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State Economic Development: A Review of the Literature

- Public Interest Institute has recently conducted an extensive review of the academic literature on economic development spending. 83% of the literature finds that government spending has no effect on economic development. The nature of the research strongly suggests that the Iowa Values Fund will have no impact on Iowa's economy.
- Four of the articles that looked at state debt found that it had a negative impact on economic development (Grant 1996; Grant and Hutchinson; Grant and Wallace 1994; Trogen 1999).
- One policy that is likely to boost Iowa's economy is a reduction in taxes. Of the literature reviewed that dealt with taxes, 60% found a relationship between taxes and economic growth. The impact was negative, suggesting that higher taxes stifle economic growth.
- State economic development policies have been shaped, in part, by political considerations. Elected officials feel the pressure to show quick results, which results in economic development policies with early payoffs, rather than a long-term plan which may take some time to bear fruit.

A bibliography of the academic literature is available at Public Interest Institute's Website at www.limitedgovernment.org.

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