

## Your (Accurate) Map to the State's Budget

The West Virginia Center on Budget and Policy recently released a report outlining public spending within the Mountain State, titled "Your Map to the State's Budget." Let's not mince words; it is a worthwhile effort any time a group produces a report that clarifies where and how your tax dollars are spent. Transparency is a necessity for the public sector, and the Center on Budget and Policy has helped bring that to the West Virginia public. For that, they are to be commended.

However, as with anything produced by the Center, the economic policy recommendations derived from the results must be viewed in the proper economic perspective. If any one factor could be isolated as the reason for our lack of a vibrant state economy, it would be lawmaking blind of sound economic reasoning. There is no need for more economic nonsense here in our state.

One particularly disturbing finding from the report is that, when it really comes down to it, the West Virginia population actually pays a pretty low level of taxes. The study cites the fact that West Virginia is 44<sup>th</sup> in property taxes, 42<sup>nd</sup> in sales taxes, and 33<sup>rd</sup> in income tax (with 50<sup>th</sup> being the preferred, low tax position). Sadly, when it comes to the issue of an overbearing government, the issue does not begin and end with the taxes West Virginians received a bill for. There are two major reasons why this viewpoint is incorrect—both of which, by the way, any introductory economics student should be able to identify.

First, the report confuses tax incidence with tax burden. The incidence of a tax is upon whoever receives the bill for a given tax. For example, when you buy a soda at a convenience store, the incidence of the sales tax is upon you, the buyer, since the amount of the tax owed is added to the price of the goods you purchased. Conversely, should the convenience store sell goods and pay the tax due on their monthly sales, the tax incidence would be upon the store. The incidence of a tax simply falls upon who cuts the check.

What is of interest, however, is whom the *burden* of the tax falls upon, not who actually foots the bill. At first glance, it would seem that it is the buyer who foots the entirety of the sales tax bill here in America; after all, it is added to their final bill at the register. But businesses are harmed by the sales tax paid by the buyer; prices paid by consumers are higher due to the tax, and with higher prices come fewer purchases. The fact that stores sell fewer goods harms them; thus, there is a burden upon businesses for a tax paid solely by consumers. The issue is mirrored for a tax paid by businesses; from a tax incidence solely upon businesses comes burden on the general West Virginia public. The Econ 101 lesson to be learned is that the incidence of a tax does not matter one bit; the same tax, applied to either customer or business, will generate the same tax burdens and, ultimately, the same economic outcome.

Extending this simple concept to the Center's analysis of the amount of taxes West Virginians pay shows the deficiency in the result; for one to accurately describe the burden of taxation upon West Virginians, many taxes must be included, not just those

whose incidence falls upon the individual. This burden calculation must include corporate taxes—the same taxes the Center feels should be *increased* in order to provide for a higher standard of living for our state's citizens. (If not for perpetuating West Virginia's last-place position relative to the rest of the country, their analysis and economic reasoning would be nothing short of comical.) Once properly viewed, the burden of taxation upon West Virginians is overwhelmingly oppressive; after all, if West Virginians had instead paid a low level of taxes for the last 70 years, we'd be leading the country in economic growth, not lagging well behind.

Secondly, attributing the impact of government upon citizens simply to their tax incidence misses not only the actual burden of taxes, but wholly overlooks the impact of regulation upon the well being of each West Virginian. Sometimes, regulation does not have a direct dollar cost to be paid such as a property tax or a sales tax; for that reason, it's easy to overlook. But additional regulation—something the West Virginia Legislature has never shied away from—is absolutely a burden for the general public. As regulation increases, so too does the cost of doing business and providing goods and services, leading to an increase in prices for consumers and less goods and services exchanged and, ultimately, a decrease in wealth. Additionally, more regulation decreases competition and eliminates the gains to society from contestable markets—both crucial elements to a vibrant capitalist economy. Here in Morgantown, the city council limits the number of taxicabs that can operate within the city limits. What is the result of this? Higher prices and hours-long waits late into the evening for hundreds of willing customers looking for a ride home. The burden upon the residents of Morgantown due to taxicab regulation is undeniable, though not directly financial in the sense of a tax—and we shouldn't make the mistake of ignoring it.

The last thing West Virginia needs right now is higher taxes and more regulation; the second-to-last thing we need is the feeling that where we're at is actually pretty good compared to the rest of the country. If we look like a poor state and smell like a poor state...don't let someone with an alternative agenda convince you otherwise. West Virginians can, and deserve, so much more than same old song and reliance-on-the-public-sector dance.

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