

A Cross-County Evaluation of Fiscal Policies

Zulal S. Denaux

Assistant Professor of Economics
Langdale College of Business
Valdosta State University
1500 N. Patterson St.
Valdosta, Georgia 31698, USA
Email: zsdenaux@valdosta.edu
Phone: (229) 219-1217
Fax: (229) 245-2248

The state and local policies regarding taxation and expenditure are a subject of controversy. Some state and local fiscal policy makers embrace lower taxes and the creation of tax incentives as their principle economic development tools; others favor of government spending to promote economic growth. The existing literature is almost entirely limited to separately examining the effects of expenditure policies or the effects of tax policies on economic growth. Therefore, simultaneous effects of these fiscal policies on economic growth have been received little attention, especially on studies of fiscal policies at the local level.

This study offers a theoretical and empirical investigation of the simultaneous effects of taxes and government spending on economic growth at the county level. Using an OLS (Ordinary Least Squares) with fixed effect estimation technique for the 99 North Carolina counties for 1980-1995, this study argues that state and local fiscal policies strongly influence economic growth.

In the last three decades, the states and localities have been competing intensely with one another to attract new business and retain existing firms by offering tax incentives and improving infrastructure deficiencies. The creation of a facilitative business environment helps state and local government to achieve higher economic growth.

However, state and local policy makers face a dilemma in choosing the policy tools that are most effective in promoting economic growth. Some state and local fiscal policy makers embrace lower taxes and the creation of tax incentives as their primary economic development tools; others favor an increase in government spending.

A number of studies have estimated empirically the effect of these two fiscal policies on economic growth. Using unique data from Nebraska's 93 counties, Goss and Phillips (1999) found that tax incentive programs such as corporate income tax and sales tax exemptions had

a positive and statistically significant impact on economic growth for those counties with low-unemployment rates. The study by Wasylenko (1997) also summarized the research examining the effects of state and local taxation on economic development. Since wide ranges of estimates were obtained by these individual studies, Wasylenko concluded that tax differentials did not have significant and reliable effects on economic activity in states. A similar conclusion was also obtained by the study by Mendoaze et al. (1997). They concluded that using 18 OECD countries, tax mix has no significant effect on growth.

The extensive literature reviewed by Fisher (1997) focused on the expenditure side of state and local fiscal policy, looking at the effects of public expenditure on economic development. Common findings were that there was a strong positive relationship between highway facilities and economic development; however, the evidence for

Keywords:

growth, productivity, taxation,
government spending

JEL classification codes:

O47, H54, H20, H50

a link between education spending and economic growth was inconclusive. A study by Devarajan, Swaroop, and Zou (1996) using 43 developing countries also found mixed results: an increase in the share of current expenditure had a statistically significant positive growth effect, whereas productive expenditures such as capital, transport, and education had either a negative or an insignificant relationship with economic growth.

A few studies look at the evidence of how both taxation and government expenditure affect on economic growth, but they did not all reach the same conclusion. Using state-level data, Helms (1985) and the similar study by Mofidi and Stone (1990) argued that state and local fiscal variables strongly influenced the state's economic growth. For example, Helms (1985) found that taxes used for transfer payments retarded state growth, whereas taxes used to finance spending such as educational and infrastructure programs fostered the state growth. Including various ranges of government expenditures and taxes into a regression for a panel of 22 OECD counties, Kneller, Bleaney, and Gemmell (1999) found that an increase in productive government expenditures and a decrease in distortionary taxation had a statistically significant positive effect on growth. To the contrary, Quan and Beck (1987) and Mehay and Solnick (1990), two studies that encompassed the mid-1970s and early 1980s, showed a weaker effect for state and local fiscal variables.

Most of the empirical studies mentioned above have been limited in two important ways: 1) the studies used an aggregated rather than a disaggregated measure of fiscal policy variables, because of the difficulty in constructing comparable and consistent measures of tax rates and government expenditure at international or U.S state level; 2) the studies lacked a simultaneous analyses of taxation and government spending on economic growth. This study addresses these shortfalls by examining the effects of government spending and taxes on economic growth at a *local level* using North Carolina county data from 1980-1995. This paper contributes to the literature by (1) providing a theoretical framework that links the effects of these two fiscal policies on economic growth;

(2) using disaggregated data (various types of government spending such as roads and education spending and taxes such as personal income, corporate income, property and sales taxes) rather than an using aggregated measure of fiscal policies. The property tax is especially interesting because it is a major source of revenue for local government and has generally been ignored in the literature.

