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Rhode Island's Economic Hara-Kiri

By Edward Achorn

RHODE ISLAND HAS SUFFERED more than most states from the recession. It began its tumble into foreclosures, job losses and economic stagnation well before the rest of the country. And it looks as if we will be one of the last to see the sun shine again.

Because the months fly by, and Rhode Island's political leaders have done little to nothing to address the serious problems in state government. As feared, federal so-called stimulus money — which will heap debt onto the backs of our children and grandchildren — was used to help plug state budget deficits in the current fiscal year, and surely next fiscal year. When that gusher runs out, Rhode Island will be in even worse shape for having failed to attack unsustainable spending and address underlying problems.

As any politician knows, it is easier to keep spending than to cut government or threaten powerful interests. The only thing that deters a politician from spending at an unsustainable rate is a public aroused from its slumbers (or an all-out financial meltdown). And the voters signaled last fall that they are very happy, thank you, with the current crew at the State House — indeed, they wanted more of the same, rather than less.

Until voters send some signal they are dissatisfied, the politicians will feel little incentive to confront the very dangerous dragons that are destroying the state's economy.

And so, Rhode Island staggers on.

Another year finds the Ocean State ranking 46th in business tax climate, according to an annual survey by the nonprofit, nonpartisan Washington-based Tax Foundation. Only four states have tax policies more hostile to business: New Jersey, New York, California and Ohio. Little Rhody's immediate neighbors — Massachusetts and Connecticut — fare much better in the annual ranking. Massachusetts ranked 32, and Connecticut 37. New Hampshire was very business friendly, ranking eighth, which explains why its unemployment rate is roughly half of Rhode Island's, and why it stands poised for economic growth when the recession ends. Even Vermont (43) and Maine (40) were not as bad as Rhode Island.

Does anybody (other than policy nerds) care about this index? Probably not, except that it confirms the Ocean State's unfortunate national reputation as a "tax hell." But entrepreneurs and business leaders do incorporate overall taxes into their decisions of where to start up companies or base jobs. And wealthy people do flee from states that tax them too much, taking their tax revenues, jobs, and charitable dollars with them. That is especially true in the tiniest state in America, where an escape to a less punishing jurisdiction is always less than an hour's drive away.

Why is the business climate important?

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Businesses mean jobs. Jobs produce opportunity for citizens to live better lives — to buy cars and homes, to avail themselves of local goods and services, to educate their children, to provide for their retirement, to fill the state's coffers with the money it needs to provide government services, including compassionate aid for the poor.

Destroy your business climate, and you pay a horrific price: high unemployment, lower-paying jobs, massive budget deficits, ever-escalating taxes, and the loss of job creators and highly educated young people, who use their talents and education to generate wealth for other places. This is the act of economic seppuku that Rhode Island has performed on itself.

"Rhode Island faces a tough tax situation because it has significantly lower per-capita income than its two neighbors, and therefore must impose higher taxes to raise revenues in line with its neighbors'," said Tax Foundation economist John Barro in a statement. "Unfortunately, those high tax rates add further incentive for wealthy people and businesses to leave Rhode Island for its lower-tax neighbors, or for other parts of the country."

This is not a mystery, even to politicians.

Governor Carcieri, for example, is pushing a plan to phase out the state's 9 percent corporate tax rate, making Rhode Island one of four states without a major business tax. He would also simplify state taxes, reducing brackets and wiping out tax deductions, slashing the top marginal rate from 9.9 percent to 5.5 percent.

Such a change, analysts at the Tax Foundation said, would catapult Rhode Island from 46th to 16th in "business friendliness." Repositioning the Ocean State as a business-friendly state would ultimately end up helping the poor by creating job opportunities as well as greater tax revenues to pay for vital social services. And in an increasingly competitive world, Rhode Island needs to be better positioned to compete for jobs when the recession is over.

But it's not going to happen. The governor has always been a good talker, but he seems to have little clout for the follow-through.

And it's fair to wonder if our current cast of politicians, who cannot even see their way to make prostitution illegal or run elections that are fair to all candidates (as most states do), can create a business climate that welcomes jobs and higher tax revenues.

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