

## KEY FINDINGS:

Years of research have shown that the most effective and efficient fiscal tools at the state level are those that provide quality public services to businesses and citizens alike. Investment in public infrastructure and institutions increases profitability and quality of life. In examining current economic research on state fiscal policy, this paper finds:

- Profit drives business site location and investment decisions.
- Quality of life is the primary factor in drawing a skilled workforce to the state.
- Historically, there has been little difference in the rate of economic growth between periods following tax increases or tax decreases.
- State income tax cuts have a negligible impact on economic growth.
- Cutting state income taxes is an expensive, inefficient fiscal policy tool.
- Tax cuts in good times make hard times harder.

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# Issue Brief

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## Growing Oklahoma's Economy: The Evidence on What Really Works

By Jim Alexander

Oklahomans understand that we make a collective investment in a safe, prosperous society by setting aside a portion of our earnings to pay for roads, schools, safety and health. We know that by investing in one another, we lift the entire state to better fortunes. Today, Oklahoma has the unique opportunity to simultaneously increase public investment in its people and infrastructure – spurring stable, long-term economic growth - while still maintaining its rank among the low tax states. This paper reviews the extensive economic literature that demonstrates that using proven fiscal policy tools – public investment in education, health and infrastructure – is beneficial to Oklahoma businesses and families alike. This paper also shows that public investment is a far more effective economic stimulus than cutting taxes. By using fiscal tools that effectively and efficiently grow Oklahoma's economy, policymakers can significantly improve our shared prosperity.

To assist both policymakers and informed citizens assess which fiscal tools best promote state economic growth, this paper presents a review of current

“Investment in Oklahoma's people and places and the roads that connect them advances Oklahoma's economy.”

economic research on state-level fiscal policy. The paper considers first what drives business investment. Understanding the primary factors behind business investment and site location decisions helps determine which policies are most effective in creating a business-friendly, entrepreneurial environment. We find that investment in public infrastructure and institutions lowers the cost of doing business in the state spurring further investment and economic growth. Next, the paper turns to why people move, specifically, the factors that are most important in attracting and keeping a highly skilled, productive workforce. The evidence indicates that quality of life is the primary factor in attracting talented, capable workers to the state. Finally, the paper reviews the evidence on the impact of state tax cuts on economic growth. Recently, pundits and politicians of all stripes have assured us that cutting taxes will further grow Oklahoma's economy. This paper considers the evidence and concludes that reducing state taxes is a highly ineffective strategy for encouraging economic growth.

### 1. PROFIT DRIVES BUSINESS SITE LOCATION AND INVESTMENT DECISIONS.

Businesses seek to increase profit just as individuals seek to increase



happiness. This implies that investment decisions, including business and manufacturing site location decisions, are driven by which factors significantly contribute to profitability. By helping to decrease significant business costs and by improving the environment for revenue generation, states encourage business investment and entrepreneurial growth.

◆ **The presence of a skilled, productive labor force significantly affects site selection decisions.**

Research and business surveys have overwhelmingly found that the factors that drive business site selection are those related to *the cost and caliber of available labor*. A survey of 945 senior executives conducted at Louisiana State University found that workforce issues rank as the most important factor in opening new locations or moving existing operations. Specifically, labor productivity and the availability of skilled labor were cited most frequently – by over 75% of respondents – as being most important.<sup>1</sup> Tax-related variables ranked considerably lower: the corporate tax rate ranked 10th and tax exemptions ranked 18th (the survey did not ask about personal



income tax rates.) Likewise, a series of reports on business site selection by CFED has consistently found that the level of taxation is of little significance in attracting high-wage, high-value-added industry to a state.<sup>2</sup> The findings of the CFED reports echo those of the LSU study that businesses are most interested in a productive, skilled labor force living in safe, secure neighborhoods near markets connected through quality, well-maintained transportation systems to suppliers and customers.

◆ **Business investment decisions, including site location decisions, are based on what will maximize the rate of return on investment.**

Businesses seek to maximize profit. Research suggests that businesses make capital investment decisions based on what will maximize the rate of return on their investment.<sup>3</sup> Current businesses will stay and expand in Oklahoma, and new businesses will be attracted to Oklahoma, if they can earn a good profit in Oklahoma.

