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I focus on pro-growth, free market tax reform solutions with an emphasis on the states.

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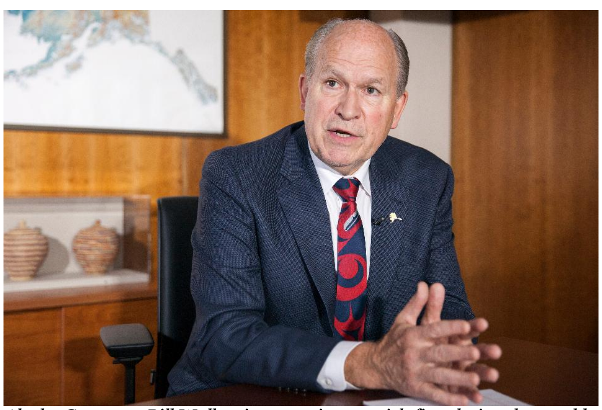
Alaska Has A Bigger Problem Than Low Oil Prices

As anyone who's filled up their tank lately can attest, oil prices are down – way down. Inexpensive trips to the gas station may put a smile on the average driver's face, but the ramifications are significant for economies dependent on oil. Few states are feeling this more acutely than Alaska. With oil prices and oil production in decline, the state lacks two-thirds of the revenue needed to cover this year's $5.2 billion budget.



Alaska Governor Bill Walker is proposing a quick-fix solution that could do long-term damage. (AP Photo/Rashah McChesney)

Unfortunately, Alaska Governor Bill Walker is proposing a quick-fix solution that could do long-term damage: the imposition of a state income tax. As analysis in *An Inquiry into the Nature and Causes of the Wealth of States* shows, adopting an income tax spells disaster. Each and every state (there are eleven in total) that introduced the income tax since 1960 has experienced decline across a broad array of metrics. In terms of population, all eleven states have declined in comparison to the remaining 39 states (West Virginia is the unenviable "leader" of this pack, with a relative population decline of a full 50%). In terms of state gross domestic product, all eleven states also declined as a share of the remaining 39 states (Michigan took a particularly precipitous plunge, with a relative fall in gross state product of 57%).

As my *Wealth of States* co-authors and I write: “The lesson is pretty basic – if you don’t currently have an income tax, do not adopt one.” No place should understand this better than Alaska, which in 1980 eliminated the state income tax for individuals. Under Governor Walker’s proposed plan, which would turn the clock back on more than 35 years of economic progress, the income tax would be 6% of the amount that an Alaskan currently pays in federal taxes. (Representative Paul Seaton has proposed an individual state income tax that would be 15% of a taxpayer’s federal bill.) The governor would also collect new taxes from the mining, fishing, energy, and tourism industries.

According to the *Rich States, Poor States ALEC-Laffer State Economic Competitiveness Index*, the nine states without an income tax (including Alaska) significantly outperform their high-tax counterparts. Between 2004 and 2014, job growth in states without a personal income tax was 106% greater than in high-tax states. Members of both the legislative majority and minority in Alaska oppose Governor Walker’s tax plan, citing the chilling effect that a state income tax can have on business development and economic growth.

As the American Legislative Exchange Council wrote, “Alaskans deserve an innovative approach to budgeting that puts them in control and provides real, measurable solutions, while avoiding economically damaging tax increases.” Indeed, by introducing an income tax to a state whose residents vehemently oppose overreach and over-taxation, Alaska risks losing its number-three position on the Tax Foundation’s list of the best state business tax climates. The decline in oil prices is certainly a very real threat, but the imposition of an income tax would also put the Alaskan economy in peril, and for the long term.

Accepting a state price placed upon an Alaskan’s work will guarantee one outcome: less work. The political allure of taking a quick-fix drug (that is a state income tax) might give the state a quick revenue "hit" from small business income in the darkness of long winter nights. However, the hangover to small business, the depression to future growth, and the state's addiction to volatile spending that follows would truly become Alaska's deadliest catch.

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