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New Book on Economic Development: “State Tax Breaks Don’t Create Jobs”

A comprehensive new analysis of research on the factors influencing business location decisions shows that state-level tax cuts have little impact on economic growth, but that public services are vital for job creation. The book, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, by economist Robert Lynch, chair of the Department of Economics at Washington College, was released today by the Washington, D.C.-based Economic Policy Institute.

“This book should be an important resource for policy makers and economic development officials in Oregon who are repeatedly confronted with the mistaken claims that Oregon’s tax system is preventing economic growth,” said Jeff Thompson, economist with the Oregon Center for Public Policy.

In the book Lynch analyzed hundreds of research studies and found little evidence that state and local taxation figures prominently into business location decisions. Since state and local taxes only account for less than one percent of the cost of doing business, almost every other factor, including public services, plays a larger role in location decisions than do taxes.

The book addresses and lays bare the weaknesses in the arguments commonly used in favor of tax incentives and tax cuts. While some Oregon officials feel pressured to follow other states in offering tax incentives, Lynch’s review of the research shows that tax incentives are not a factor in jobs moving from one state to another.

“Lynch gives policy makers useful tools to reject the business lobby’s tedious litany of claims that tax incentives work under both supply-side and demand-side economic theories, that they are necessary because of the tax burden and to improve the business climate, and that all states and local governments must give the breaks to remain competitive,” said Thompson. “Lynch shows that those claims, too often repeated by Oregon businesses, are bankrupt.”

“The business lobby complains about taxes in every community around the country because they know that timid elected officials will cave-in,” commented

Thompson. "As Lynch's research shows, threats from the business lobby bear little resemblance to reality."

"One common knee-jerk response is that taking resources away from the public sectors will somehow magically create jobs," observed Thompson. "As Lynch documents, however, with 40 cents of every state-level business tax cut going to the federal government in higher federal taxes, business tax cuts are about the least efficient means of job creation conceivable."

The book also addresses arguments about the importance of making an area more "friendly" to businesses by maintaining public services such as well maintained roads, bridges, ports, and airports; prompt snow removal; reliable fire and police protection; and a good education and job training system. The report notes that these high quality services will attract the high paying jobs. All these services require public investment and all are jeopardized by a tax-cutting strategy.

"With the lowest business taxes in the West-and possibly the nation-Oregon is about as "friendly" to business as you can get," noted Thompson. "Unable to adequately fund public services in recent years, Oregon may be undermining the factors that helped promote economic growth in the past."

As Lynch concludes, "The real lesson here for legislators and local policy makers, is that what makes a community a good place to do business looks a lot like what makes a community a good place to live. That means good schools, good police and fire protection, a modern and well-maintained transportation infrastructure, and good all-around public services. Instead of creating jobs, tax cutting strategies that undermine government's ability to provide quality services can end up destroying jobs."

The **Oregon Center for Public Policy** is a Silverton, Oregon-based non-profit research institute that uses research and analysis to advance policies and practices that improve the economic and social prospects of low- and moderate-income Oregonians, the majority of Oregonian.

NOTES TO REPORTERS AND EDITORS:

The Economic Policy Institute's news release about the new book, *Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development*, is available at <http://www.epinet.org/newsroom/releases/2004/03/040323lynchbook.pdf>.

EPI will hold a **CONFERENCE CALL BRIEFING** with the book's author Robert Lynch on Monday, March 22 at 9 AM PST. To sign up for the call and get the toll-free access number and password, contact the EPI Communications Department at 202-775-8810 or e-mail news@epinet.org by 10 AM EST, Monday, March 22nd.