Key factors in profitability and, by implication, investment decisions are quality public institutions and services, access to markets through a good

transportation system, access to quality health care, and an ample, skilled labor force.<sup>4</sup> Indeed, research has demonstrated that economic performance is correlated with public investments that improve profitability. Specifically:

◆ **Public investment lowers business costs and raises labor productivity, spurring economic growth.**

In his review of the literature on the effect of state services on economic development, economist Ronald Fisher notes that investment in public infrastructure, such as roads and bridges, lowers private sector production costs, while public expenditures on education and health services increases labor productivity – both stimulating the economy.<sup>5</sup>

◆ **Infrastructure investment lowers business costs.**

In her state-level study of the relationship between highways and productivity, economist Therese McGuire found that public expenditures played a small but significant role in increasing state economic growth.<sup>6</sup>

◆ **A healthy workforce significantly contributes to labor productivity, thereby increasing economic output.**

Research by economists David Bloom and David Canning indicated that a five-year advantage in life expectancy would result in 0.3 -0.5 percent more rapid economic growth per year.<sup>7</sup> With Oklahoma trailing some third-world nations in life expectancy, this is clearly an area where further public investment would more finely hone Oklahoma's competitive edge.<sup>8</sup>

◆ **Investment in public education increases labor productivity and stimulates economic growth.**

Economists Edward Glaeser of Harvard and Albert Saiz of the University of Pennsylvania have found that investment in human capital – people's skill and knowledge – has a profound

**Table 1:**  
Rank of Relevant Factors in Location Decisions

Rank	Factor
1	Labor productivity
2	Skilled labor availability
3	Labor costs
4	Major markets proximity
5	Crime rates/safety
6	Access to highways
7	Health facilities quality
8	Red tape
9	Public schools
10	Corporate tax rate

Source: Louisiana Business Image Survey

### CEO's on State Taxes

Do state and local taxes really matter when making investment decisions? Anecdotal evidence from top CEO's indicates that state taxes do not play a role in business investment decisions.

- ◆ Self-made billionaire and Republican mayor of New York City Michael Bloomberg said in an interview that “any company that makes a decision as to where they are going to be based on the tax rate is a company won't be around very long. If you're down to that incremental margin you don't have a business.”<sup>i</sup>
- ◆ During his confirmation hearings, President Bush's first Treasury Secretary and former Alcoa CEO Paul O'Neill, said, “As a businessman, I never made an investment decision based on the tax code...[I]f you are giving away money I will take it. If you want to give me inducements for something I am going to do anyway, I will take it. But good business people do not do things because of inducements, they do it because they can see that they are going to be able to earn the cost of capital out of their own intelligence and organization of resources.”<sup>ii</sup>
- ◆ In the wake of the merger between Bartlesville-based Phillips Petroleum and Houston-based Conoco Inc., Phillips CEO Jim Mulva commented that the lack of personal income tax in Texas had “absolutely no impact” on the decision to locate the new headquarters in Houston.<sup>iii</sup>
- ◆ Arnold Hiatt, former president and CEO of Stride Rite Corp. noted, “Tax considerations never played a part in our growth or decision making.”<sup>iv</sup>
- ◆ John Tyson, President of Tyson Foods, said his company's decision to build a plant in Pine Bluff, Arkansas, “was based purely on geography. Pine Bluff was in the right place. The tax credits didn't make any difference.”<sup>v</sup>

i In an interview reported by John Tierney “The Big City; An Outsider Comes Inside To Run Things,” *New York Times*, November 8, 2001.

ii Senate confirmation hearings for former Treasury Secretary Paul O'Neill on January 17, 2001.

iii “Number of Phillips jobs to be lost yet not known,” Laura Summers, *Tulsa World*, Nov. 30, 2001

iv Hiatt was urging Massachusetts Governor Mitt Romney to remain firm in tightening tax loopholes and protecting state investments in education, transportation, and public safety. See “No backpedaling on tax loopholes,” Arnold Hiatt, *Boston Globe*, April 9, 2005.

v Reported by David Maraniss and Michael Weisskopf in “In Arkansas, the Game is Chicken,” *The Washington Post*, March 22, 1992.

effect on economic growth. The two economists also found that regions where the workforce has greater skill levels are more adept at adjusting to economic change.<sup>9</sup>

As William Schweke, vice president of learning and innovation for CFED, has argued, policymakers should “provide excellent locations and conditions for investment for their business ‘customers.’”<sup>10</sup> *Public investment in services that help businesses maximize profits is pro-business and a proven tool to grow the state's economy.*

