Is Tax Revenue Decoupling from the Underlying Economy?
Problem: Revenue Erosion

MT General Fund Revenue Declining as a Share of Gross State Product

Question:

Are state and local government tax policies capable, over time, of generating revenue consistent with growth in the underlying economy?
Question:

Or another way:

Are state tax structures coupled adequately to the economy?
Road Map

Growing & Changing Economy

Lessons from Economic Transition

Is Revenue Erosion a Thing?

https://headwaterseconomics.org
Road Map

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Is Revenue Erosion a Thing?
Montana & Washington Growing Faster than the U.S.

Figure 1: Washington and Montana vs. U.S., Percent Change, 2000-2016

Growth is Uneven and Unequal

Change in jobs by county, Montana, 2000-2016

5 Montana counties captured 75% of all new jobs since 2000
Growth is Uneven and Unequal

Change in jobs by county, Washington, 2000-2016

5 Washington counties captured 74% of all new jobs since 2001
Cities Are Capturing Most New Growth

20 cities hosting
17% of the
U.S. population are
responsible for
50% of all new business formations since the Great Recession

Economic Innovation Group Distressed Communities Index Series, May 2018
Majority of U.S. Counties Losing Businesses

A larger share of U.S. counties are failing to recover following successive major recessions.
New Jobs & Income in Services and Non-Labor

Change in Personal Income by Source, Montana, 1970-2015

- **Non-Labor**: Retirement, investments, Social Security, Medicare, Medicaid, etc.
- **Services**: Doctors, engineers, lawyers, accountants, waiters, barbers, etc.
- **Non-Services**: Construction, manufacturing, mining, oil & gas, agriculture, etc.
- **Government**: Local, state, federal
New Jobs & Income in Services and Non-Labor


- **Services**: Doctors, engineers, lawyers, accountants, waiters, barbers, etc.
- **Non-Labor**: Retirement, investments, Social Security, Medicare, Medicaid, etc.
- **Non-Services**: Construction, manufacturing, mining, oil & gas, agriculture, etc.
- **Government**: Local, state, federal

**Milions of 2016 $s**

**Data source methods changed in 2001**

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"In the twentieth century, competition was about accumulating physical capital. Today it is about attracting the best human capital."
Productivity Gains Shed Jobs in Traditional Sectors

The Great Decoupling

Beginning around 1970, productivity gains no longer translate to higher wages & income.
Different Paths to Economic Development

“Three Wests” County Typology

Access to Markets
Universities
National Parks
Resource Endowments

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SAVE BOZEMAN

fb.me/SaveBozeman
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Timber Dependence ≠ Future Performance

County Performance on Various Measures of Growth and Prosperity Predicted by Trajectory in 1990
Timber Dependence ≠ Future Performance

County Performance on Various Measures of Growth and Prosperity Predicted by County Trajectory in 1990

- Proximity to Metro / Industry Diversity
- Education Attainment
- Amenities
- Community Vision & Adaptability
Oregon Counties Use Timber Revenue for Tax Cuts
The Tax Revolt Ossifies Dependence

In Oregon:


Dependence on Timber Discourages Growth

“Most of these counties can’t build themselves or develop themselves into solvency. Every new resident is a negative on the budget.”

-- CW Smith, Jackson County, OR Commissioner
Foundations of a Long-Term Crisis?

Dependence undermines fiscal capacity

Dependence weakens adaptability and slows growth
Theory of Resource Economies

Virtuous cycle of growth vs resource curse

RESOURCE IMPACT DASHBOARD. http://www.resource-impact.org/Research-Strategy/
Without Tax Reform, Economic Diversification Hurts WY

100 new jobs in sectors other than energy generates budget deficits

Foundations of a Long-Term Crisis?

Greg Kearney, Wyofile, 2016
https://www.wyofile.com/please-just-one-oil-boom/
Theory of Resource Innovation Economies

Virtuous cycle of growth vs resource curse

Natural capital  Physical capital  Human capital  Social capital
Road Map

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https://headwaterseconomics.org
MT Tax Structure Unprepared for Change?

“A 20th Century Tax Structure for a 21st Century Economy”

Income Tax  Property Tax  Natural Resources

Other Sources
Traditional Sectors are Revenue Intensive

- Natural Resources
- Professional & Technical Services
- Utilities
- Health Care
### Traditional Sectors are Revenue Intensive

Montana’s Tax Structure Levies Different Taxes on Goods Producing Industries

<table>
<thead>
<tr>
<th></th>
<th>Natural Resources</th>
<th>Utilities</th>
<th>Professional and Technical Services</th>
<th>Health Care</th>
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<td>With Exemptions</td>
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<td>Property Tax</td>
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<td>Labor Intensive</td>
<td>Labor Intensive With Exemptions</td>
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<tr>
<td>Sales Tax</td>
<td>Severance/Royalties</td>
<td>Electricity Generation Tax</td>
<td>No</td>
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</tr>
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</table>
Personal Consumption Expenditures Shift to Services

Change in Consumer Spending, Washington, 1997-2016

Services are excluded from the sales tax base in most states
Changing Nature of Income

Rise of non-labor income (retirement, investment income)

Changing nature of compensation (pass through entities, financial benefits)
Tax Expenditures and Flat Fee Structures

Montana school equalization law forces property tax relief when fossil fuel revenues rise.
Tax Expenditures and Flat Fee Structures

Contribution to General Fund Revenue Erosion by Policy Choice, 2000-2017

https://headwaterseconomics.org
Revenue is a policy choice made through decisions about the base and rate.
Thank You