The next section briefly describes an economic growth model that links both various tax rates and government expenditures to growth and provides the predictions of the theoretical model. Section III presents the data and empirical results. Section IV concludes with policy implications.

An Endogenous Growth Model with Taxation and Government Expenditures

This study uses endogenous growth model with two-sectors in which production takes place: the first sector produces final goods (physical private output); the second sector produces human capital through schooling (education).

Physical output is produced with a constant return to scale (CRS) technology that uses human capital (H) and private physical capital (K)¹. The technology for a representative firm is assumed to take a Cobb-Douglas form:

(Equation 1)

$$Y_t = A \left(\frac{K_{G,t}^R}{N} \right) (v_t K_t)^\alpha (u_t H_t)^{1-\alpha}$$

$$A' > 0; A'' < 0,$$

where Y is total production and real income; total factor productivity (parameter A) is a function of productive government capital K_G^R per person, and N denotes population. K_G^R enters into the production of physical output as an input that enhances the productivity in the economy, that is, by raising total factor productivity. Parameters v and u are the fractions of physical private and human capital devoted to the production of physical goods, respectively, and α represents the physical capital share in the physical output sector. In this study, K_G^R

is specified as government owned capital stock in roads.

The technology for human capital production exhibits constant returns to scale and also uses human and physical capital as inputs. New human capital can only be obtained by allocating more time to schooling. Human capital of a representative household is produced as follows:

(Equation 2)

$$\dot{H} = B \left(\frac{G_{E,t}}{n} \right) [(1-v_t)K_t]^\beta (z_t H_t)^{1-\beta} - \delta_H H_t$$

$$B' > 0; B'' < 0,$$

where (1-v) and z are the fractions of physical and human capital, respectively, used in the accumulation of human capital through schooling and where the dot (.) over H represents the derivative with respect to time. As agents devote part of their non-leisure time (z) attending school as well as more people attending school, the accumulation of human capital will increase. G_E is current government spending on operating schools and includes teachers' salaries, heating of school buildings, etc. (1-v)K represents government physical capital used in human capital accumulation (schooling). In this study, government educational capital is in the form of school buildings and equipment².

The economy is assumed to be inhabited by identical, infinite horizon households. The representative household's lifetime utility is:

(Equation 3)

$$U_t = \int_0^{\infty} e^{-\rho t} u(C_t, \ell_t, D_t) dt$$

where ρ is the rate of time preference, ℓ denotes proportion of time devoted to leisure and D is the stock of durable goods. For simplicity, each individual's time endowment is normalized to one and is written as $u + z + \ell = 1$.

Inclusion of the stock of the durable goods in the utility function has two important implications. First, introducing the stock of durable goods is a natural

way of modifying the consumer's life-time utility function since the household gets utility not only from nondurable goods, C, but also from consumer durable goods, D. Mankiw (1987) has shown that including durables can have interesting effects on model dynamics. Secondly, inclusion of D in the consumer utility function allows incorporation of the property tax, which is the main revenue source of local government. Previous studies in the literature have not included the stock of durable goods in the utility function and have not examined the effect of the property tax on economic behavior.

Assuming that total government tax revenue in any period is equal to total government spending in that period, the

government budget constraint is given as:

(Equation 4)

$$T_t = G_t \\ = ROAD_t + SCHOOL_t + OTHER_t$$

where T is total tax revenue and is equal to the sum of corporate income tax (tax on physical capital), personal income tax, consumption tax (sales tax) and property tax on household durable goods and durable goods owned by a firm; G is the total government expenditure: ROAD is government investment in roads; SCHOOL includes government investment in school (building school) and current government spending for

operating the schools; and G(OTHER) represents all other current government expenditure. Using equations (1)–(4) along with the assumption of existence of long-run economic growth, growth is defined as (detailed derivations of equations 5 and 6 are available on request) (see equations below).

GROWTH is the economic growth rate; TAXINC is individual income tax; TAXCOR is corporate income tax; TAXSAL is consumption tax (sales tax); TAXPRO is property tax rate.