## 2. Quality of life is the primary factor in drawing a skilled workforce to the state.

People want to be happy. Researchers have long understood that quality of life plays a primary role in where people decide to live. Quality of life factors contributing to worker migration include access to quality health care, affordable housing, safe neighborhoods, broad educational opportunity, and life amenities such

as good weather, recreation, museums, theater, and friends of similar socio-economic status. Widespread research supports the contention that *most people are more interested in factors that affect quality of life than in how much they owe in taxes.*

- ◆ Economist Roxanne Ezzet-Lofstrom studied how a wide variety of amenities and urban characteristics affect peoples' decisions on where to live and discovered that people



willingly trade off “having fewer dollars in their pockets for a higher quality of life.”<sup>11</sup> Similarly, Federal Reserve Bank of Cleveland economists Patricia Beeson and Randall Eberts, in their review of wage differences among American cities, found that city-level amenities played a significant role in how workers responded to differing wage levels between cities.<sup>12</sup>

- ◆ Dan Rickman, the OG&E Chair in Regional Economic Analysis at Oklahoma State University, and economist Mark Partridge concluded that people generally move to a region for quality of life reasons with jobs following the supply of skilled labor.<sup>13</sup>

These same factors, as well as the networks of friends and family that one develops over the course of a lifetime, are what tie a person to a place, not the level of taxation.<sup>14</sup> Therefore, policymakers seeking ways to grow Oklahoma's economy should look to employ policies that improve productivity and profitability –

policies that would bring results both businesses and workers will be grateful for.

**3. HISTORICALLY, THERE HAS BEEN LITTLE DIFFERENCE IN THE RATE OF ECONOMIC GROWTH BETWEEN PERIODS FOLLOWING TAX INCREASES OR TAX DECREASES.**

Careful analysis of historical economic data must distinguish between underlying economic growth rates and those attributable to natural ups and downs of the business cycles. While some armchair analysts have attributed strong economic growth to tax cuts by measuring the economy from the depths of a recession to the next business cycle peak, economists looking at historical trends in underlying, long-term economic

**“ In the real world, tax cuts must be paid for, and paying for them leads to reductions in public services.**

- Economist Robert Lynch

growth—trends smoothing the peaks and troughs of the business cycle—have found very little relationship between tax cuts and economic growth.

**◆ Tax rates do not affect underlying economic growth rates.**

In his study on the role of state fiscal policy in affecting state growth rates, economist Marc Tomljanovich found that the level of taxation had no

effect on a state’s long-term economic growth.<sup>15</sup> Likewise, in his extensive review of current research on state taxation and economic growth, Syracuse University economics professor Michael Wasylenko concludes that state taxes do not have a significant effect on economic growth rates.<sup>16</sup>

**◆ Tax cuts do not affect per capita economic growth.**

In their analysis of the impact of state tax policy on economic growth, economists Peter Fisher and Elaine Ditsler found that there was very little difference in personal income growth between states that increased taxes and those that lowered them.<sup>17</sup> As Figure 1 indicates, between 1990 and 2001, states that increased income taxes saw

**The Irish Miracle, Asian Tigers and Oklahoma’s Economy**

Across the Atlantic Ocean at the end of the last century, Ireland went from being one of the E.U.’s poorest members to one of its wealthiest. Many have claimed that Ireland’s spectacular growth during the 1990’s can simply be attributed to a business friendly environment and low taxes, and have suggested that Ireland’s fiscal policy should be implemented here in Oklahoma to spur job creation and economic growth. However, the causes of Ireland’s economic miracle are enigmatic. It is very difficult to discern one or two primary causal factors in a dynamic, interwoven system like a modern economy, but economists generally agree that Ireland’s phenomenal growth was the result of a propitious intersection of various cultural, economic, geographic and temporal factors.

Further complicating applying the Irish model to Oklahoma is that Ireland held a comparative advantage of low taxes and low-paid labor to other E.U. countries – an advantage that Oklahoma does not have relative to its neighboring states. Oklahoma is surrounded by like states – those with low taxes and wages – and cannot gain any significant comparative advantage by lowering taxes further.

