers enormous potential. Even today, our port can land products from Asia at a cost that is competitive with the major ports in Los Angeles. As each shipment lands, transportation services, storage services, wholesaling, accounting, sorting, packaging and agent services are required. In concert with Atlanta’s airport, Georgia can become even more dominant as a global trading and transport hub.

The airport has a new runway. Plans are underway to deepen and expand the capacity of the Port of Savannah. Planned widening of the Panama Canal will allow larger ships and lower cost transport to Savannah. We are in a position to compete as the preeminent port serving 70% of the American people.

If the current mantra is jobs, jobs, jobs, this business certainly qualifies.

Finally, we have a particular nexus of talents and institutions that can make us the global leader in the brave new world of advanced health services. The CDC, biomedical engineering research at Georgia Tech/Emory, The Yerkes Primate Center at Emory, The Shepherd Center and the U. S. military are already innovating together to heal our wounded warriors. This nucleus of Georgia organizations is dedicated to the creation of technology and treatments that will revolutionize health care. Spinoff and support industries will continue to emerge and the impact can be enormous.

Eliminating our income tax will open a whole new world of opportunities. We will become an even more attractive home for high tech startups and rapidly growing technological businesses. If we do it soon, we can beat other states to the punch.

The income tax can be reduced and eliminated if we build the kind of advantage that Texas has in oil and Florida has in tourists.

Here are at least three serious opportunities to develop the kinds of Georgia advantage that will move us into the next rank. All three involve hubs. All three complement and reinforce each other. All three facilitate global movement of information, people and product.
Let's start a conversation about what we can do to make these possibilities a reality. Jobs, jobs, jobs.

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