

State's small size equals high taxes

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By Dr. Anthony J. DiBella

In interviews published in the Providence Journal, Saul Kaplan, executive director of the Rhode Island Economic Development Corporation, has argued that our state economic strategy should be to cut taxes while playing up attributes like our small size. Kaplan (and Gary Sasse, of the Rhode Island Public Expenditure Council) should know that you can't have it both ways. Smallness and quality-of-place come at a price.

While we could lower taxes in Rhode Island, to think that we can lower our taxes relative to other states while maintaining essential services is, as they say in the South, whistling Dixie.

A major barrier to effectively managing our situation is the reluctance to understand (or accept) Rhode Island's inherent limitations. We can't be small and avoid relatively high taxes at the same time.

The immutable fact is that the bulk of a state's revenue is based on scale or size. Unless we are going to merge with Massachusetts or Connecticut or become part of the United States of New England, we will always be at a relative disadvantage when it comes to tax liabilities. Even the governor's experience as a corporate executive should tell him that operational efficiencies derive primarily from economies of scale.

There are fixed, unavoidable costs to run any organization: salaries for employees, utility bills to heat offices and expenses to buy, lease or maintain equipment. Large states can apportion expenses over a large set of assets that reflect taxing capacity. Taxing capacity is a function of land area (which yields revenues from real-estate taxes, recording fees, etc.), population (which yields personal-income tax), and transactions (sales tax). Minor elements include toll roads and other personal, taxable property (cars, boats, planes). Why do we ignore how Rhode Island fares in these domains?

With regard to land area, we all know that we are the smallest of the 50 states, but relatively speaking, we are even smaller than that. Alaska, the largest U.S. state, is over 570 times the size of Rhode Island. Our biggest neighbor, Massachusetts, ranks 45th in size but is nearly 8 times larger than us. Then there's the size of our population. As of the 2000 census, Rhode Island ranked 43rd, but again, relatively speaking, the state with the largest population, California, is over 33 times our size. Putting together these data regarding land area and population, the only surprise about Rhode Island having the 7th highest property tax rate in the nation

(according to a brochure used to promote the Narragansett Indian Casino last year) should be that it isn't higher.

Aside from how poorly we look with regard to taxes, Rhode Island residents rank 30 out of the 50 states with regard to median household income; more of our citizens have health insurance than the national average; we ranked first in treatment for certain illnesses; we have relatively low incidence of child poverty; and all Rhode Islanders live but minutes away from the tranquilizing effect of looking at the ocean. Finally, the Beacon Hill Institute at Suffolk University ranked Rhode Island 37 out of 50 states in its annual competitiveness report. These quality-of-life indicators are often overlooked by tax policy pundits.

More prominent sources, like CNN's Money survey, R.I.'s Poverty Institute and the Rockefeller Institute of Government, among others, suggest that Rhode Island ranks anywhere from 4th to 29th in relative tax burden. The range of these numbers shows how fickle and imprecise statistics can be. Regardless, how realistic is it to think that our rankings can be appreciably better? The least-burdened tax state is Alaska, which has not only a huge land mass, but oil revenues that are distributed yearly to every citizen.

Quality of place has its price, but it seems that we aren't willing to pay it. Land and business development that increases state tax revenues but has negative social and economic impact should not be tolerated. We live in a society and the social contract means we share the responsibility for doing so. It's foolhardy to presume that the principle cause of our high taxes is frivolous or unnecessary state services.

Our small size also means that we lack revenue from toll roads. Massachusetts has the Mass Pike, the Mystic River Bridge and the tunnels to Logan. In Delaware, just driving through the state costs \$5 — \$3 for the Delaware Memorial bridge and \$2 for the Delaware turnpike. Should Rhode Island charge an entry fee at the I-95 Connecticut border when tourists come to visit? The only thing we have in relative abundance compared to other states is quahogs. Perhaps that explains why we used to be better off in pre-colonial days when wampum was used for currency.

The only way to make meaningful reductions in the costs of running our public affairs (state, county, town) is to consolidate as many functions as possible. That means combining similar functions to reduce redundancies and reap the benefits of economies of scale. Our governor's proposals to merge school districts have exactly this in mind.

While we seem to lack the political will to move such consolidations forward, there are hopeful signs on the local level. For example, East Greenwich recently became the first town to consolidate common administrative functions once

handled separately by municipal and school departments and by its local fire district.

Cities and towns should do much more to re-engineer their operations. However, the most significant savings from economies of scale will come not within our municipalities but between them and that demands a larger role for state government.

Likewise, the state itself can do more to re-engineer statewide functions that already exist. For example, why should a small state like Rhode Island have three separate systems for higher education (University of Rhode Island, Community College of Rhode Island and Rhode Island College)? Rather than play the politically expedient game of blaming our troubles on high taxes, our state leaders should be looking at Rhode Island as a total system and promoting ways to overcome the inherent disadvantages of smallness.

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