Even so, is the Irish miracle – low taxes, high growth – the right economic model to apply to Oklahoma’s fiscal policy? Or are the Asian Tigers - Hong Kong, Singapore, South Korea, and Taiwan. - a better model? The Asian Tigers developed an export driven economy singling out education as a means of improving productivity, thereby increasing growth. The countries invested heavily in new technologies and higher education and saw sustained double-digit growth rates for decades. The countries’ top tax rates averaged 29.5%, much higher than Oklahoma’s 6.65% in 2005.<sup>ii</sup>

The Asian Tigers survived a terrible monetary crisis and have weathered the ebbs and flows of numerous business cycles. Ireland’s economy is still recovering from its first journey through a recession after becoming the Celtic Tiger. While Oklahoma does not have the full fiscal policy toolkit of a nation-state, it does have the power to invest in research, new technologies, and higher education. If Oklahoma is going to look abroad in search of an economic model to copy, it would do well to look to the Asian Tigers – proven long-term successes.

**Oklahoma’s Comparative Advantage: Top Tax Rates for Oklahoma and Ireland**

Comparison	Top Income Tax Rate	Tax Revenue as a % of GDP/GSP
Ireland	42%	30.2%
Oklahoma	6.65%	17.6%

*Data is for fiscal year 2005. Source: Index of Economic Freedom, The Heritage Foundation, Oklahoma State Treasurer, Internal Revenue Service, Bureau of Economic Analysis*

<sup>i</sup> Oklahoma’s contribution to national GDP in 2005 was 0.979%. Bureau of Economic Analysis, [http://www.bea.gov/newsreleases/regional/gdp\\_state/gsp\\_newsrelease.htm](http://www.bea.gov/newsreleases/regional/gdp_state/gsp_newsrelease.htm) Table 3.

<sup>ii</sup> Hong Kong, 17.5%; Singapore, 22%; South Korea 38.5%; Taiwan, 40% from Index of Economic Freedom, The Heritage Foundation and the Wall Street Journal.

a small but greater growth in per capita personal income than states that lowered income taxes.

◆ **Level of taxation does not limit growth.**

A study by the Institute on Taxation and Economic Policy (ITEP) found that the ten states with the highest taxes had a higher average annual growth in per capita personal income than did the ten states with the lowest taxes.<sup>18</sup> (Reference Table 2)

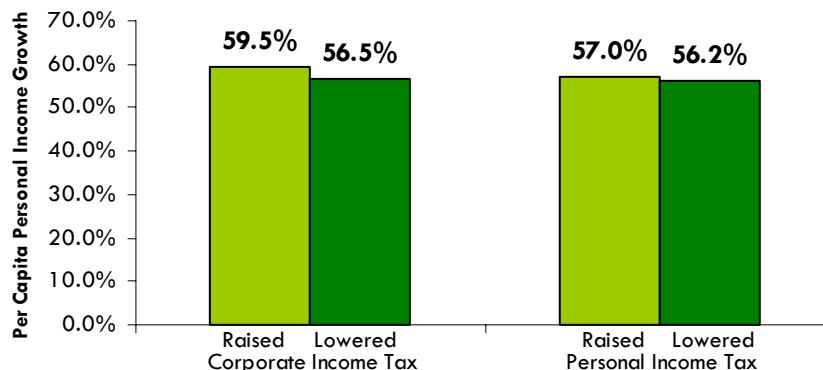
#### 4. STATE INCOME TAX CUTS HAVE A NEGLIGIBLE IMPACT ON ECONOMIC GROWTH.

State economic growth is determined by an array of social, economic and political factors determined on the local, national and international levels. The vast research on the impact of fiscal policy on economic growth indicates that state and local taxes have a negligible role, if any, in growing a state's economy.

◆ **State tax cuts are not an effective economic stimulus.**

One popular economic theory holds that deficit spending can spur economic growth by pumping "new" borrowed dollars into the economy. However, unlike the U.S. Congress, the Oklahoma Legislature cannot pass a deficit budget. Because Oklahoma must use already existing

**Figure 1:**  
The Effect on Economic Performance of Changes in State Tax Rates - Average Growth in States' Per Capita Personal Income, 1990-2001



Source: The Iowa Policy Project

dollars, there are no new dollars to be spent. In fact, state tax cuts may actually lower in-state expenditures, thereby having an adverse effect on Oklahoma's economy. There is no guarantee that taxpayers will invest or spend a tax refund in the state.

