



PUBLIC INTEREST INSTITUTE FACT SHEET

Number 03-07

March 2003

Economic Development Spending Won't Grow Iowa's Economy

Iowa's proposed economic development plans, such as Governor Tom Vilsack's \$500 million "Iowa Values Fund" and the \$2 billion "Bring It On" bipartisan plan, are well-intentioned, but ineffective and misguided. They involve state government distributing borrowed money to the chosen winners in the economic development lottery. They make government, rather than the marketplace, the arbiter of what industries will be successful in Iowa.

The lesson of the 20th Century is that centrally-planned economies are ineffective, and government is not very good at picking economic winners and losers. Iowa's political leaders cannot know for certain which industries and companies will succeed. If they pick the wrong ones, millions in taxpayer dollars will be wasted.

Greater spending on economic development does not guarantee greater gains in jobs and personal income. Tables 1 and 2, below, compare the ten states that spent the most per capita on economic development with the ten states that spent the least per capita on economic development programs. The low-spending states had greater growth in population, jobs, and personal income, on average, than states that spent far more on economic development. The average job growth rate was 7.8% in the lowest-spending states; 3.3% in the states that spent the most on economic development.

Tables 3 thru 6, below, show that in the last decade states which exempted capital gains from personal income taxes, and cut personal and corporate income taxes, had higher rates of economic growth than states that did not. Exempting capital gains and cutting income taxes are proven pro-growth strategies that Iowa leaders should pursue to improve economic development.

Sources: David Hogberg, Institute Brief, March 2003, "Iowa Values Fund Will Not Grow the Economy;" Amy K. Frantz, Institute Brief, November 2002, "Markets, Not Government, Should Determine Economic Winners;" and David Hogberg and Amy K. Frantz, Policy Study, March 2003, "Tax Reduction and Economic Growth in Iowa."

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Table 1: Ten States With Highest Economic Development Spending Per Capita Lagged in Population, Employment, and Personal Income Growth, 1997-2001

State	Economic Development Spending Per Capita (1997-98)	Population		Jobs (thousands)		Personal Income (thousands)	
		1997	2001	1997	2001	1997	2001*
North Dakota	\$36.53	640,945	634,448	319.4	331.0	\$13,332,229	\$16,750,000
Montana	\$25.99	878,706	904,433	370.1	390.3	\$17,726,294	\$21,692,000
Delaware	\$25.00	735,024	796,165	394.8	418.5	\$20,144,955	\$25,789,000
Maryland	\$22.96	5,092,914	5,375,156	2,294.6	2,469.9	\$148,825,662	\$191,479,000
Pennsylvania	\$22.59	12,015,888	12,287,150	5,465.3	5,663.1	\$313,456,625	\$381,855,000
Vermont	\$22.29	588,665	613,090	282.7	297.4	\$13,751,998	\$17,565,000
Connecticut	\$21.60	3,268,514	3,425,074	1,627.7	1,672.1	\$116,420,559	\$146,760,000
Missouri	\$17.59	5,407,113	5,629,707	2,665.2	2,695.2	\$131,144,196	\$159,466,000
Illinois	\$16.23	12,011,509	12,482,301	5,832.6	5,958.0	\$340,594,248	\$412,980,000
Iowa	\$15.81	2,854,396	2,923,179	1,424.3	1,462.8	\$67,937,661	\$81,375,000
Total		43,493,674	45,070,703	20,676.7	21,358.3	\$1,183,334,427	\$1,455,711,000
Change		3.6%		3.3%		23.0%	

Source: Pennsylvania Legislative Budget and Finance Committee, "Department of Community and Economic Development: Economic Development Programs," and U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis. * Estimated.

Table 2: Ten States With Lowest Economic Development Spending Per Capita Led in Population, Employment, and Personal Income Growth, 1997-2001

