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Growth and Taxes

By Jay Brady | Government Editor - Thursday, July 21, 2011

REVIEW SUMMARY
What. FGCU study shows inverse relation of growth and taxes.
Issue. Do high taxes cause low growth, or vice versa?
Impact. Evidence to help declining cities turn around.

Low taxation by state and local governments may not cause growth in an area's population, employment or income — and high taxation may not explain why many regions produce low numbers — but one thing's now more certain than ever: taxes and economic growth tend to move in opposite directions.

That's the key finding of a recently published study done by Florida Gulf Coast University economics Professor Dean Stansel.

"It's where my interest has always lied; how spending and taxes vary in different areas and have an affect on growth," says the Wake Forest and George Mason University-educated professor. The Cato Institute, a Washington, D.C.-based free market public policy research institute, published the paper in its spring/summer issue of the Cato Journal.

Stansel, a Miami native who also lived in Arcadia before coming to FGCU in 2004, analyzed the relationship of tax burdens to economic growth of the 100 largest metropolitan areas in the U.S. during the last three decades. Those areas include a half dozen in Florida and several from the Gulf Coast.

"What my research shows," says Stansel, "is that metro areas with lower taxes have tended to have faster growth of population, employment and income. So for struggling local governments, the lesson is: reduce taxes, keep spending in check, and watch your economy prosper."

For example, the combined state and local tax burden for the Tampa-St. Petersburg-Clearwater metropolitan statistical area, or MSA, averaged 8.4% as a percentage of personal income from 1977 to 2002. That compares to a 10% average tax rate for all 100 metro areas. And the Tampa Bay metro area easily outperformed the group of 100 in population, employment and real personal income growth.

In fact, compared to the 10 lowest-tax large metro areas, the Tampa area fares well. The average tax rate of those 10 is 8.3%, nearly equal to Tampa's. Florida and Texas, because they don't tax personal income, account for five of the 10 lowest-tax metro areas.

Tampa exceeds that top 10 group's average growth rates for both population and employment, and comes close to the group average increase in real personal income: 152% compared with 157% from 1980 to 2007. Employment has the highest negative correlation to taxes, meaning that higher employment is more often found where taxes are low.

The difference in the timeframes for the tax burden and the growth factors is intentional says Stansel. "The lag in there is that the effects [of taxes] comes after a few years," he explains.

Two other Florida metro areas also ranked in the 10 lowest-tax group, including one from the Gulf Coast, the

Bradenton-Sarasota-Venice area. Its 8% tax burden was only bettered by the Jacksonville area at 7.9%.

From 1980 to 2007 the Bradenton-Sarasota-Venice saw population rise 93%, employment climb nearly 159%, and real personal income jump 221%. “If you want growth, you have to keep taxes low,” says Sarasota City Commissioner Shannon Snyder, whose city hasn’t seen much of the growth in the area.

Stansel cites other similar research, a popular subject among economists, and writes in his paper, “Although there are numerous factors that can influence the growth of individual economies, one finds a consistent relationship between low taxes and high economic growth in metropolitan areas, in states and in nations.”

Business impediments

Stansel also looked at the 10 highest-tax metro areas and found that the average state and local tax burden added up to 12.4% of personal income. For the 1980 to 2007 period, those communities, nearly all in the Northeast and Midwest — places like New York City, Syracuse, Albany, Milwaukee and Minneapolis — averaged 21% growth in population, 40% growth in employment, and 75.5% growth in real personal income.

The state of New York, which has the highest state income tax in the U.S., claims seven of the highest-tax areas. New York City, with its own local income tax, has the highest tax rate, 14%.

And then there’s Buffalo. Although three of its New York state neighbors had higher tax rates, Buffalo had the lowest growth in employment (10.5%) and personal income (27.2%), and saw its population fall 9.2%.