Equation 5 shows that the growth rate is a function of all exogenous fiscal variables and is also of the fraction of time spent in non-leisure activities ($u+z$). Determining the theoretical effect of each variable in equation 5 is not

(Equation 5)

$$GROWTH = \frac{1}{\theta} \left\{ \left[\left(A \left(\frac{ROAD}{N} \right)^\alpha \left[B \left(\frac{SCHOOL}{n} \right) (1-\beta) \right]^{\frac{1-\alpha}{\beta}} \right) X \right]^{\frac{\beta}{1-\alpha+\beta}} \right. \\ \left. \left(\frac{(1-TAXCOR)^\alpha (1-TAXINC)^{(1-\alpha)} (u+z)^{\frac{(1-\alpha)}{\beta}}}{TAXPRO} \right)^{\frac{\alpha-1}{\beta}} \right. \\ \left. \rho - \delta \right\}$$

(Equation 6)

$$u + z = \frac{1}{1 + \left[\frac{(1+TAXSAL)(1-\xi)}{(1-TAXINC)(1-\alpha)} \right] \left[\frac{(GROWTH \theta + \rho + \delta) + TAXPRO}{(GROWTH \theta + \rho + \delta) + TAXPRO + \xi (GROWTH + \delta)} \right]} \times \\ \left[1 - \frac{G}{Y} - \frac{(GROWTH + \delta)}{(GROWTH \theta + \rho + \delta) TAXPRO (1-\beta) (1-\xi)} x \right] \\ \left((1-\xi)\alpha(1-\beta)(1-TAXCOR) + \xi(1-\alpha)\beta(1-TAXINC) \right)$$

straightforward. By inserting equation 6 into equation 5, we could eliminate $u+z$ and obtain a very complicated non-closed form expression for GROWTH. However the resulting expression is not very informative. Instead both equations 5 and 6 are used simultaneously to determine the effects of fiscal policy variables on economic growth (i.e. the sign of the derivative of GROWTH with respect to the fiscal policy in question).

The predictions of the developed theoretical model are that all taxes affect long-run growth negatively, whereas all government expenditures have positive effects (details of these channels are available upon request). These overall effects are perhaps unsurprising, but the following paragraphs provide some intuitions about the effect of each tax policy (TAXINC, TAXCOR, TAXSAL, and TAXPRO) and each expenditure policy (ROAD and SCHOOL) on growth.

As income tax rate (TAXINC) increases, people seek to avoid taxes by simply reducing income-producing activities, leading to economic productivity declines. If the costs of taxation are too high, people may choose to work fewer hours, invest less, or hide income. Thus, productivity declines as the tax rate increases. Therefore, the higher the tax rate, the more time people spend evading taxes and the less time they spend on more productive activity.

Corporate income tax (TAXCOR) is the rate at which firms actually pay tax on their profits. The higher the corporate income tax rate, the lower the profit would be. Therefore, firms choose to invest in the state that has lower corporate income tax. Higher private investments lead to higher employment levels and an increase in the level of production, which improves the overall welfare of the state. So, there is a negative relationship between corporate income tax and economic growth.

Sales tax (TAXSAL) has a more direct effect on consumer consumption choice. An increase in sales tax increases tax burden on the consumer, which results in fewer consumer consumption activities. Fewer consumer consumption activities lead to less demand for goods and services, which results in a decrease in production levels, leading to lower economic growth.

Property taxes (TAXPRO) are imposed on both real property (buildings) and personal property (equipment) owned by consumers and business firms. A negative relationship between property tax and economic growth is expected. One way to explain this relationship is that higher property taxes rate would tend to penalize businesses that have made a significant investment in property, leading such businesses to move to other states that have lower property tax rates.

Human capital investments resulting from education spending and physical capital investment resulting from roads are expected to have consistent positive growth impacts. A greater investment in education would produce a better

educated, well trained, and more productive labor force. A greater investment in infrastructure (e.g. roads) would provide valuable services to private entrepreneurship by enhancing the productivity.

Data and Methodology

The model is estimated with county-level annual panel data from North Carolina. The data cover 99 (out of 100) counties in North Carolina for the years 1981-1995 and are obtained from public county and state sources in North Carolina. Much of the data are taken from the LINC (Log into North Carolina) data bank (North Carolina State Data Center, Office of State Planning). A detailed source and definition for each variable are listed in Table 1.