State	Economic Development Spending Per Capita (1997-98)	Population		Jobs (thousands)		Personal Income (thousands)	
		1997	2001	1997	2001	1997	2001*
Georgia	\$2.69	7,486,094	8,383,915	3,683.3	3,890.2	\$183,757,140	\$241,245,000
California	\$2.25	32,217,708	34,501,130	13,322.0	14,656.2	\$861,557,437	\$1,155,104,000
Tennessee	\$1.99	5,378,433	5,740,021	2,609.8	2,706.9	\$125,456,794	\$156,294,000
South Dakota	\$1.91	730,855	756,600	358.1	376.3	\$16,287,627	\$20,442,000
Washington	\$1.82	5,604,105	5,987,973	2,561.5	2,655.6	\$150,202,630	\$193,567,000
Massachusetts	\$1.61	6,115,476	6,379,304	3,144.8	3,307.1	\$191,595,928	\$252,183,000
Nevada	\$1.50	1,675,581	2,106,074	909.5	1,049.6	\$47,258,062	\$63,569,000
Idaho	\$1.32	1,210,638	1,321,006	518.5	568.9	\$25,226,342	\$32,697,000
Florida	\$1.27	14,683,350	16,396,515	6,507.1	7,166.3	\$377,673,158	\$477,718,000
Alabama	\$0.95	4,320,281	4,464,356	1,881.0	1,903.7	\$91,283,654	\$110,137,000
Total		79,422,521	86,036,894	35,495.6	38,280.8	\$2,070,298,772	\$2,702,956,000
Change		8.3%		7.8%		30.6%	

Source: Pennsylvania Legislative Budget and Finance Committee, "Department of Community and Economic Development: Economic Development Programs," and U.S. Department of Commerce, Bureau of the Census and Bureau of Economic Analysis. * Estimated.

Source: Table 1 and Table 2 both appear in "Budget Basic: Pennsylvania's Economy Loses When Policymakers Try to Pick Winners," by Senior Policy Analyst Grant R. Gulibon, *Commonwealth Policy Brief*, Commonwealth Foundation, Vol. 2002, No. 2, April 2002, p. 5.

Table 3: Personal Income Growth and Capital Gains Tax Rates, 1990-2000

States That Exempt Capital Gains	Top-Bracket Effective Capital Gains Tax Rate, 1990-2000, Average	1990-2000 Growth In:	
		Real Personal Income	Real Per Capita Personal Income
Alaska	0.00	13.4%	-0.04%
Florida	0.00	33.3%	8.3%
Nevada	0.00	31.0%	9.2%
New Hampshire	0.00	37.2%	23.1%
South Dakota	0.00	30.9%	20.8%
Tennessee	0.00	38.7%	19.1%
Texas	0.00	49.8%	22.0%
Washington	0.00	44.5%	19.9%
Wyoming	0.00	27.6%	17.2%
Average	0.00	34.1%	15.5%
States With Highest Capital Gains Taxes			
Iowa	7.66%	22.2%	16.1%
North Carolina	7.68%	43.5%	18.4%
New Mexico	8.42%	32.8%	10.9%
Minnesota	8.43%	33.0%	22.2%
Maine	8.75%	15.7%	11.6%
Montana	8.80%	26.4%	12.0%
Oregon	9.00%	38.8%	15.8%
Hawaii	9.77%	4.5%	-4.0%
California	10.23%	27.3%	12.2%
Average	8.75%	27.1%	12.8%

Table 4: Employment and Population Growth and Capital Gains Tax Rates, 1990-2000

States That Exempt Capital Gains	Top-Bracket Effective Capital Gains Tax Rate, 1990-2000, Average	1990-2000 Growth In:	
		Employment	Population
Alaska	0.00	20.1%	13.4%
Florida	0.00	19.7%	23.2%
Nevada	0.00	49.3%	65.4%
New Hampshire	0.00	13.9%	11.5%
South Dakota	0.00	17.0%	8.4%
Tennessee	0.00	18.9%	16.5%
Texas	0.00	22.3%	22.8%
Washington	0.00	19.8%	20.5%
Wyoming	0.00	16.0%	8.9%
Average	0.00	21.9%	21.2%
States With Highest Capital Gains Taxes			
Iowa	7.66%	9.7%	5.3%
North Carolina	7.68%	9.3%	21.2%
New Mexico	8.42%	17.1%	19.7%
Minnesota	8.43%	15.0%	12.3%
Maine	8.75%	20.3%	3.7%
Montana	8.80%	19.7%	12.9%
Oregon	9.00%	20.6%	19.9%
Hawaii	9.77%	5.1%	8.9%
California	10.23%	17.0%	13.5%
Average	8.75%	14.9%	13.0%

Source: Public Interest Institute Analysis of Small Business Survival Index, State Tax Handbook, Bureau of Economic Analysis, and Bureau of Labor Statistics Data

