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Increased State Spending Increases Poverty

AUSTIN, Texas – Some in Texas are asking that the legislature increase taxes to close an expected budget shortfall, suggesting the state even levy a “progressive” income tax to “help” the poor. However, a new study commissioned by the Texas Public Policy Foundation debunks those claims, finding that higher tax burdens are actually associated with greater poverty, reducing the ability of the poor to invest and save.

In the final installment of the six-part “Taxing Texans” series, economics professor Richard Vedder, Ph.D. studied the relationship between poverty, taxes and state spending using a regression analysis of US Census records and other data. The full report is avail-

able at www.tppf.org.

“The findings are strong and startling,” writes Dr. Vedder, an internationally acclaimed economist formerly with the US Congress’ Joint Economic Committee. “Higher tax burdens are associated with greater poverty. Big government that is tax-financed is more likely to add, rather than subtract, from poverty rolls.”

Dr. Vedder notes these results merely reflect what has been widely acknowledged by economists around the world.

“Several decades of studies by economists confirm the proposition that the higher the level of taxation, the lower the rate of economic growth. A low rate of economic growth will always

disproportionally impact the poor, who are at the margins of employment and job security.”

For those who believe that income taxes are less “regressive,” Dr. Vedder found that there is no statistically significant relationship between the proportion of taxes derived from income taxation and the rate of poverty.

In a state like Texas, many might worry about the data being skewed by a high immigrant population. But Dr. Vedder’s research finds “the relationship between immigration and poverty is not even statistically significant.”

In developing his study, Dr. Vedder found that Texas’ low tax rate and relatively low spending have helped keep poverty rates

lower than might otherwise have been the case.

Dr. Vedder concludes: “The research and the models clearly point to one conclusion: high taxes hurt economic growth, and especially hurt the poor. Texans shouldn’t mess with Texas’ taxes.”