An Inquiry into Job Creation

There are various ways to evaluate the health of an economy; from examining gross domestic product to calculating the inflation and unemployment rates, each measurement provides different information for regarding the economy as a whole. Yet there is one important statistic for determining the availability of economic opportunity and mobility: the growth rate of private sector jobs. Private sector job growth demonstrates that businesses, entrepreneurs, and investors are willing to risk their money to create jobs which means more people can find work, generate wealth, and elevate the prosperity of the entire society.

As with other economic measurements, there are various contributing factors for stimulating job creation. In order to determine how government policies, specifically tax and regulation-affect private sector job growth, it is important to control for the non-governmental factors that contribute to job growth by comparing states of similar population, geography, and resources.

An apt comparison for this type of analysis is Texas and California, the two most populous states in the Union. California has a population of slightly over 38 million people and Texas slightly over 26 million.[1] Both have abundant natural resources and varied climates, making them attractive for both individuals and businesses. These similarities make the vast differences in state government policy and their results even more striking. Texas has no personal income tax, no corporate income-using a gross receipts tax not directly comparable to a corporate income tax-a 6.25 percent sales tax, and property tax collections of $1,562 per capita.[2] California has the highest income tax in the nation at 13.3 percent, the 10th highest corporate income tax in the nation at 8.84 percent, the highest state sales tax in the country at 7.5 percent, and an average property tax collection of $1,450 per capita.[3]

So which fiscal policy structure has created the most jobs and, by extension, the most prosperity? Between 2001 and 2011, Texas added 732,800 private sector jobs; no other state created more than 100,000 over that same time period.[4] California actually lost jobs during that time, dropping from slightly over 16.25 million total jobs in 2001 to roughly 15.877 million total jobs in 2011.[5] In the 2010 census, Texas' population grew by nearly 4.3 million people, an increase of 20.6 percent, allowing the Lone Star State to gain four additional seats in Congress. Meanwhile, California's population grew by just 10 percent, and for only the second time since 1850-and the first time since 1920-the

Golden State failed to gain any additional Congressional seats.[6]

Texas and California are perhaps the starkest examples of how fiscal policies influence job growth, with Texas' low-tax policies stimulating job creation and California's high tax policies stifling it. Other examples include the comparison of Utah and New Mexico; both mountainous states with similar natural resources, climates, and populations, Utah at 2.8 million, New Mexico at 2.08 million.[7] The differences in their tax policies are also fairly nuanced: Utah has a flat 5 percent rate for personal and corporate income taxes and a 5.95 percent sales tax. New Mexico has a 4.9 percent income tax, a 7.6 percent corporate income tax, and a 5.125 percent sales tax. Yet despite the many similarities, Utah added over 30,000 jobs between 2011 and 2012, an increase of 2.6 percent, exceeded only by North Dakota and the Bakkan oil boom.[8] New Mexico actually lost 4,000 jobs over the same time period.[9] The differences are likely due to government policies. New Mexico has the highest corporate tax rate among its neighboring states-Utah, Texas, Arizona, and Colorado-and unlike Utah, which has conscientiously eased regulations to be more business-friendly and was ranked as the second best state for business in 2012,[10]New Mexico has not eased regulation. Instead, the Land of Enchantment has become known for having an overbearing regulatory and litigation environment, scaring businesses away and depressing job growth. Indeed, in the same CNBC ranking that called Utah the second best state for business, New Mexico came in 47th.[11]

In addition to these examples, long-term data comparing no income tax states as a whole with the national average and high income tax states shows job growth is enhanced in low tax environments. Going back to 1960, a comparison of no income tax and high income tax states consistently shows no income tax states see the most economic and job growth. As a microcosm of this trend, from 2001-2010, the nine states with no income taxes-Texas, Alaska, Florida, Nevada, New Hampshire, South Dakota, Wyoming, Washington and Tennessee-saw jobs grow an average of 5.5 percent. Similarly, the national average in job growth was close to zero and the high income tax states-California, Hawaii, New York, Vermont, Maryland, Maine, New Jersey, Ohio, and Oregon-saw average job rates decrease by 1.6 percent.[12]On a personal level, individuals in no income tax states saw their personal income increase 55 percent more than individuals in high tax states between 1971 and 2010.[13]

Overall, states with lower taxes, fewer regulations, and a business friendly environment have a far more robust private sector than those with high taxes, numerous regulations, and an adversarial environment for job creators.

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