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STRONG BUSINESS CLIMATES MAY ALSO INDICATE MORE INEQUALITY

For decades, states have tried to attract businesses by touting their positive “business climate,” which typically means low tax rates. But a [new 2014 study](#) at the University of California, Irvine’s Center for Economics & Public Policy (CEPP) shows that, although often associated with faster economic growth, lower state taxes are also associated with larger increases in income inequality.

Authors David Neumark and Jennifer Muz find that:

- There is no consistent evidence that a high ranking on a productivity-related index is associated with reduced income inequality.
- There is evidence of a tradeoff between income equality and growth: those states that rank highly on the tax-and-cost indexes, and thus experience faster economic growth, also tend to experience faster growth in income inequality.
- According to **David Neumark**, author of the study and Director of the Center for Economics & Public Policy, “the evidence implies that when tax-and-cost-related business climate indexes are touted as demonstrating a strong business climate in a state – as they often are – policymakers and voters should be aware that there is another side to the coin: although these business climate indexes are in fact associated with higher economic growth, they are also associated with rising inequality.”
- **These results suggest that policymakers – and society at large – have to make some tradeoffs when choosing policies affecting taxes and the costs of doing business; the policies that enhance growth are also associated with more rapidly increasing inequality.**

Background on the Center for Economics and Public Policy:

Established in 2011, the Center for Economics & Public Policy (CEPP) seeks to improve analysis, formulation and debate on economics-related public policy issues at the international, national, state and local levels. Directed by economics professor David Neumark, the Center brings economics-related public policy research – especially by UCI faculty and students – to policymakers, the public generally, and the UCI community; and strengthens the public policy focus of economics-related research at UCI.

Contact Information

Adam Welsh-Keyser
awelsh1@uci.edu

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