High technology, not low taxes, may drive states' economic growth

June 23 2011

High-tech training may trump tax breaks for creating more jobs and improving a state's economy, according to a team of economists.

"We found that lower state taxes were not statistically associated with a state's economic performance," said Stephan Goetz, professor of agricultural economics and regional economics, Penn State. "The tax climate was not linked to either growth or income distribution."

Goetz, who serves as director of the Northeast Regional Center for Rural Development, said states that favor low taxes do not necessarily spend funds efficiently. They may skimp on funding needed public services like road maintenance and education. Those costs are often transferred to businesses directly or become obstacles for businesses seeking to attract qualified workers to the state.

"It's essentially a case of you get what you pay for," Goetz said. "You can't attract businesses if you can't provide needed public services."

While lower taxes were not factors in economic growth, the researchers, who released their findings in the current online issue of *Environment and Planning C: Government and Planning*, said policies that promoted the use of high technology and entrepreneurship were significantly correlated with job creation and economic growth.

States with more technology classes in school, higher domain name registrations and more people online tended to economically outperform states with a lower emphasis on technology.

"It does indicate that states that have already moved into the online economy are better able to create jobs," Goetz said.

The researchers examined data from each state for 2000 to 2007. The datasets included common economic growth measures including changes in income, poverty, income inequality and employment. They also collected data on economic development strategies used by the states to promote economic growth, such as estate, personal income, corporate and property taxes; regulatory policies; tax incentives; and public expenditures on education, public safety and highways.

Goetz, who worked with Mark Partridge, professor, and Shibalee Majumdar, doctoral student, both of Ohio State University; and Dan Rickman, professor, Oklahoma State University, said lowering taxes is often categorized as a race-to-the-bottom policy and investing money in technology is considered a race-to-the-top strategy.

"Race-to-the-top policies are generally defined as those involving investments in education, entrepreneurship and infrastructure," said Goetz. "In contrast, race-to-the-bottom policies involve competition among the states for jobs by using lower taxes and industrial recruitment incentives."

Goetz said that the importance of finding the right mix of race-to-the-top and race-to-the-bottom policies to stir economic recovery is growing for state officials.

"Economic growth is an important issue that preoccupies economists," said Goetz. "It's especially important with the lackluster economy and the threat of a possible double-dip recession."

Provided by Pennsylvania State University