Former Buffalo resident John Sweeney, who helps run his family’s carpet and draperies business, Sweeney Cleaning, in Sarasota, says he’s happy that his father moved the family south in the mid-80s.

“You have a better house for less money and less taxes,” says Sweeney. He points out that in Buffalo real estate taxes on a home comparable to his Sarasota home would be nearly six times the roughly $2,500 a year he now pays in property taxes.

Professor Stansel also examined high-growth metro areas and found those communities had lower taxes than low-growth metro areas.

Three Florida areas made Stansel’s list of the 10 highest-population-growth large metro areas.

Cape-Coral-Fort Myers came in second to Las Vegas, growing nearly 183% from 1980 to 2007, about the time growth and the economy peaked. But the Gulf Coast communities’ growth rates of employment and personal income exceeded that figure, growing 225.7% and 364.5%, respectively.

The average tax rate for Cape Coral-Fort Myers for the 25-year period to 2002 was 9%. But that still puts it in the lower half of the group, which averaged 9.4%.

“Fort Myers has been lucky in a sense,” says Mayor Randy Henderson, “in that we haven’t had to raise our taxes dramatically.” Now mired in a recover too slow for his tastes, Henderson wants to remove roadblocks to growth, specifically impact fees, which rank among the highest in the state. “If I could get rid of them I would,” says Henderson. “Anything we can do to knock down impediments to expanding business, I’m for.”

Orlando-Kissimmee, at 8.7%, had the lowest tax rate among the high-growth group. Its population grew 14.5% during the 27-year period, ranking seventh nationally. Employment grew 272% and personal income grew nearly 263%.

The West Palm Beach-Boca Raton-Boynton Beach area grew the least of the top 10 high-growth areas, rising 115% in population from 1980 to 2007 with an average tax rate of 8.9%. Employment grew 173% and personal income rose nearly 291% during the period.

Tampa vs. Miami,
Another interesting aspect of the study is Stansel's comparison of selected pairs of similarly sized metro areas. For instance, he compares the Tampa area to Milwaukee, and the Orlando area to Santa Ana-Anaheim-Irvine, Calif.

In 1980, the Tampa and Milwaukee area's population were comparable, 1.6 million and 1.4 million, respectively. But Milwaukee's tax rate as a percentage of personal income was 11.7% and Tampa's was just 8.4%. The result: Tampa's population grew 67% to Milwaukee's 10.5%, employment grew 126% vs. 30%, and personal income grew 152% vs. 60%.

The outcome for Orlando with its 8.7% tax rate against its California comparable and its 10.2% tax rate is similar. Orlando grew at nearly three times the rate of the Santa Ana area, and had more than twice the employment and income growth.

Another comparison pairs metro areas that are within the same or a nearby state. Stansel measures Tampa-St. Pete against the Miami metro area, for which 1.6 million people each called home in 1980. From 1980 to 2007, the Tampa area's 67% growth bested Miami's 45%.

But the big contrasts show in the differences in employment and income growth. Again, the metro area with the higher tax rate — Miami at 9.6% vs. Tampa's 8.4% — had far less economic growth. Tampa area employment grew more than twice as fast as Miami's (126% to 60%), and income grew one-and-a-half times as fast (152% to 99%).

Stansel speculates that one reason may be the Miami-Dade County consolidated form of government. "It reduces competition between local governments," he says. "You get monopoly power, so taxes seem to grow more."

The professor offers some direct advice to high-tax and low-growth areas in the conclusion to his study: "If high-tax, low-growth metro areas like Detroit, Milwaukee, Buffalo and Syracuse want to be more like high-growth areas such as Dallas, Tampa, San Antonio and Austin, they should lower their onerous burden of taxation and bring spending under control."

Sarasota's Snyder agrees, while offering the view of a local official dealing with budget cuts and property tax rates this summer. "It's becoming more a common-knowledge fact you can't just increase your taxes, you have to increase your tax base. You have to create an environment in which the tax base can grow."