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**THE THOMAS JEFFERSON INSTITUTE FOR PUBLIC POLICY**

## **Virginia's Economy Needs a Real Boost**

By Michael Thompson

7/27/2016 -- Government bad news is oftentimes released late on a Friday afternoon when the taxpayers and voters are least likely to be paying attention.

Late on Friday afternoon, July 8, after most folks were heading home or starting their vacations, the Governor announced that the state's budget was going to be \$266 million short of its goal.

That budget shortfall for this past fiscal year, likely means a \$500 million deficit for the two year budget unless something dramatic happens. But don't count on it.

State employees, teachers, college faculty and sheriff deputies will not see the pay increases they had hoped for and which the legislators and governor had agreed to. The money isn't there.

This shortfall should not be a surprise. Government policies or lack of action has consequences and in this case it is reflected in these recent numbers that show an economy not moving forward. An economy languishing, limping along, barely growing.

Federal government anti-growth policies are having an impact. Obamacare cut the definition of "part time employment" from 35 hours to working only 29 hours. And part time employees do not have to be covered in a company's health care under the misnamed Affordable Care Act. So many hourly employees have seen their hours cut by 17% over the past few years. And now the "new definition" of overtime, and who needs to be paid for working more than 40 hours, is also reducing payrolls. Of course, we all know that many of those working today are paid less than in years past, and millions have dropped out of the workforce.

On top of this, federal policies are putting thousands of Virginia coal miners out of work. And when that happens, it impacts all those businesses that rely on these folks' payrolls – clothing stores, restaurants, hardware stores, grocery stores, etc.

So, of course, payroll and income taxes coming into the state treasury are not what our state government wanted. Projections of future economic growth were not accurate because the impacts of federal government policies were underestimated.

But we are also seeing a serious reduction of federal spending in Virginia. Billions of dollars less in federal government spending are coming into Virginia. And this is likely to continue.

So what can we do to build our economy and put more people on private sector payrolls and thus increase the total taxes paid into our state treasury?

For several years, the Thomas Jefferson Institute has urged our elected leaders to tackle real tax reform. Yet, we struggle under an antiquated tax code crafted about 45 years ago.

Our current tax system was created for a different economic era so it needs to be re-designed to better reflect today's economy. Our current state tax system was passed when Richard Nixon was president; the Vietnam War was raging, and John Wayne and Elvis were top entertainers. Cell phones did not exist and Selectric typewriters and not computers were on our desks.

Virginia's tax system is way too old and out-of-date to give our economy the boost that's needed.

For too long Virginia has not taken the actions necessary to reflect the clear fact that our reliance on federal government spending is not healthy. Not only is the consequence of sequestration a continued drag on our state's economy but so is our aging tax system.

Our political leaders need to rewrite the tax code. As a starting point, the Thomas Jefferson Institute has proposed [a tax restructuring idea](#) that can create close to 70,000 new jobs over the next five years. It gives all Virginians a tax break, eliminates two oppressive business taxes that discourage hiring – the gross receipts tax and the Machine and Tool tax, and it broadens the sales tax to better reflect today's service economy. This tax restructuring plan is revenue neutral and Virginia's localities will be kept whole, they will not be harmed. It encourages economic growth by simply re-arranging the tax system to bring jobs to our state and grow our economy. The total "government take" will be the same. But with 70,000 new jobs, our economy will grow and expand.

Had the state adopted this tax restructuring plan a few years ago we would likely not be facing the economic "wet blanket" that we were presented with earlier this month.

It's time for serious action to encourage economic growth. Our state elected officials can't change federal policy, but they can create a strong business climate, where more and more people are employed in good paying jobs, and where we rely on the private sector and not the federal government to grow our economy.

The longer we wait to take this action, the longer our economy will languish.