

# PUBLIC INTEREST INSTITUTE FACT SHEET

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## Tax Cuts Will Grow Iowa Economy; Economic Development Spending Will Not

In a recently released study titled “Tax Reduction and Economic Growth in Iowa,” Public Interest Institute examined the relationship between capital gains taxes, income taxes, and economic growth. As Table 1 shows, states that exempted capital gains had higher rates of economic growth than states with high capital gains taxes. Other research shows that states that cut income taxes in the 1990s had higher rates of economic growth than states that raised taxes.

**Table 1: State Capital Gains Taxes and Economic Growth, 1992-2001**

9 States That Exempt Capital Gains,	Capital Gains Tax Rate	Employment Growth	Population Growth	Personal Income Growth	Per-Capita Personal Income Growth
Average:	0.00%	21.9%	21.2%	34.1%	15.5%
9 States With Highest Capital Gains Taxes,					
Average:	8.75%	14.9%	13.0%	27.1%	12.8%

Other research shows that the economic development strategies currently being pursued by state leaders—such as the Iowa Values Fund or the Bring It On Fund—are an ineffective approach to economic growth. Research by the Commonwealth Foundation has found that the 10 states with the highest per capita rates of economic development spending have lower rates of economic growth than the 10 states with the lowest per capita economic development spending. Another problem with these programs is that Iowa state government will incur a heavy amount of debt to pay for it. As shown in Table 2, research by Public Interest Institute has found that the 10 states with the average highest amounts of per-capita debt had lower average rates of economic growth than the 10 states with the lowest amounts of per-capita debt.

**Table 2: State Debt and Economic Growth, 1992-2001**

10 States With Lowest Debt,	Debt	Employment Growth	Population Growth	Personal Income Growth	Per-Capita Personal Income Growth
Average:	0.61%	14.0%	11.6%	43.7%	15.9%
10 States With Highest Debt,					
Average:	6.64%	4.9%	6.5%	32.3%	13.8%

Research shows that government is not good at picking economic winners and losers. Instead of wasting taxpayer money on risky economic development schemes, the state of Iowa should follow the proven strategy of cutting taxes. The policy study and the full results for the above tables are available at PII’s website at [www.limitedgovernment.org](http://www.limitedgovernment.org).

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