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Fiscal Zoning, Sales Taxes, and Employment:
Do Higher Sales Taxes Lead to More Jobs
in Retailing and Fewer Jobs in Manufacturing?*

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Executive Summary

Fiscal Zoning, Sales Taxes, and Employment: Do Higher Sales Taxes Lead to More Jobs in Retailing and Fewer Jobs in Manufacturing?

Many U.S. states allow local governments to levy sales taxes that add to the state sales tax. Local governments are then able to retain some or all of the resulting tax revenues. Since retail sales generate more sales tax revenue than other land uses, these extra sales taxes may give local government officials an incentive to encourage retailing.

Local government officials have a number of policy instruments and practices that they can use to encourage retailing:

- Zone additional land for retail use.
- Allow land zoned for retailing to be developed at higher density levels.
- Reduce red tape required for construction and renovation of retailing centers.

Efforts by local government officials to encourage land uses that generate high tax revenue are referred to as "fiscal zoning."

Since the total amount of land available for economic development may be limited, as local government officials use these policy instruments to encourage retailing, they may zone less land for manufacturing and other uses. Thus, one of the consequences, though perhaps unintended, of the efforts of local government officials to encourage the development of land for retailing is its effect on the local job market. Insofar as their fiscal zoning efforts are successful, lower-paying retail jobs are expected to become relatively more abundant and higher-paying manufacturing relatively less so.

Analysis

Using data from the National Establishment Time Series (NETS) on all individual business establishments in Florida from 1992 to 2006, Daria Burnes, David Neumark, and Michelle J. White ask whether there is evidence that policymakers do, in fact, engage in fiscal zoning. The authors address this question by conducting two tests:

- First, using retail employment as a measure of the strength of fiscal zoning (since it is assumed that retail employment will rise if zoning efforts are successful in attracting more retailers), they test whether total retail employment rises in response to increasing local sales tax rates. They also test whether employment responses differ between big-box/department stores vs. small stores, because fiscal zoning may be more important for big-box/department stores, and because these stores may be more important sources of sales tax revenue.

- Second, since manufacturing may compete with retail shopping centers for land, and since manufacturing generates less sales tax revenue than retailing, the authors test whether manufacturing employment falls in areas where local sales tax rates increase.

Results

The authors have three main findings:

1) Total retail employment *does not* significantly increase in areas with higher local sales tax rates.
2) Employment in big-box stores and department stores that anchor shopping malls increases by 9-11% for each 10% increase in the sales tax rate (a 10% increase in the sales tax rate would occur if, for example, the sales tax rate rose from 6% to 6.6%). This suggests that local policymakers do engage in fiscal zoning, but they do so in a targeted manner. They do not try to attract small stores in response to higher sales taxes. But they do try to attract shopping centers and big-box stores and their efforts are successful.
3) Employment in manufacturing decreases by 5-6% for each 10% increase in the local sales tax rate.

In a related result, the authors find that the strength of their conclusions varies greatly depending on how close a region of study is to the border of a different local region. When a region is far from the border of another region (such that consumers have no practical alternative to their local shopping centers), a 10% increase in the local sales tax rate leads big box/anchor store employment to rise by 30%. But when a region is close to the border of another region, a 10% increase in the sales tax rate leads big box/anchor store employment to *fall* by 11%. For manufacturing employment the results are opposite those of retailing employment. These results suggest that the effects of fiscal zoning are undermined when consumers are near a border, because consumers can shift their shopping to the side of the border where sales tax rates are lowest.

Policy Implications

The results of this study suggest that local government officials engage in fiscal zoning in response to increases in the local sales tax rates. Fiscal zoning efforts are largely focused on attracting shopping centers and big-box stores, which appears to deter the development of land for manufacturing. More specifically, these results suggest that a 1 percentage point increase in the local sales tax rate in a county leads to approximately 258 additional jobs in big box or anchor stores, but approximately 838 fewer manufacturing jobs. The implication is that fiscal zoning may lead to the substitution of lower-paying jobs for higher-paying jobs, which is likely harmful to local residents and the local economy.

Because of the potential harm that rising sales taxes might impose on local economies, policy makers should exercise caution when considering the adoption of policies that could lead to greater reliance on sales taxes for government revenue. In California, policies from the late

1970s severely curtailed the ability of local governments to generate revenue through property taxes. Local governments were, however, allowed to adopt sales taxes as one means to replace lost revenues. The implication of this study is that policy-induced changes in local sources of taxation can have important consequences for local labor markets and local economies more generally.

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