



Treasurer's Commentary By Ken Miller, Ph.D.



Taxes, incentives and spending . . . oh my!

Numerous surveys show the vast majority of Oklahomans believe our state is moving in the right direction. The yellow brick road the state is traveling has been paved by a hard-working people, abundant natural resources and a pioneering spirit.

With nearly unparalleled growth in employment, migration, productivity, and per capita income, even the naysayer can recognize our state is navigating well through the economic forest.

As we near the upcoming legislative session, a sense of optimism pervades thanks to the progress made this interim on fiscal policy and the renewed interest in reforming a less than optimal tax code.

While there has already been a great deal of focus on taxes and incentives, government spending will soon move to center stage.

Taxes, incentives and spending are like a three-legged stool and sound fiscal policy dictates that each be considered in tandem. One cannot draw a conclusion on revenue sufficiency without addressing the spending side of the equation.

Of course, either side of that simple equation can lead to endless debate. The path becomes clearer when economics, rather than politics, guide the decisions surrounding each of the three.

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As the discussion evolves, the following considerations should be included:

Taxes

The ideal tax and fee structure would generate a predictable, stable and diversified revenue stream that sufficiently funds core government services without harming the profit motive that drives entrepreneurship, productivity and growth.

Many would agree taxes need to be lower, broader, fairer and flatter. Far fewer agree on how to get there. However, simply tinkering around the edges of the existing tax code seems

insufficient to adequately modernize an outdated system.

Incentives

Because state-backed credits, exemptions and deductions are just another form of spending, decisions regarding such incentives should be made on a cost-versus-benefits basis.

If the return on investment is positive in terms of jobs, income growth or infrastructure development, the incentive should be maintained. If not, the incentive should be terminated.

All incentives should meet the three-way test of public purpose, consideration and control as well as have expiration dates and maximum transparency.

Spending

Just as with incentives, state appropriations should be based on a cost-versus-benefit analysis.

Although efficiencies have been gained through government modernization efforts, opportunity still exists to better prioritize the

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