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Since Tax Cuts Don't Grow the Economy, What Does?

If there were one thing we could do to grow our economy it would be to make a massive investment in public education, in America's human capital. Why? Good economic policy has three goals. Investing in public education provides the best return on all three.

The three goals are: grow jobs, grow incomes, and reduce income disparities. New evidence from regional economic models shows that, dollar for dollar, investing in public education grows economies more than tax cuts and corporate subsidies.

Our economy has transformed several times over — from agriculture to manufacturing, from manufacturing to service, and now from service to knowledge and information. Tax cuts don't create knowledge. Investing in education creates knowledge. The top five policies that will grow our economy are —

1. **Invest adequate resources in public education to build schools' capacity to deliver excellence.** The relative importance of means of production — land, labor, and money — in growing economies has changed dramatically. We live in a knowledge-based global economy, a direct result of interactions among six new industries: micro-electronics, computers, telecom, new materials (hydrogen fuel cells), biotech (human genome), and robotics. This is a third industrial revolution, after the steam engine and electricity. In this new economy, the quality of the labor force — of human capital — is the most important driver of productivity and growth.

   Adequate investment in public education is *the* necessary first step toward ensuring the quality of our future workforce. Unfortunately, no state measures up to even a rough standard of adequacy. We must invest adequate resources in public education if we want to ensure our future economic prosperity.

2. **Create an economic development extension service that places state universities at the center of development.** Innovation grows economies. It relies on investing in human capital, research, and development. America's public universities have always been prized for R&D leadership and are proven incubators of new ideas. Funding for state universities has steadily declined. Universities must raise tuitions to make up shortfalls. A college education is increasingly unaffordable.

   We produce 50% fewer scientists and engineers than a generation ago. Half of all new hires in K−12 public schools, especially science and math teachers, leave before five years because working conditions are so poor and salaries are so low.

   America is famously entrepreneurial. By investing in public higher education we could implement an economic development extension service modeled on the extraordinarily successful agriculture extension service. Just as agriculture extension agents took new seeds and fertilizers developed by universities directly to farmers, economic development extension agents could take new technology innovations directly to entrepreneurs.

3. **Only give economic development subsidies that include accountability.** Many state and local governments have given away the store in the name of so-called "economic development." The economics literature conclusively proves that business tax subsidies don't grow economies. In fact, it conclusively proves that this has only negative consequences. Big businesses get subsidies while small businesses go under. Target and Wal-Mart, for example, use subsidies to create jobs at wages so low that employees must go on public assistance paid for by taxpayers. That means taxpayers *first* subsidize their infrastructure *then* subsidize their operating costs.

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The cost to taxpayers of creating jobs this way is just too high. Taxpayers don't get a good return on their investment to justify it. Should taxpayers spend hundreds of thousands of dollars just to create one low-wage job?

What happens when a business doesn't deliver on a promise? What if it creates jobs that pay such low wages that employees qualify for public programs designed for the poor? What's the recourse? If a subsidy's impact means raiding funds designated for public education to make up shortfalls, then taxpayers ought to know what they're getting for their money. Business must be held accountable for results and impacts on public services must be assessed and compensated for before any subsidies are given.

4. **Level the playing field for business.** The key role of good government is to level the playing field so all entrepreneurs and businesses, large and small, have a fair shot at success. Good government invests in infrastructure that ensures safety, property rights, a free market economy, and free flow of goods and services, including financial services. Good government doesn't pick winners over losers by giving subsidies in the name of economic development while driving small businesses and entrepreneurs out of business. Good government establishes and enforces rules of fair play and free market economy.

   History is full of examples proving that, when government deregulates or relaxes its oversight responsibility it creates economic bubbles and crises. Remember the housing and dotcom bubbles, the junk bond fiasco, and the savings and loan and energy crises? In each case, government relaxed its oversight and stopped enforcing the rules of fair play necessary for a free market economy to work.

5. **Invest additional resources in preK–12 public schools.** Public education is the most labor intensive local industry. About 80% of the additional money invested in public education goes directly to personnel costs that get spent in a local economy. All other industries are not only highly mechanized, but profits and jobs are created outside local (even national) economies. Investing in public education has other proven benefits: income growth, reduced income disparities, higher home values, and lower crime rates. Investing in public education creates an economic tide that lifts all boats.

If we as Americans want to maintain our leadership in the new knowledge-based global economy, we must invest in our human capital. Innovation grows economies. Innovations like the steam engine, electricity, biotechnology, telecommunications, and the Internet revolutionized, much less grew, our economy. Did any of them come from tax cuts? No, not one did. All were the direct result of Americans investing in an infrastructure that ensures the safety of our property rights, of a free market economy, and of the free flow of goods and services, including financial services. All were the direct result of investing in America's human capital. All were the direct result of investing in public education.

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