



Bringing High-Tech Industries to Iowa

by David Hogberg

What can the state of Iowa do to attract high-tech jobs? This is a question that has dogged state policymakers for the last few years.

The 2002 State New Economy Index, constructed by the Progressive Policy Institute (PPI), ranks Iowa 38th out of 50 states.¹ The State New Economy Index measures various factors related to the high-tech industries. On some of the components of the index, Iowa ranks from mediocre to poorly. On industry R&D investment, venture capital, and foreign direct investment Iowa ranks 32nd, 42nd, and 46th, respectively. Our state also ranks poorly on factors such as “gazelle jobs”, which are jobs in companies with annual sales growth of at least 20% for four straight years, or “job churning,” which is the number of new start-ups and business failures combined as a share of all establishments in each state. Iowa ranks 43rd and 50th, respectively, on those factors.

A few of PPI’s suggestion are helpful. For example, boosting “university technology commercialization” is one solution that would be of minimal cost to Iowa taxpayers. Iowa Legislators would only have to “examine rules regarding licensing of intellectual property and holding of equity positions with an eye toward making it easier for universities to commercialize research.” According to PPI, “Commercialization succeeds when industry R&D staff is able to establish personal contacts with university researchers and where the university has an active and liberal policy to get its technologies in the marketplace and to allow faculty to become entrepreneurs.”²

However, many of PPI’s policy suggestions amount to government micromanaging the economy, and some seem less than helpful for Iowa. For example, PPI also suggests investing in “economic fundamentals like infrastructure and education.”³ Yet on many of the Index components that track such factors, Iowa scores well or is improving. We rank 20th in online manufacturers, 17th in online population, 12th on the level of education among the manufacturing workforce, and 5th in technology in our schools. We rank only 32nd in total workforce education, but we are only slightly behind the U.S. average and an improvement over where we were ranked (37th) in the PPI’s 1999 study.

Another study produced by the Milken Institute, titled “America’s High-Tech Economy,” is more skeptical of government involvement. Although it acknowledges that government has a role to play, “due to the unique characteristics of high-tech industries, government’s role is . . . limited. Overly active government intervention and public policy may be counterproductive and harmful to the long-term development of high-tech industries.”⁴ The Milken report notes that factors like costs, research institutions, and access to an educated workforce are crucial to the inception and growth of high-tech firms, while factors like public investment are only important well after the firm has established itself.

Unfortunately, neither of the studies tries to measure the impact of tax burden on high-tech growth, although both studies suggest that taxes are important. The PPI study argues that an R&D tax credit is

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600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: public.interest.institute@limitedgovernment.org Web Site: www.limitedgovernment.org

helpful for building high-tech companies. However, such an approach does not necessarily yield economic benefits. Firms may sink more resources into R&D to lower their tax burdens, regardless of whether those resources can be put to more productive use elsewhere.

The Milken study notes that *tax incentives* are important to the development of high-tech firms. Yet tax incentives are problematic because they target certain industries over others. In short, they rest on the premise the government can identify which industries will be high-growth industries in the future. No government can know such a thing with any certainty. Target the wrong industry, and the tax incentives have gone to waste.

The following quote hints that broad tax reform and reduction may be crucial to high-tech development:

Unfavorable costs may not be a significant deterrent to expanding high-tech economies in Boston and San Jose, but they might prove critical to emerging locations. When other factors are equal, low-cost regions do attract high-tech manufacturing. The location factors in Boise, ID, are near ideal. Abundant labor supply and relatively low labor wages and *local taxes* enable the region to specialize in semiconductors and related accessories, producing low-end products where cost efficiency is critical.⁵

Since taxes are a significant part of the cost of doing business, it is reasonable to infer from that passage that tax reduction would attract high-tech industries to Iowa. Tax reform would include lower state personal and corporate income taxes. If a recent David Yepsen column is any indication, lowering property taxes would help too. There are other ways of reducing business costs, such as deregulation, that the state of Iowa could also pursue.

Ultimately, if Iowa wants to attract more high-tech businesses, then state government needs to lower the cost of doing business in this state. Misguided policies like the Grow Iowa Values Fund do not address cost concerns. They merely give companies one-time grants to locate in Iowa; once the grant is exhausted, the company still faces the high cost of doing business in the state, and, thus, has incentive to eventually locate somewhere else in the U.S. Unless we reform our tax and regulatory structure, Iowa will never develop a serious high-tech industry.

ENDNOTES:

¹Robert D. Atkinson and Rick Coduri, "The 2002 State New Economy Index: Benchmarking Economic Transformation in the States," Progressive Policy Institute, June 2002.

²Ibid., p.43.

³Ibid., p.39.

⁴Ross C. Devol, Perry Wong, John Catapano, and Greg Robitshek, "America's High-Tech Economy: Growth, Development, and Risks for Metropolitan Areas," Milken Institute, July 13, 1999, p.97.

⁵Ibid, p.100.

David Hogberg is a Research Analyst with Public Interest Institute.

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