National Foundation for American Policy

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New Research Finds U.S. Metro Areas with Lower Taxes Have Higher Employment and Income Growth, Attract More Residents

Study Comes at a Time When Many States and Cities Are Proposing Tax Increases to Address Budget Problems

Arlington, Va. – U.S. metropolitan areas with lower taxes exhibit higher employment growth, faster population growth, and greater increases in real personal income than areas with a higher tax burden, concludes a new study released today by the National Foundation for American Policy (NFAP), an Arlington, Va.-based policy research group. The study, "Higher Taxes, Less Growth," found that areas with higher taxes had lower employment growth, smaller personal income gains and slower growth of population.

"These findings are particularly relevant at a time when many states and cities are proposing to raise taxes to address short and long-term budget problems," said Stuart Anderson, Executive Director of NFAP.

The study can be found on the NFAP website at www.nfap.com.

Dean Stansel, an economics professor at Florida Gulf Coast University in Fort Myers, FL, authored the study. "All else being equal, individuals will tend to flee high-tax areas and flock to low-tax areas," said Professor Stansel. "That is another reason why we would expect areas with lower taxes to see higher growth of population, employment, and income." The report is unique in that much of the literature in this area has focused only on the state level. However, the mobility of residents will tend to be even higher at the local level than at the state level.

Among the findings of the research:

- Employment growth between 2000-2006 was 54 percent higher in the 50 metropolitan areas with the lowest tax burden than in the 50 highest-tax metro areas (measuring the tax burden as state and local taxes as a percent of personal income in 1997 for all 381 metropolitan areas).

- Real personal income growth was 80 percent higher between 2000 and 2006 in the 50 areas with the lowest state and local tax burden (as a percent of personal income in 1997) than in the 50 highest-tax metro areas.

- In the 50 lowest-tax areas, population growth at 8.6 percent (between 2000 and 2007) was more than three times higher than in high-tax metro areas (2.6 percent).

- The results suggest a clear negative relationship between state and local tax burdens and local economic growth.

- The tax burden was nearly 50 percent higher in the 50 highest-tax areas than in the 50 lowest tax areas (13.1 percent of income vs. 8.8 percent of income).

- Eight of the top 10 metro areas with the greatest employment growth between 2000 and 2006 had a lower than average tax burden, with the other two areas only slightly above average. The 10 metro areas were 1) Palm Coast, FL (67.7 percent employment growth), 2) St. George, UT (48.5 percent), 3) Cape Coral-Fort Myers, FL (41.7 percent), 4) Naples-Marco Island, FL (35.4 percent), 5) Lake Havasu City-Kingman, AZ (34.8 percent), 6) Port St. Lucie, FL (34.5 percent), 7) Las Vegas-Paradise, NV (32.2 percent), 8) Bend, OR (31.7 percent), 9) McAllen-Edinburg-Mission, TX (29.8 percent), and 10) Prescott, AZ (28 percent).

- Nine of the top 10 metro areas with the highest growth in real personal income between 2000 and 2006 possessed lower than average tax burdens, with the 10th only just above average. The 10 metro areas were 1) Palm Coast, FL, (71 percent real personal income growth), 2) Naples-Marco Island, FL (53.5 percent), 3) Cape Coral-Fort Myers, FL (51.7 percent), 4) St. George, UT (50.5 percent), 5) Sebastian-Vero Beach, FL (42.1 percent), 6) Las Vegas-Paradise, NV (40.9 percent), 7) Bend, OR (35.9 percent), 8) Fayetteville-Springdale-Rogers, AR (35.1 percent), 9) Hanford-Corcoran, CA (34.3 percent), and 10) Killeen-Temple-Fort Hood, TX (33.4 percent).

- Nine of the top 10 metro areas with the largest population growth between 2000 and 2007 had a lower than average tax burden, with the 10th only slightly above average. The 10 metro areas were 1) Palm Coast, FL, (77.4 percent population growth), 2) St. George, UT (48.1 percent), 3) Greeley, CO (34.7 percent), 4) Cape Coral-Fort Myers, FL (33.9 percent), 5) Bend, OR (33.5 percent), 6) Las Vegas-Paradise, NV (33.5 percent), 7)

Raleigh-Cary, NC (31.4 percent), 8) Provo-Orem, UT (30.9 percent), 9) Gainesville, GA (29.4 percent), 10) Phoenix-Mesa-Scottsdale, AZ (28.5 percent).

- Contemporary research provides evidence that political jurisdictions with higher taxes tend to experience slower economic growth. This is true for nations, states and provinces, counties, and metropolitan areas.

The research, which was made possible by a grant from the Searle Freedom Trust, shows that rather than blaming poor economic performance on trade, outsourcing or other factors, elected officials should look at their own policies on tax rates and other factors that affect capital formation, returns to investment, and the cost of labor.

“On the positive side, I think the research demonstrates cities and states possess the ability to adopt sound policies that will attract capital and lead to faster growth in employment, population, and income,” said Stansel.

Taxes remove money from the hands of private individuals and place it in the hands of government agencies. Those private individuals have a stronger incentive to use that money productively because they directly bear the cost of not doing so. In contrast, government employees do not as directly (if at all) bear the cost of wasteful spending, nor can they legally reap the benefits of keeping those costs low. That’s not to suggest that government spending produces no benefit at all; however, it is likely to produce a smaller benefit than if that money were left in private hands. High taxes not only take excessive amounts of money out of private hands, they also make the jurisdictions levying those high taxes less attractive places to live and thereby put them at a competitive disadvantage. The mobility of taxpayers gives them an opportunity to “vote with their feet” by moving to more attractive places to live. Statistical evidence confirms that.

Tax burden in the study is measured as a percentage of personal income in order to make meaningful comparisons across metro areas. To facilitate such comparisons across state lines, 1997 state taxes as a percent of personal income was added to the local tax percent of income number to obtain the state and local tax burden data used in the study. In addition to the state and local tax burden data, the research included a variable for human capital (the percent of those age 25 and over with a college degree), the unemployment rate, and the manufacturing industry’s share of employment. Each of these other variables reflects conditions in the initial year of the growth period.

Economic prosperity is more likely to occur if tax burdens are kept low, especially relative to neighboring areas. This requires a strong emphasis on spending taxpayer resources wisely. This is particularly true in periods of economic downturn when taxpayers are especially sensitive to the various costs of living. If high-tax, low-growth metro areas like Buffalo, Cleveland, and Detroit want to be more like high-growth areas such as Austin, McAllen, Orlando, Phoenix, and Raleigh, they should lower the burden of taxation and bring spending under control. All else equal, U.S. metropolitan areas with higher taxes tended to have slower growth of population, employment, and income. These findings have clear policy implications for local politicians and for those at all levels of government, the study finds.

About the National Foundation for American Policy
Established in the Fall 2003, the National Foundation for American Policy (NFAP) is a 501(c)(3) non-profit, non-partisan public policy research organization based in Arlington, Virginia focusing on trade, immigration and related issues. The Advisory Board members include Columbia University economist Jagdish Bhagwati, Ohio University economist Richard Vedder and other prominent individuals. Over the past 24 months, NFAP's research has been written about in the Wall Street Journal, the New York Times, the Washington Post, and other major media outlets. The organization's reports can be found at www.nfap.com.

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