

For more than a quarter of a century, I have focused my research on understanding the effects of taxes. Do taxes matter? Of course they do.

But it's important to keep things in perspective as the governor and Legislature debate how to balance the state budget and avoid an estimated shortfall of \$1.8 billion for the upcoming fiscal year. Public discussion about taxes in Michigan has often been dominated by shrill and exaggerated rhetoric.

To hear some folks tell it, you would think that any tax cut is good, and any tax increase will bring the end of civilization. The facts suggest otherwise.

The states with the lowest taxes are Alabama and South Dakota. If low taxes were the only thing that matters, then the entire U.S. economy would be located in these two states. In fact, plenty of economic activity happens outside Alabama and South Dakota, and this suggests that low taxes aren't the only thing.

Some of the highest taxes are found in states with vibrant economies, such as California and many of the Northeastern states. This suggests that high taxes aren't the end of the world.

When businesses are thinking of where to locate, they do take taxes into account, but other things are far more important.

The most important thing is the availability of skilled workers. If your business can't find workers with the necessary skills, it doesn't matter whether taxes are high, low or zero -- you won't be able to make a profit.

Access to resources is another important consideration. So is access to customer markets. So is transportation and communication infrastructure. For most businesses, all of these things are more important than taxes.

Moreover, we need to remember that tax revenues are not thrown away. Most of our tax dollars in Michigan are spent on public schools, community colleges and universities. Many business owners have children, and they may prefer to live in places with good schools, even if taxes are necessary to pay for those schools.

Some of our tax dollars are spent on road repairs, police protection, fire protection and parks. These services help to provide a better life for Michigan's residents, even though taxes are necessary to pay for them.

The struggles of the Michigan economy in recent years have had very little to do with taxes. It would be absurd to say the Big Three automakers would have fared differently if Michigan had tweaked its tax policies one way or another.

The Electrolux plant in Greenville closed because of changes in the global economy, not because of Michigan taxes.

In 2004, the portion of income devoted to state and local taxes in Michigan was nearly one percentage point lower than it had been in 1999. And yet, the unemployment rate was below 4 percent in 1999, and above 7 percent in 2004.

Once again, I am not saying taxes are irrelevant, but I am saying that taxes are only one part of the picture.

We can, and must, achieve further spending reductions in Michigan's budget. Even if we do so, however, we still can't balance the budget in a responsible way without some revenue increases.

The best way to raise the required revenues is through the income tax. If we rely on the income tax, most of the additional revenues will come from the most affluent folks, who are most able to afford it.

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