TABLE 1
Description of Data

Variables ^a	Definition	Source
GROWTH	average growth rate in real non-transfer personal income per capita,	LINC Data
TAXINC	dummy variable for shift in individual marginal income tax rate	N.C. Dept of Revenue
TAXCOR	state corporate income tax rate	N.C Dept. of Revenue
TAXSAL	effective sales tax rate	LINC Data, N.C Dept of Revenue
TAXPRO	effective property tax rate in \$ per \$100 market valuation	LINC Data, N.C. of Association of County Commissions
ROAD	stock value of roads per square mile of land area	N.C. Dept. Of Transportation
SCHOOL	government operating expenditures both education for higher education and for grades K-12 per pupil	N.C. Office of for State Planning and Public Instruction
INITIAL	real non-transfer personal income per capita	LINC Data
STAMP	percentage of households receiving Food stamps	LINC Data
CYCLE	Cyclical component of U.S. real GDP	LINC Data

Note: a) All variables are expressed in 1995.

The regression equation follows the linear approximation form of equation 5 (Mendoza, et al., 1997) and can be described as following:

(Equation 7)

$$\begin{aligned} \text{GROWTH}_{i,t} = & b_0 + b_1\text{TAXINC}_{i,t} \\ & + b_2\text{TAXCOR}_{i,t} \\ & + b_3\text{TAXSAL}_{i,t} \\ & + b_4\text{TAXPRO}_{i,t} \\ & + b_5\text{ROAD}_{i,t} \\ & + b_6\text{SCHOOL}_{i,t} \\ & + b_7\text{INITIAL}_{i,t} \\ & + b_8\text{STAMP}_{i,t} \\ & + b_9\text{CYCLE}_{i,t} \\ & + \varepsilon_{it} \end{aligned}$$

GROWTH is the growth rate in real non-transfer personal income per capita; *i* represents county and *t* is time period (with *t*=1981..1995); and ε_{it} is the error term

It is important to report that individual marginal income tax rates in North Carolina were legislatively changed in 1989 and 1992. Hence, a dummy variable is included to account for the years when income tax rates (TAXINC) were changed. Since these changes occurred in 1989 and 1992 during the study period of this research, a dummy variable, TAXINC, is set equal to 1 for years 1989 and 1992 and is 0 in the other years³.

As is standard in the empirical literature (Barro and Sala-I-Martin, 1995), three conditioning variables are included in the Equation 7. The initial real non-transfer personal income per capita (INITIAL) is one of the conditioning variables included. The initial level of per capita income (INITIAL) influences the length of time that the economy needs to reach its long-run economic growth. If all economies converge to a long-run economic growth path, economies that have a higher initial level of real per capita income would need less time to reach their desired levels of economic growth. Therefore, a negative relationship between INITIAL and GROWTH is expected.

To capture any structural differences in student socioeconomic status, the percentage of households receiving foods stamps (STAMP) is included. Presumably, students from a lower level socioeconomic background (high food stamp rate) have more difficulty learning than those coming from households with a higher socioeconomic background. A higher (lower) food stamp household rate in a county thus has fewer (more) quality skilled labor, which results in lower (higher) labor productivity. Therefore, a negative relationship between the percentage of households receiving foods stamps and economic growth is expected.

During periods of rapid growth, the government may commit itself to new spending programs and also to new taxes to finance them. For example, due to high growth in Wake County, North Carolina, the state government allowed Wake County to impose new taxes on restaurant meals and hotel visits to finance an arena, children's museum, expanded convention center, and other public infrastructure. Therefore, a cyclical component of U.S. real GDP per capita (CYCLE) is included to capture any business cycle impact. The expected sign between CYCLE and economic growth is positive. The means, standard deviations, and ranges for each variable in the empirical model are reported in Table 2.

Equation 7 is empirically estimated by an OLS procedure with fixed effect (county dummies). Any outlier observations, defined as an observation deviating more than two standard errors of a full-sample regression, are excluded.

The empirical results are given in Table 3. Government spending variables have the expected signs and are consistent with the predictions of the theoretical model. The government capital stock of roads per square mile of land (ROAD), current government expenditures on operating public schools per pupil and higher education per pupil (SCHOOL) are positive and statistically significant. Their estimates suggests that, holding everything constant, a unit increase in ROAD and SCHOOL increases the growth rate by 0.002 and 0.00001 percentage points, respectively.

