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Economic outlook: Georgia No. 1 in U.S.

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Georgia's economic outlook is rosier than that of any other state in the nation, according to a new study by the father of supply-side economics.

Arthur Laffer, an influential adviser to former President Ronald Reagan, put Georgia at the top of his annual comparative ranking of state economies, a seven-category analysis that primarily focuses on tax and fiscal policy. That's up from fifth place in 2005 and a marked improvement from a No. 24 finish in 2002.

In fact, it's the first time anyone at Laffer's consulting firm can recall Georgia leading the list, which he first compiled in 1978 to support a historic property tax cap in California under that state's Proposition 13.

In the new ranking, Virginia and Delaware came in at No. 2 and No. 3, respectively, with Hawaii and Maine sitting at No. 49 and No. 50.

Gov. Sonny Perdue was so taken with the results of the study that he invited Laffer to address some of Georgia's top economic minds July 7 at the Governor's Mansion. Over breakfast, Laffer outlined the state's performance and his thoughts on improving its tax code, which a trio of legislative study committees is tackling this summer.

On hand were state Chief Financial Officer Tommy Hills, state Chief Operating Officer Jim Lientz, state fiscal economist Ken Heaghney, state revenue commissioner Bart Graham, state budget office director Shelley Nickel, and Charlie Gatlin, chief of staff to state economic development commissioner Craig Lesser.

From the realm of academia came **Mercer University** business school dean Roger Tutterow, **Georgia State University** policy school dean Roy Bahl and Economic Forecasting Center Director Rajeev Dhawan, and Jeffrey Humphreys, director of the Selig Center for Economic Growth at The **University of Georgia**.

Laffer is perhaps best known for the Laffer Curve, his theory that cutting taxes in certain situations stimulates so much economic activity that governments actually collect more in taxes than if rates were higher. The recent surge in federal tax revenue, for example, has been attributed to a series of cuts on corporate and personal income and capital gains taxes.

One of the main reasons Georgia fared so well in the study, according to Laffer, was its commitment to reducing the tax burden on its citizens and employers through legislative action over the past four years.

Although the Georgia General Assembly's work amounted to a tax cut of just 34 cents per $1,000 of personal income in 2005 (10th-best in the nation), Laffer noted that states as a whole raised taxes by more than $2 billion that year.

He also praised lawmakers' 2005 decision to assess corporate income taxes based on sales alone, a move that is expected to save businesses based here nearly $100 million annually.

However, he cautioned that targeted tax breaks, corporate or otherwise, have rarely proven effective in the long term. Lawmakers are currently mulling incentives for manufacturers and retailers, among other industries.

Laffer did recommend eliminating payroll or corporate income taxes in distressed sectors of major Georgia cities like Atlanta to entice businesses back.

Georgia fared well across the study's seven categories, recording the lowest tax burden after sales and property taxes, ranking No. 15 in income incentive rate -- the percentage of each dollar of income that actually makes it into a wage-earner's pocket after state and local taxes -- and earning a mid-pack score on the rates it charges higher wage-earners.

The state ranked No. 14 on other variables, such as the number of state and local government employees per 10,000 residents (about 565); the perceived quality and fairness of its tort environment (major reforms passed in 2005); its workers' compensation costs; and its $5.15 per hour minimum wage.

The lone exception was Georgia's No. 36 ranking for its state and local sales tax burden of about $30 per $1,000 of personal income.

Georgians' property tax burden, by comparison, is only No. 18 in the nation at less than $29 per $1,000.

Despite that ranking, Laffer suggested the state might want to shift more of the tax burden to sales from property or income, an idea popular among state Republican lawmakers, who are currently examining the possibilities. Even without such a shift, he advocated expanding the sales tax to encompass food and services in exchange for a lower rate.

"You want to tax those factors the most that can escape the least ... and in the least damaging fashion," Laffer said. "The broader the base, the lower the rate, the better the tax."

Perdue agreed that the state might do well to adopt a more consumption-focused tax system, perhaps after the fashion of the FairTax proposed by U.S. Rep. John Linder, a Republican who represents parts of north metro Atlanta.

"We're not satisfied with staying on top," Perdue said. "We want to know what we need to do for the future. I concur with where [Laffer's] view would take us."

With Georgia enjoying a surplus after leaner years -- and no longer having to allocate as much money to social services -- now is the time to tinker with the tax code, Laffer said, though he warned against placing an artificial limit on the growth of the state budget, as some legislators have proposed.

Heaghney agreed, but had some concerns about Georgia's ability to maintain its AAA bond rating should too much of the tax burden shift to sales.

"We have a very balanced tax system right now, with multiple sources of revenue helping to maintain our rating," said Heaghney, who is also an economics professor at Georgia State University. "We wouldn't want to lose that."

"This study shows our tax structure is very good right now from an economic development perspective," Humphreys said. "We may want to change it for other reasons, though. You can't go wrong with a sales tax."

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