Tax Cuts and Local Economic Development Policy Analysis

Posted on August 21, 2019

Introduction

The only way for growth in the economy is by investing in businesses. Businesses can be improved when private investors earn more profits. One of the ways of doing so is by reducing the amount of taxes businesses should pay. The debate on this topic is common in government and business settings. If the taxes are high in any state, this will be unattractive for businesses. However, if the rate of personal income tax is high, wealthy investors will not be attracted to the state, and this will affect job creation. Based on the research and facts, the discussion about the dilemmas related to tax cuts is discussed in the following section.

Discussion

Tax cuts spur state and local economic development or not?

The debate on whether the tax cuts pay for their losses through economic growth is extensive, and there has never been a conclusive result. However, most of the research evidence shows that taxes do not have a significant impact on economic development. It is true that there are some types of taxes whose reduction can have a positive effect on economic development to some extent. Many things should be considered when evaluating tax-cut policy. First, the tax burdens that are placed on the businesses can discourage investors. Taxes act as a burden because they can reduce the revenue of a firm or increase its cost (Lynch). The business climate and environment can also influence the attractiveness of businesses. Another argument states that a reduction in taxes can increase the incentives for businesses and individuals so that they increase their savings to invest in economic activities. On an individual level, when taxes are low, spending increases because of the increase in after-tax income.

When taxes are cut, a variety of factors are influenced by this; these factors include the opportunities for employment, availability of physical and social infrastructure and even the reputation of the area where taxes are less is improved. This results in improving the overall climate of business and thus leads to economic development. States often reduce taxes to attract more businesses and improve the competitiveness of the economy.

However, all these factors are unpersuasive and unchallenged because of sound business arguments. They surely increase the effect taxes have on economic development, but they do not provide evidence that the taxes can motivate investors to operate in particular business areas. Therefore, this debate is not conclusive because tax cuts can be a single factor in making a business decision, but there are many other factors like land, labor, and capital that can influence decision-making heavily (Waslenko).

Are tax cuts cost-effective?

Tax cuts are said to be beneficial for the state governments in many ways as they attract many businesses. However, the debate is whether they can be cost-effective or not. The question is whether economic development taking place in the longer run is able to cover the cost of tax cuts. Research has shown that the state would suffer from a loss of about $1.8 trillion due to tax cuts in the coming ten years (Orszag and Gale). It means that making these tax cuts permanent would bring large losses to the states. The tax cut is also supported because it is believed that it can result in creating more jobs. Therefore, states decide to cut taxes to increase job creation because it will ultimately enhance economic activity. As tax cuts do not significantly boost economic activity, the cost per job can be identified by dividing the total loss by the number of jobs created because of the tax cut.

The legislation presented for a tax cut is incomplete or insufficient to address the means by which tax cuts will be financed. If the proper calculation is done with the help of representative analysis, it will give unlikely results about how the state will achieve its goal. These facts show that tax cuts are not cost-effective. The state should collect more practical and calculated evidence to justify that these tax cuts are self-sufficient. If the level of economic growth in the future will be enough to address the tax level, it is right to cut taxes. However, if tax cut increases employment at the cost of state money, then this decision should be reconsidered. Already, the bill passed for job cuts and tax cuts has added about 1.5 trillion to the debt in the budget.

State lures businesses with tax breaks and other incentives

The state has a constant focus on economic development. Some of the benefits it provides to the states are to attract jobs, investment, and businesses in the area. Businesses are given incentives in the form of subsidies and tax breaks. However, these attractions are provided to businesses at the expense of taxpayers. An alternate solution should be devised that will be in the best interest of the state, individuals, and businesses as well.

Tax incentives are given to make the state attractive to businesses, while subsidies are the grants that are given to businesses so that they can improve their business. Tax breaks have been given recently to multiple airlines and other business groups. However, tracking down whether these billions are spent rightfully is a difficult task. It is not possible for the auditors because they face problems in tracking the tax incentives. There are many pitfalls that these incentives have to face. The stated goal

of these incentives is also not fulfilled because they do not ensure that businesses will invest and hire in the same state. It is known as the windfall effect because the overall tax cost is about 1.8 percent of the overall profit and does not have a large impact on the balance sheet of the company. In addition, the states of America have an interconnected nature, so it becomes difficult to analyze whether the benefits are for the same state or not.

However, if the overall effect is seen, giving subsidies and tax incentives does not make the state grow but has an effect of displacement because one business is getting the benefit at the cost of another. The economic impact of these incentives can only be identified in a clear manner when the other alternatives to spending them are identified and their net money is calculated. It will help in identifying whether they provide economic benefits in the long term or not.

Cost-effectiveness of promoting growth and job creation

Growth should be promoted in an economy for overall economic growth. Also, job creation strengthens the economic system of a country. Now, the debate here is whether the tax cut can have a positive influence on these two elements. The results of the research do not show that tax cuts can have a large impact on economic growth. It may have a slight impact, but the decision-making process of corporations is not very dependent on the tax policy.

When the tax cut is placed on income tax, it puts extra money in the pocket of the consumer. It has a positive impact because economic growth is 70 percent dependent on consumer spending. Then, ultimately, businesses try to expand to meet the additional demand that leads to job creation. Another cost-effective technique for increasing the number of jobs is a payroll tax cut. Companies sometimes increase the wages of employees to retain them, and as a result, their spending increases, raising the demand. The most effective way of creating jobs is when companies use their savings for hiring more workers; this normally happens when the company is earning a good profit, and their product is popular in the market.

All the discussions show that tax cuts play a minor role in promoting growth and job creation. It is because taxes do not reduce profits with a high significance. The reduction in taxes is not the only way to determine the business environment. Also, competitiveness is not maintained in the market just because of tax incentives. These things indicate that it is not cost-effective to promote growth and create jobs (Lynch). However, when reductions are imposed on public services, this may retard economic growth. It is evident from many types of research that public services are a key determinant in deciding business location.

Conclusion

The conclusion drawn from this discussion is that tax cuts are not an effective strategy for improving business development and the local economy. This method incurs more costs than benefits. Many

other alternatives available can be used to boost the economy and create jobs. It means that tax cuts can increase the growth of the economy but only for a short span of time. In the longer run, many other determinants that a businessperson uses to decide about the location of a business include land, labor, infrastructure, etc. Therefore, the state should reconsider the cost-benefit analysis before making a tax-cut policy.

Works Cited

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