In contrast, mixed results are found for the effects of taxes on economic growth. The marginal income tax (TAXINC), corporate income tax (TAXCOR) and property tax are statically negative and each significantly reduces economic growth. Their point estimates suggest that a one percentage unit increase in TAXINC, TAXCOR and TAXPRO reduces the economic growth by 0.018, 1.46 and 0.019 percentage points, respectively⁴.

Contrary to expectation, the sales tax (TAXSAL) is statistically significant and positively correlated with growth rate. A possible explanation for this unexpected result is the recent shift of consumer spending to services. As income increase, consumer spending shifts

TABLE 2
Descriptive Summary Statistics of Data

Variable	Mean	Standard Deviation	Min	Max
GROWTH	0.02	0.04	-0.13	0.3
TAXINC	0.06	0.16	0	0.53
TAXCOR	0.07	0.01	0.06	0.08
TAXSAL	3.57	0.74	1.79	5.97
TAXGAS	0.74	0.16	0.54	0.94
TAXPRO	0.75	0.20	0.24	1.81
ROAD	11.5	8.69	1.65	51.9
SCHOOL	6225	1113	4032	10571
INITIAL (thousands)	12.46	3.09	5.87	24.97
STAMP	27.59	15.01	4.63	111.86
CYCLE	-0.0003	0.024	-0.48	0.004

TABLE 3
Estimation of Cross-County Growth Regressions
 Dependent Variable: Growth in Real Personal Income Per Capita

Variable	Coefficient	Whites' Standard Error#
TAXINC	-0.018**	0.001
TAXCOR	-1.46**	0.39
TAXSAL	0.036**	0.003
TAXPRO	-0.019*	0.01
ROAD	0.002*	0.001
SCHOOL	0.00001**	0.000004
INITIAL	-0.02**	0.001
STAMP	-0.0004*	0.02
CYCLE	0.48**	0.05
Adjusted R ² :	0.28	
Number of Observations:	1386	
Fixed Effects: Ho: No Fixed Effects vs Ha: Fixed Effects.		
F value	2.83	
P value	0.0001	

Whites' heteroskedasticity-consistent standard errors.
 * and ** denote significance at the 1% and 5% levels, respectively;
 Constant term and county dummies are included in the regression.

to services. Since consumer spending on services is largely untaxed by the retail sales tax in North Carolina, there will be pressure to increase the retail sales tax rate during years when and in counties where faster economic growth occurs.

Turning to control variables, the parameter estimates for INITIAL, STAMP and CYCLE are of the expected signs and statistically significant. Finally, fixed effects are tested to see if there is a "county specific effect". The result is tabulated in Table 3 and suggests that at the five percent significance level, the coefficients on county specific effect are jointly equal to zero is rejected by the data.

Conclusion and Policy Implications

This study addresses the importance of fiscal policy on local economic growth considering the data from North Carolina's 99 counties for the period from 1980-1995. By utilizing a growth model including various government spending and taxation, we theoretically evaluate and empirically estimate the impact of state and local government expenditure and tax policies on economic

growth which is the important feature of this study. Few previous studies have done this, and none for such a comprehensive county level data. Providing a theoretical and empirical analysis of effect of property taxation on economic growth is also unique to this study.

Using OLS estimation technique with fixed effect, we find that both taxation and government expenditure have a statistically significant effect on economic growth. Specifically, increases in marginal income tax (TAXINC), corporate income tax (TAXCOR) and property tax (TAXPOR) reduces the economic growth. Both government spending on road (ROAD) and school (SCHOOL) produce significant positive impact on economic productivity.

These empirical results have important policy implications. A county's ability to grow by attracting, retaining, and encouraging business activity, as well as increasing and retaining the level of the work force is significantly affected by tax policy. Therefore, if public decision maker's goal is to reduce the gap between its most and least economically viable counties, establishing Enterprise Zones by using property tax exemptions

and expanded state tax credits would be very beneficial.

The study's results also have implications for the physical capital / human capital debate in economic development. Specially, it is found that there are consistent positive impacts on the growth rate from the human capital investments resulting from education spending and physical capital investment resulting from roads. Higher spending on physical capital and human capital translates into higher productivity leading to higher economic growth. In conclusion, if a more balanced economic growth is a policy goal, policy makers must recognize the importance of developing effective fiscal policy.

