



Higher Taxes = Less Innovation

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When researchers at the Show-Me Institute argue that high tax burdens encourage people to leave Kansas City and St. Louis, city leaders often react with derision. Yet when they want to encourage development in their respective cities, they employ policies intended to attract investment by—surprise—reducing taxes through abatement, tax increment financing and the like. They may not want to admit it, but they are conceding our chief argument: Tax rates affect development.

Now we learn that high tax rates affect more than development. According to a new study from the [National Bureau of Economic Research](#), tax rates affect innovation. The researchers used data stretching back to the early 20th century and looked mostly at state-level taxation. The large amount of data used by the researchers led to some impressive findings (page 33):

A one percentage point higher tax rate at the individual level decreases the likelihood of having a patent in the next 3 years by 0.63 percentage points. Similarly, the likelihood of having high quality patents with more than 10 citations decreases by 0.6 percentage points for every percentage point increase in the personal tax rate.

The report even anticipated some of the usual complaints about innovation in Kansas City that

are tied to our development-incentive “border war” with Kansas:

We find that taxes matter for innovation: higher personal and corporate income taxes negatively affect the quantity, quality, and location of inventive activity at the macro and micro levels. At the macro level, cross-state spillovers or business-stealing from one state to another are important, but do not account for all of the effect.

Municipal leaders have invested a lot of taxpayer money and frothy eloquence in innovation and technology. Yet when it comes to actual public policy, such as with ridesharing, they have reverted to regulatory bad habits in both [St. Louis](#) and [Kansas City](#). They certainly aren't supporting innovation in their [tax policies](#).

If political leaders in Missouri want to spur innovation, they need to enact policies that stay out of innovators' way—and burden investors less.

About the Author



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[3] <http://www.nber.org/papers/w24982>

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