◆ **Any positive effect of tax cuts is drowned out by current and future cuts to state services.**

After reviewing hundreds of economic studies, economist Robert Lynch found that state tax cuts have only a minor impact on growth and may have a negative impact if they are paid for by cuts in state services.<sup>19</sup> He finds that the more sophisticated econometric research studies demonstrate that state

and local tax cuts and incentives have a very modest, positive effect on economic growth, but only so long as expenditures on public services do not decline. Lynch writes: "In the real world, tax cuts must be paid for, and paying for them leads to reductions in public services. Cutbacks in public services, in turn, are likely to have negative effects on state and local economies, thereby offsetting some or all of the positive effects of tax cuts."<sup>20</sup>

#### 5. CUTTING STATE INCOME TAXES IS AN EXPENSIVE, INEFFICIENT FISCAL POLICY TOOL.

Even if tax cuts provide some boost to the state's economy, the return on investment is very low. Tax cuts are an expensive, inefficient fiscal tool because policymakers are relying on a scattershot approach to create private-sector jobs.

◆ **Jobs created through tax cuts are expensive.**

The cost of jobs created through cutting state income taxes far outstrips the cost of creating jobs by improving the quantity and quality of public services. Economist Robert Lynch

Table 2: State Taxes as a Percent of Personal Income - The 10 Highest and 10 Lowest Level of Taxation & Economic Growth: 1980-96		
	State & Local Taxes	Annual Per Capita Income Growth
US Average	10.7%	1.46%
Highest 10 Average	13.9%	1.50%
Lowest 10 Average	9.4%	1.30%

Source: Institute on Taxation and Economic Policy

estimates that the annual cost to a state government of creating one private-sector job through tax cuts would be between \$39,000 and \$78,000.<sup>21</sup> Timothy Bartik, an economist with the Upjohn Institute, found that the costs of providing services for persons taking these new jobs would most likely exceed any new tax revenues the jobs might generate.<sup>22</sup>

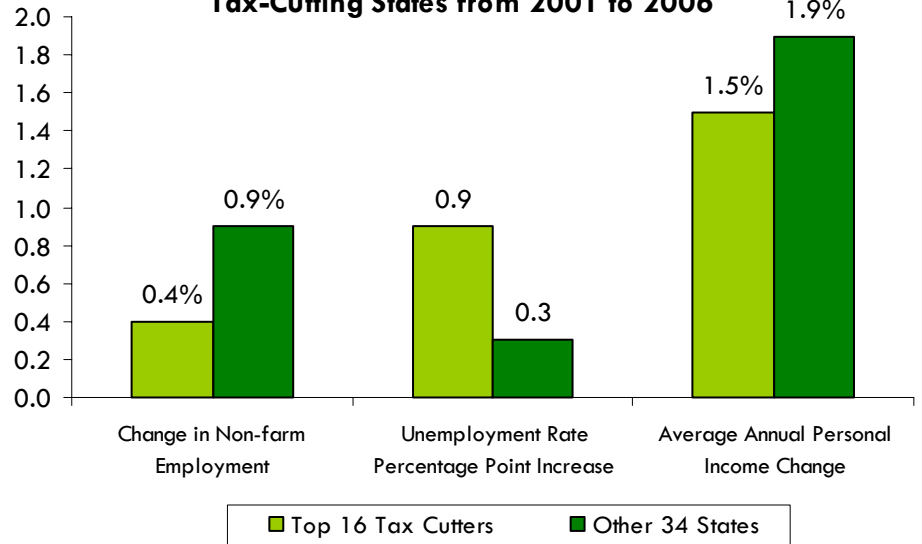
◆ Tax cuts are an inefficient fiscal tool for achieving economic growth.

Economists Peter Fisher and Elaine Ditsler concluded in their study on taxes and state economic growth that across-the-board tax cuts are very expensive, giving marginal improvement, at best, to a state's economy. They found that 96 percent of the revenue given up by a typical tax cut of about 20 percent is wasted money, going to firms whose investment decisions were not affected by taxes.<sup>23</sup>

**6. TAX CUTS IN GOOD TIMES MAKE HARD TIMES HARDER.**

Like Joseph's advice to Pharaoh, Oklahoma policymakers should use the bountiful years to fully provide for state services during the inevita-

**Figure 2:  
Large Tax-Cutting States Haven't Weathered Recent Economic Storms Well - Economic Performance of Large Tax-Cutting States from 2001 to 2006**



Source: Center on Budget and Policy Priorities <sup>25</sup>

ble lean years. Tax revenues generally follow economic growth. This means that as the economy grows, so do revenues, while when the economy contracts, revenues decline. The same happens to business revenues as the economy ebbs and flows. Businesses use the additional revenues of good years to prepare for cyclical downturns, not to cut prices and slash sales. By making large, permanent tax cuts in prosperous times, state policymakers reduce the state's ability to provide