End Notes

- 1 Human capital (H) can be defined as the number of labors, L, multiplied by the quality of typical workers (Barro and Sala-I-Martin, pg.172, 1995).
- 2 Since there are few private schools in the state of North Carolina, to which the theoretical model is applied, defining (1-K) as public school and equipment is not all unreasonable. For example, in 1989 only 4.3% of elementary and secondary students in North Carolina were in private schools (U.S. Department of Education; Digest of Education Statistics, 1993, Table 43 and 62)
- 3 In fact, the state marginal income tax is progressive and positively related to the level of income. As the growth rate increases (decreases), a higher (lower) average income level results, and a rising (decreasing) income level pushes households into higher (lower) average income tax brackets. So there may be a spurious positive correlation between the growth rate and marginal income tax. Therefore to capture the effect of marginal income tax rates on economic growth, we just consider the legislative marginal income tax rate change during the study period.

- 4 When policy makers are contemplating the effects of a fiscal policy change on economic growth, they must consider the simultaneous effects of opposite forces of taxes and spending on economic growth. For example, the corporate income tax rate (TAXCOR) is increased by one percentage point and the additional revenue is spent on education spending (both K-12 and higher Education). However, this issue is beyond of the scope of this study. See the study by Denaux and Walden (2005, forthcoming) for empirical estimation of simultaneous effects of fiscal policy variables on economic growth.

References

- Barro, R., and X. Sala-I-Martin., *Economic Growth*, 5th Edition, 1995, McGraw-Hill, Inc.
- Burstein, M. L., & Rolnick, A. J., 1995, March., Congress should end the economic war among the states. *Federal Reserve Bank of Minneapolis: The Region*, 9, 3-19.
- Denaux Z.S and M.L Walden, 2005, forthcoming, Complete State and Local Fiscal Policy Impacts on Local Economic Growth, *Southern Business and Economic Journal*.
- Devarajan, S., Swaroop, V and Zou, H., 1996, The Composition of Public Expenditure and Economic Growth. *Journal of Monetary Economics* 37, 313-344.
- Fisher, R.C., 1997, The Effects of State and Local Public Services on Economic Development. *New England Economic Review*, Mar/Apr,
- Goss, E. P., and Phillips, J. M., 1999, Do Business Tax Incentives Contribute to a Divergence in Economic Growth? *Economic Development Quarterly*, 13 # 3 (August), 217-28.
- Helms, L., 1985, The Effects of State and Local Taxes on Economic Growth: A Time series-Cross Section Approach. *The Review of Economics and Statistics* 67, 574-582.
- Holtz-Eakin, D. and Schwartz, E., 1995, Infrastructure in a Structural Model of Economic Growth. *Regional Science and Urban Economics*, 25, 131-151.
- Kneller, R., Bleaney, M. and Gemmell N., 1999, Fiscal Policy and Growth: Evidence from OECD Countries. *Journal of Public Economics*, 74, 171-190.
- Mankiw, G.N., 1987, Government Purchases and Real Interest Rates. *Journal of Political Economy*, 95, 407-419.
- Mehay, Stephen L. and Loren M. Solnick., (1990), Defense Spending and State Economic Growth. *Journal of Regional Science* 30, 477-87.
- Mendoza, E. G., Milesi-Ferretti, G. M. and Asea, P., 1997, On the Ineffectiveness of Tax Policy in Altering Long-Run Growth: Harberger's Superneutrality Conjecture. *Journal of Public Economics*, 66, 99-126.
- Modifi, A and J. Stone, 1990, Do State and Local Taxes Affect Economic Growth? *Review of Economics and Statistics*, 71, 1989, 686-691
- Munnell, A. H., 1990, Why has Productivity Growth Declined? Productivity and Public Investment. *New England Economic Review*, 1990, 1-22.
- Padovano, F. and Galli, E., 2001, Tax Rates and Economic Growth in the OECD Countries (1950-1990). *World Development*, 30 #9 (September), 1497-1516.
- Quan, Nguyen T. and J. H. Beck, 1987, Public Education Expenditures and State Economic Growth: Northeast and Sunbelt Regions. *Southern Economic Journal*, 54 , 361-76.
- Wasylenko, M., 1997, Taxation and Economic Development: The State of the Economic Literature. *New England Economic Review*, Mar/Apr.