Driving Economic Growth

Every state wants to drive local economic growth, but doing so is complex and involves managing ever-changing factors, like geography, number and type of industries, natural resources, availability of resources, climate, demographics, and population- all of which play integral parts in the development of the local economy. Of course, these variables vary across the country, and what works in Texas will not necessarily work in Maine or Nebraska.

However, some public policies are proven to help states expand economies. If applied correctly, these policies can help expand a state's bottom line and help individuals, families, and small businesses prosper.

Higher taxes often have a negative effect on growth.[1] Increased taxes on corporate income have been shown to be the most detrimental, followed by taxes on individual income, consumption (such as sales), and property. [2] The data shows taxes cause disruptions in the market that hinder the job creation. Taxes also limit the economic freedom of individuals to save, spend, or invest in their communities.

Nebraska is an interesting case study of the impact changing tax policies can have. The Cornhusker State recently jumped from the nation's sixth most business friendly state to the fourth. Much of the credit for that is given to the tax relief measures Governor Heineman and the Unicameral passed this year. [3] Businesses take note of these rankings and tax rates when determining where to expand or develop.

Taxes also directly correlate with state population. Seven of nine states with no income tax saw their populations grow faster than the national average. The remaining two states grew faster than other states in their regions with income taxes. [4] Texas (no income tax) experienced a population increase of 4.2 million individuals, or four congressional seats, in the 2010 census, while Nevada (no income tax) experienced a population increase of 35.1 percent in the same time period. Meanwhile, high tax California failed to grow enough to gain a congressional seat for the first time since achieving statehood in 1850.[5]

Expanding companies pay attention to local tax climates and are more likely to expand or relocate in states where the tax climate benefits their company or industry. But the race for tax breaks means a vested corporate interest in government in the form of intense lobbying efforts to turn what should be a level free-market system into a corporatist system based political connections. In that kind of climate small businesses are at an inherent disadvantage because large companies have the resources to expend on lobbying. The end result is that big businesses gain government preference and taxpayers and smaller businesses foot the bill. [6]

Often times tax breaks go to businesses that would move or expand anyway, thus giving companies unnecessary tax breaks and taking away from an already shrinking tax base.[7] This, in turn, opens up the possibility of increased taxes in the future to counter lost tax revenue, again placing the burden on taxpayers and non-favored businesses.

Regulation is another area where state law directly impacts-negatively or positively-economic growth. Burdensome regulations impede job creation, expansion, consumer prices, and innovation. [8] One example of this is the oil and gas industry, where government regulations prohibit drilling on federal lands, driving up energy costs for average consumers. Many employers spend more time and money on compliance than on growing their business and creating new jobs. An inviting regulatory climate can also aid big businesses that can afford to impact legislative outcomes while smaller competitors are driven out of the market.[9]

There is no simple answer to create lasting economic prosperity for Nebraska families, but there are policies that are proven to lead to prosperity. Lower taxes, fair and reasonable regulations, and allowing private individuals and businesses to work, create, and innovate, will ensure economic freedom and opportunity for Nebraskans.

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