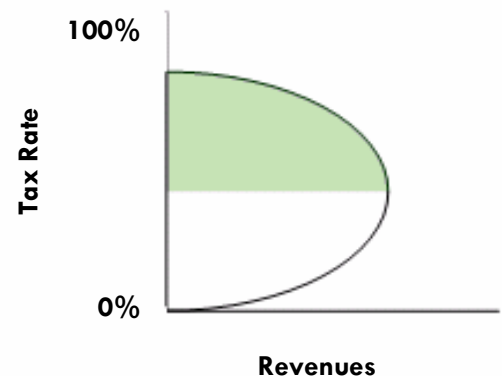
necessary services during economic downturns.

A report by the Center on Budget and Policy Priorities found that states that had the largest tax cuts during the boom years of the late 1990s experienced far greater fiscal hardship and budget shortfalls during the 2001 recession and the years following. The states that had cut taxes the most had lower reserve levels, larger deficits and ended up having to raise taxes

**The Laffer Curve Debunked: Tax Cuts Do Not Pay For Themselves**

The Laffer curve is central to supply-side economic theory and illustrates the idea that government can maximize tax revenue by setting tax rates at an optimal level. For true supply-siders, it is an article of faith that the optimal level is always lower. The belief is that, by lowering taxes, firms and individuals have a greater incentive to be more productive. Being more productive means making more money, which in turn generates more tax revenue. However, the Laffer curve is more a pedagogical tool than a serious model of economic activity. Many economists have offered harsh, effective critiques of supply-side economics and the Laffer curve. Perhaps the most devastating comes from David Stockman, President Ronald Reagan's budget director in his first administration, who wrote in his book *The Triumph of Politics*, "They seemed to expect that once the supply-side tax cut was in effect, additional revenue would start to fall, manna-like, from the heavens. Since January, I had been explaining that there is no literal Laffer curve."

**Laffer Curve**



**“ 96% of the revenue given up by a typical tax cut of about 20% is wasted money, going to firms whose investment decisions were not affected by taxes.**

*Finding in a report by University of Iowa Economists Peter Fisher and Elaine Ditsler*

the most to maintain state services at a level that would keep them competitive with other states.<sup>24</sup> As Figure 2 shows, the states that cut

taxes the most before the 2001 recession added fewer jobs, saw higher unemployment and experienced slower growth in personal income than the rest of the nation.

