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Taking the High Road: Surveys Show the Way

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Overwhelming consensus of the literature is that state and city taxes have at most a minor impact on business location decisions.

Story By Ted Boettner

Dan Page's column in the March 7 issue levels several criticisms about the West Virginia Center on Budget and Policy and our recent report "High Costs, Dubious Benefits." In response to his editorial, I offer the following:

First, Page states that "our conclusion" that "taxes are not a significant factor for companies when they decide where to conduct business" is an "interesting and curious conclusion." This is not my conclusion. It is the conclusion of site location periodicals and business site location experts.

The Corporate Survey 2007 and the 4th Annual Consultants Survey conducted by the leading site selection industry professionals Area Development magazine provides evidence that existing business investment decisions are more concerned about underlying prerequisites for economic development than the rate of corporate taxes. The results indicate that highway accessibility, availability of skilled labor and availability and costs of energy are the first, second and third top site selection factors when making a decision about business investments. The corporate tax rate, state and local incentives and tax exemptions are factored as the seventh, eighth and 10th most important decisions.

Robert Ady, CEO of Ady International, who, according to his Web site, "has identified more prime locations for businesses in the United States than any other individual," concludes that "site selection data do not suggest any correlation between low taxes and positive economic growth, or between high taxes and slow growth. The location requirements are too many, the process too complicated, and other factors too important to justify a strong relationship."

Furthermore, state and local taxes are just too small of a factor to determine business site location -- making up between 4-5 percent of the cost of doing business.

Page also states that we make the "time-honored liberal case that the poor will pay when the affluent don't have to." Currently, the poor in West Virginia pay more state taxes as a share of income than high-income residents. According to a recent study by West Virginia University College of Business and Economics, the "state tax system is regressive and its regressivity has increased during the 1999-2004 period."

The massive use of tax sheltering schemes by large, multi-state corporations in West Virginia over the last decade is also a clear indication of how the tax burden has shifted in recent years, putting small companies at a competitive disadvantage.

Lastly, Page asks whether we have an extensive background in economics or tax law and if we are nonpartisan organization. While I'm not an economist and have not conducted any original empirical research on taxes and economic development, I am a trained and experienced fiscal policy analyst, and I'm certainly qualified and capable of reading and understanding the economic literature on this issue, and I have in fact read it and understand it. And the overwhelming consensus of the literature is that state and local taxes have at most a minor impact on business location decisions. And I'd be happy to provide The State Journal with any number of studies by Ph.D. economists that say precisely that.

Regarding partisanship, we are not affiliated with any political party. About 87 percent of our funding comes from local and national foundations and 13 percent from labor unions. Our only bias is that we believe in a shared prosperity. That means when you are willing to work hard and play fair you can realize the American dream and benefit from the global economy.

To prosper, we must make public investments in infrastructure and education so workers can gain the skills they need to find good jobs and businesses can find a high-quality work force and a desirable location over the long term.

West Virginians deserve a state government that will confront these challenges and develop a long-term strategy that builds and strengthens the middle class so all West Virginians will have a stake in growing our economy.

Ted Boettner is director of the West Virginia Center on Budget and Policy.

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