Table 5: Economic Growth and Personal Income Tax Rate Changes, 1990-2001

Personal Income Tax Top Rate				1990-2001 Growth In:		
	1990	2001	Change	Population	Employment	Real Personal Income
Tax Hikers						
Connecticut	0.00	4.50	4.50	4.2%	-4.5%	20.5%
Kansas	5.95	6.45	0.50	8.8%	8.5%	25.7%
Nebraska	6.41	6.68	0.27	8.5%	12.9%	26.3%
New Jersey	3.50	6.37	2.87	9.5%	3.7%	24.3%
North Carolina	7.00	8.25	1.25	23.4%	13.5%	43.3%
North Dakota	3.92	5.54	1.62	-0.7%	7.8%	18.1%
Ohio	6.90	7.50	0.60	4.9%	9.9%	17.7%
Pennsylvania	2.10	2.80	0.70	3.4%	5.7%	17.7%
Rhode Island	6.43	9.90	3.47	5.5%	-0.8%	15.5%
Vermont	7.84	9.50	1.66	8.9%	11.6%	24.3%
Tax Hiker Average						
	5.00	6.70	1.70	7.6%	6.8%	23.3%
Tax Cutters						
Arizona	7.00	5.04	-1.96	44.8%	35.6%	57.6%
Colorado	5.00	4.63	-0.37	34.1%	31.9%	65.1%
Delaware	7.70	5.95	-1.75	19.5%	18.8%	30.4%
Hawaii	10.00	8.30	-1.70	10.5%	8.2%	3.6%
Idaho	8.20	7.80	-0.40	31.2%	39.9%	47.3%
Iowa	9.98	8.98	-1.00	5.3%	10.7%	21.8%
Maryland	5.00	4.75	-0.25	12.4%	9.4%	25.5%
Massachusetts	5.95	5.30	-0.65	6.0%	4.3%	30.8%
Michigan	4.60	4.10	-0.50	7.5%	15.4%	23.0%
Minnesota	8.00	7.85	-0.15	13.6%	19.5%	31.7%
New Mexico	8.50	8.20	-0.30	20.7%	20.6%	37.5%
New York	7.88	6.85	-1.03	5.7%	30.0%	19.9%
Oklahoma	7.00	6.65	-0.35	10.0%	12.2%	24.0%
Utah	7.20	7.00	-0.20	31.7%	36.6%	56.3%
Wisconsin	6.93	6.75	-0.18	10.4%	15.7%	29.5%
Tax Cutter Average						
	7.30	6.50	-0.70	17.6%	18.6%	34.0%
US Total				14.5%	13.8%	30.3%

Source: Stephen Moore, "States Can't Tax Their Way Back To Prosperity"

Table 6: Economic Growth and Corporate Income Tax Rate Changes, 1990-2001

Corporate Income Tax Top Rate				1990-2001 Growth In:		
	1990	2001	Change	Population	Employment	Real Personal Income
Tax Hikers						
Alabama	5.00	6.50	1.50	10.5%	15.6%	25.6%
Arkansas	6.00	6.50	0.50	14.5%	11.1%	33.3%
Kentucky	8.00	8.25	0.25	10.3%	11.9%	31.5%
Missouri	5.00	6.25	1.25	10.0%	15.8%	28.0%
Nebraska	7.24	7.81	0.57	8.5%	12.9%	26.3%
New Hampshire	8.00	8.50	0.50	13.5%	12.2%	36.9%
Pennsylvania	8.50	9.99	1.49	3.4%	5.7%	17.7%
Texas	0.00	4.50	4.50	25.5%	23.3%	50.7%
Vermont	8.25	9.75	1.50	8.9%	11.6%	24.3%
Tax Hiker Average						
	6.22	7.56	1.34	11.7%	13.3%	30.5%
Tax Cutters						
Arizona	9.30	6.97	-2.33	44.8%	35.6%	57.6%
California	9.30	8.84	-0.46	15.7%	14.8%	26.9%
Colorado	5.50	4.63	-0.87	34.1%	31.9%	65.1%
Connecticut	11.50	7.50	-4.00	4.2%	-4.5%	20.5%
Idaho	8.00	7.60	-0.40	31.2%	39.9%	47.3%
Kansas	6.75	4.00	-2.75	8.8%	8.5%	25.7%
Michigan	2.35	1.90	-0.45	7.5%	15.4%	23.0%
New York	9.00	7.50	-1.50	5.7%	0.3%	19.9%
North Carolina	7.00	6.90	-0.10	23.4%	13.5%	43.3%
Ohio	8.90	8.50	-0.40	4.9%	9.9%	17.7%
West Virginia	9.38	9.00	-0.38	0.5%	13.7%	15.6%
Tax Cutter Average						
	7.91	6.67	-1.24	16.4%	16.3%	33.0%
US Total				14.5%	13.8%	30.3%

Source: Stephen Moore, "States Can't Tax Their Way Back To Prosperity"