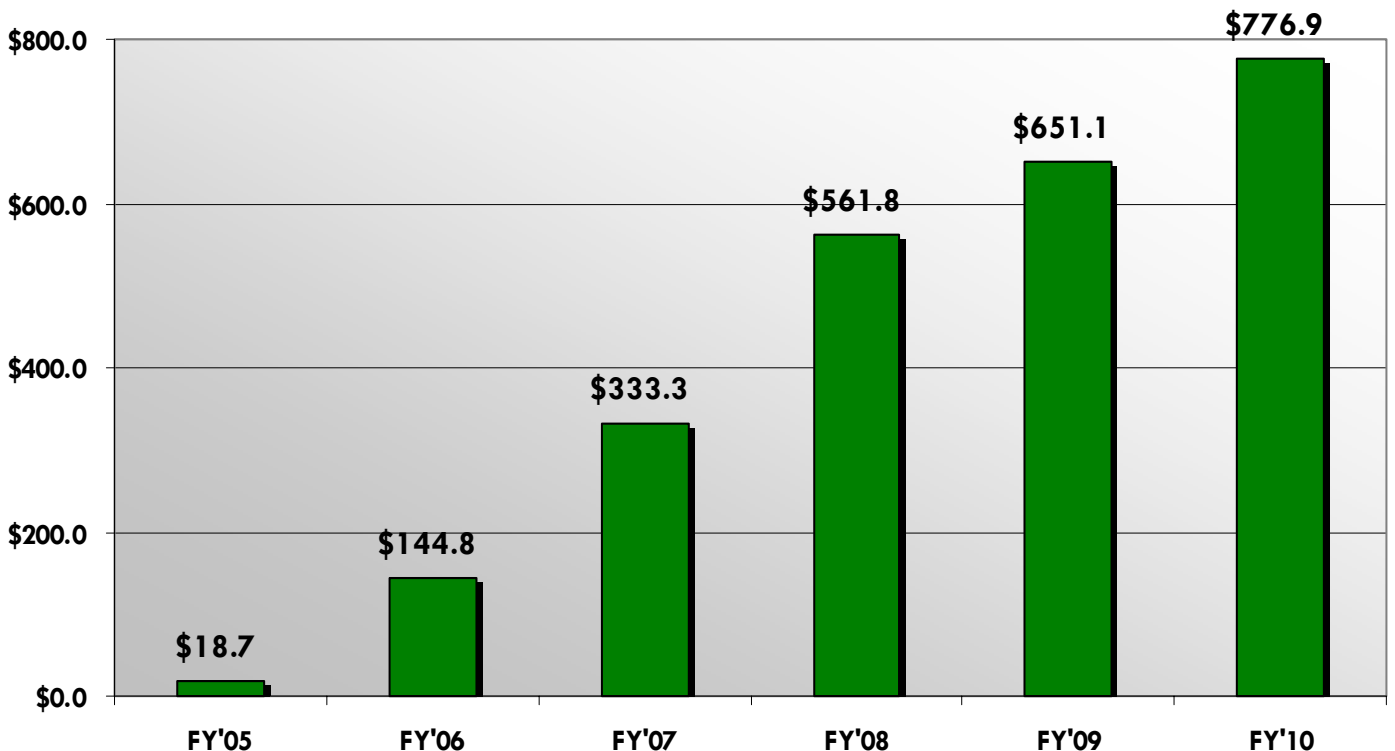
**CONCLUSION**

By stimulating and supporting long-term, stable economic growth through investment in the public services and structures that we use daily, policymakers can ensure our common prosperity. If Oklahoma’s policymakers use the people’s money to invest in the people, they improve the lives of all Oklahomans. Today, Oklahoma could be in the enviable position of using available, additional revenues to grow its economy with proven fiscal tools – investment in public education, health and infrastructure - while still maintaining its low overall tax burden relative to other states. By not cutting taxes further, and investing current tax



revenues wisely, Oklahoma can assert a leadership role in the nation in providing the encouragement, protection and tools each of its citizens requires to achieve his or her full potential.

**Figure 3: Opportunities already lost for growing Oklahoma’s economy: Revenues from Recent Tax Cuts (2004-06) Lost**



Source: Adapted from data provided by Oklahoma Tax Commission

## ENDNOTES

<sup>1</sup>Louisiana Business Image Survey, The Public Policy Research Lab, Louisiana State University, January 24, 2005, <http://www.survey.lsu.edu/LouisianaBusinessImageReport2004.pdf>

<sup>2</sup>The CFED has published twenty annual Development Report Cards for the States. The reports are available at [www.cfed.org/go/drc](http://www.cfed.org/go/drc)

<sup>3</sup>Refer to R. Hall and D. Jorgenson, "Tax policy and investment behavior," *The American Economic Review*, Vol. 57, No. 3, 1967, pp. 391-414.; Robert Lynch, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, Economic Policy Institute, 2004; and Charles Ian Mead, "State user costs of capital" Federal Reserve Bank of Boston, Working Paper 01-3, 2001.

<sup>4</sup>For a thorough presentation on what factors are significant to business site selection and investment decisions see Bill Schweke's "A Progressive Economic Development Agenda for Shared Prosperity: Taking the High Road and Closing the Low", CFED, June, 2006.

<sup>5</sup>Ronald Fisher, "The Effects of State and Local Public Services on Economic Development," *New England Economic Review* (Federal Reserve Bank of Boston), March/April 1997, p. 53-67.

<sup>6</sup>Therese McGuire, "Highways and Macroeconomic Productivity: Phase II," Federal Highway Administration, Washington, D.C., 1992.

<sup>7</sup>David E. Bloom and David Canning, "The Health and Wealth of Nations," *Science*, February 2000.

<sup>8</sup>US Census data lists Oklahoma life expectancy in 2000 as 75.3. This was bested by numerous third-world countries including Chile (76), Cuba (77), Guadeloupe (77), and Jordan (78).

<sup>9</sup>Edward L. Glaeser and Albert Saiz, "The Rise of the Skilled City," *Brookings-Wharton Papers on Urban Affairs*, 2004, pp. 47-97. For a more recent review of economic literature on the effect of in-

vestment in public education and infrastructure on state and local economic growth, see George W. Hammond and Eric Thompson, "Determinants of Income Growth in US Metropolitan and Non-metropolitan Labor Markets," Department of Economics, West Virginia University, Working Papers: 06-12, 2006.

