

Financial Incentives for All Firms Boost the Economy

By Jacob Bundrick

Arkansas state legislators accomplished something great during the recent special session. During this session, legislators approved an \$87.1 million bond issue in the interest of landing a defense contract for Lockheed Martin in Camden's Highland Industrial Park. In addition to retaining more than 500 current jobs, securing the contract for Lockheed Martin will create nearly 600 new jobs. This is great for Arkansas' economy.

However, Arkansas could boost its economy even further by providing financial incentives to all firms by lowering the tax burden within the state.

[Federal Reserve Bank of San Francisco](#) research shows that states with lower taxes see faster economic and employment growth than high tax states. Research by the Arkansas Center for Research in Economics also finds that corporate income taxes have a significant, negative relationship with labor productivity, which, in turn, influences job growth.

[Frederic Bastiat](#) noted long ago that taxes should be judged not by what is seen, but by what is unseen. Having approved the financial incentives, securing the contract for Lockheed Martin will show new jobs in Camden, but we will not see the jobs that could be produced by improving Arkansas' tax climate to manufacturers overall.

The Bureau of Labor Statistics (BLS) data indicates that, since 2002, Arkansas has cut manufacturing jobs at an annual rate of over three percent per year, a figure that is three times the rate of both Texas and Louisiana. In addition, the Bureau of Economic Analysis (BEA) data shows that, in the same time span, Arkansas' manufacturing GDP has grown at an annual rate of less than one percent per year, a figure more than seven times less than Texas' growth rate. Both of these metrics rank Arkansas last among the nine regional states – Alabama, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas.

Arkansas' high tax burden is largely responsible for the state's lackluster manufacturing growth. When looking at corporate income taxes as a percentage of state GDP, Arkansas has the third highest tax burden in the region, ahead of only Mississippi and Tennessee.

While it is encouraging to see that financial incentives were on the table during the special session, it would be more encouraging to see broad economic incentives. State legislators did a great thing for Arkansas by approving the bond issue for Lockheed Martin. They can do an even greater thing by providing financial incentives for all firms through a reduction in the tax burden.

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About ACRE:

The Arkansas Center for Research in Economics (ACRE) is a university-based, nonprofit research and education organization that focuses on improving the lives of Arkansans by training students, by evaluating the state's policies, and by offering solutions in order to promote free markets and limited, transparent government. ACRE does not promote, advocate, support, or campaign for specific political parties or political candidates.

If you have questions or comments, or if you would like more information about this study or about ACRE and its endeavors, please contact Jacob Bundrick (jbundrick@uca.edu).

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