<sup>10</sup>Bill Schweke, "A Progressive Economic Development Agenda for Shared Prosperity: Taking the High Road and Closing the Low", CFED, June, 2006, p 6.

<sup>11</sup>Roxanne Ezzet-Lofstrom, "Valuation of Metropolitan Quality of Life in Wages and Rents," *Cityscape*, Vol 7, No. 1, 2004, pp. 23-39.

**It's time to promote a wise fiscal policy...to foster a first-class educational system to create a talented and capable workforce.**

Lance Cargill, Speaker of the Oklahoma House of Representatives

<sup>12</sup>Patricia E. Beeson and Randall W. Eberts, "Identifying Amenity and Productivity Cities Using Wage and Rent Differentials," *Economic Review – Federal Reserve Bank of Cleveland*, 1987, pp. 16-25.

<sup>13</sup>Mark Partridge and Dan Rickman, "The Waxing and Waning of State Economies: The Chicken-Egg Question of Jobs versus People," *Journal of Urban Economics*, 53:1, 2003 pp. 76-97. Further references on factors that contribute to labor migration are: David E. Clark and William J. Hunter, "The impact of economic opportunity, amenities and fiscal factors on age-specific migration rates," *Journal of Regional Science*, 32(3), 1992, pp. 349-365; Michael Greenwood, Gary Hunt, Dan Rickman and George Treyz, "Migration, regional equilibrium and the estimation of compensating differentials," *American Economic Review*, 81(5), 1991, pp. 1382-1390; James Heckman, "What has been learned about labor supply in the past twenty years.", *American Economic Review*, May, 1993; E. L. Glaeser, J. Kolko and A. Saiz, "Consumer City" *Journal of Economic Geography*, 1(1), 2001, pp. 27-50; and Thomas Knapp

and Philip Grave, "On the role of amenities in models of migration and regional development," *Journal of Regional Science*, 29(1), 1989, pp. 71-87.

<sup>14</sup>A beginning reference on the constraints that bind, or locational attribute constraints on destination choice, is Brian Cushing, "Location-Specific Amenities, Equilibrium, and Constraints on Location Choices," Department of Economics, West Virginia University, Research Paper 2004-11, 2004.

<sup>15</sup>Marc Tomljanovich, "The Role of State Fiscal Policy in State Economic Growth," *Contemporary Economic Policy*, Vol. 22, No. 3, July 2004, pp. 318-330.

<sup>16</sup>Michael Wasylenko, "Taxation and Economic Development: The State of the Economic Literature," *New England Economic Review*, March/April 1997, pp. 37-52.

<sup>17</sup>Peter Fisher and Elaine Ditsler, "Taxes and State Economic Growth: The Myths and the Reality", The Iowa Policy Project, May, 2003.

<sup>18</sup>"An Analysis of the Cato Institute's 'The Case Against the Tennessee Income Tax'" Institute on Taxation and Economic Policy (ITEP), November 1999.

<sup>19</sup>Robert G. Lynch, "Do State and Local Taxes Work?" Economic Policy Institute, Washington, D.C., 1996.

<sup>20</sup>Robert Lynch, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, Economic Policy Institute, 2004, p. 28-29.

<sup>21</sup>Lynch, *Rethinking Growth*, 2004.

<sup>22</sup>Timothy Bartik, "The effects of state and local taxes on economic development: A review of recent research," *Economic Development Quarterly*, Vol 6. No. 1, 1992.

<sup>23</sup>Peter Fisher and Elaine Ditsler, "Taxes and State Economic Growth: The Myths and the Reality", The Iowa Policy Project, May, 2003.

<sup>24</sup>Nicholas Johnson and Brian Filipowich, "Tax Cuts and Continued Consequences: States That Cut Taxes the Most During the 1990s Still Lag Behind" Center on Budget and Policy Priorities, December, 2006.

<sup>25</sup>Nicholas Johnson and Brian Filipowich, "Tax Cuts and Continued Consequences: States That Cut Taxes the Most During the 1990s Still Lag Behind" Center on Budget and Policy Priorities, Appendix: Table A., p. 11.

**Community Action Project (CAP) is a Tulsa-based comprehensive anti-poverty agency whose mission is to help individuals and families in need achieve self-sufficiency. CAP's public policy department aims to promote policies that will benefit low- and moderate-income Oklahomans through research, education and advocacy. Visit us on the web: [www.okpolicy.org](http://www.okpolicy.org).**