warned in his speech to steel workers in Pittsburgh in 1988, "I've been in government a long time and I've seen what happens when government raises a dollar in revenues–Congress spends $1.50." And at the same time that higher tax dollar is killing $10 of capital assets on which employment and growth directly depend.

Social Security Taxes and the Wage Bust

If you still doubt this relationship I ask you to consider one more key example. Since 1972, average weekly wages have fallen dramatically in real terms by 16 percent. In the prior 17 years, they ROSE 30 percent.

If you want to know why, consider one thing: Since 1972, the maximum combined employer/employee Social Security tax rose over 675 percent from $936 a year to the current figure of more than $7,200. In that period while total wages and salaries rose by 312 percent, total Social Security contributions rose by 526 percent.

If Social Security tax rates had remained at 1972 levels, workers would now be paying $144 billion a year less than they now do. That means that the working capital that supports those wages and those jobs is $1.44 trillion less than it would be if there had not been that soaring Social Security tax increase.

The annual wage effects alone of that higher working capital base easily translate into two percent real annual wage increases instead of the nearly one percent annual wage losses we experienced.

That demonstrates the economic potential of Senator Daniel Patrick Moynihan's proposal to give back the $55 billion higher Social Security payments than are now required to pay current benefits. That reduction would translate into an immediate $550 billion rise in the real working capital of this country–a doubling of the effective capital increase per year. The Democrats were foolish not to grab this idea and run with it. President Bush and Treasury Secretary Nicholas Brady were so transfixed by the deficit they were relieved when the Democrats dropped the ball.

Low Taxes and High Growth: The New Hampshire Model

By now it should be obvious to you that the so-called Massachusetts Miracle was not a miracle at all, but the simple and direct operation of an economic law that is as fixed as the law of supply and demand. Unfortunately, in the middle of that multiplier effect, the state turned from a strong fiscal policy of tight spending control that made the tax cut real to a very loose policy of spending every nickel of an incredible 12-14 percent a year revenue growth. Instead of using that growth to generate still more political and economic capital, they squandered it on their political machinery.

> "'. . . when government raises a dollar in revenues –Congress spends $1.50.'"

This was in sharp contrast to Massachusetts' neighbor to the north, New Hampshire, which has used the political capital of its commitment to low taxes to build the *best* performing economy in the nation over the last two decades.

It has also demonstrated the ideal model for fiscal and economic policy for the nation as well. For this I commend a 1989 study by Colin and Rosemary Campbell, economists of Dartmouth College, a follow-up to their 1976-77 study. The Campbells have been keeping a close eye on New Hampshire and Vermont for the last 12 years because they provide a nearly perfect economic laboratory.

New Hampshire with the lowest overall tax burden of the nation (no state sales or income tax) is the classic "supply-side" limited government economic model, with 53 percent of its revenues collected and administered by local government and the lowest welfare-recipients-to-population ratio in the nation.

Vermont, right next door, is the quintessential liberal welfare state with one of the top 15 tax burdens, 39 percent higher than New Hampshire's and one of the most generous welfare benefit programs in the nation. Its strong centralized state government raises about 60 percent of all revenues collected in the state.

The question is, how have these two models fared in the generally strong New England high tech economy? Since 1970, New Hampshire has increased its total personal income in constant dollars by 139 percent, nearly double the nation's growth of 71 percent and New England's growth of 69 percent. Per capita income has soared by 69 percent, compared with 43 percent for the nation, from a level four percent below the nation to 13 percent above it.

By contrast, Vermont's per capita income has risen only 48 percent, some 30 percent slower than New Hampshire's, and 15 percent slower than in the New England region as a whole. Since 1970 Vermont's per capita income has fallen from 93 percent of New Hampshire's to less than 82 percent.

The same contrast holds up in regard to employment. From 1970-1987, New Hampshire's job growth was 98 percent, half again as fast as Vermont's 65 percent and more than double the nation's 44 percent.

Thus, New Hampshire's model outperforms Vermont's on every economic indicator by 40 to 50 percent. One could argue this was because of its proximity to the Boston market. The trouble with that argument is that New Hampshire's job growth has been *triple* that of Massachusetts for two decades, and 66 percent faster than the nation's. Its personal income growth was nearly *double* that of Massachusetts in the 1970s and 70 percent faster than the nation's since 1970.

But what does the New Hampshire low-tax, "laissez-faire" model mean for the poor in limiting government services?

The Campbells' answer is: "Most public services in New Hampshire are as good as those in Vermont." There are two reasons for this: First, because New Hampshire's more rapid economic growth has since 1970 generated greater gains in revenue income (585 percent) to all government since than Vermont (397 percent).

Second, because New Hampshire's more locally controlled government administers services in a more cost effective way than Vermont's more centralized bureaucracy, requiring 11 percent fewer bureaucrats per 10,000 population than Vermont.

On education, for example, Vermont spends 39 percent per capita and 14 percent per student more than New Hampshire. But it pays its teachers identical average salaries and has about the same low teacher-to-student ratio. So all of Vermont's extra spending goes into administrative bureaucracy.

On education performance New Hampshire has the highest SAT scores in the nation, 24 points higher than Vermont's and its high school completion rate is three points higher.

On health care, New Hampshire outspends Vermont by 26 percent, and on police and fire protection 42 percent more, reflecting its somewhat more urban environment. But New Hampshire's highways, among the best surfaced and best plowed in the nation, cost taxpayers 23 percent less per capita to maintain than Vermont's.

The one area where Vermont does spend a lot more is welfare. Vermont has some of the most generous welfare benefits in the nation, eight percent above New York and 42 percent above New Hampshire. So it is no surprise that Vermont's total welfare caseload is nearly double that of New Hampshire for a state with half the population, and the share of its population on welfare is 3.3 times that of New Hampshire, with 43 percent more Medicaid recipients.

In spite of this–or perhaps because of it–Vermont's poverty rate has stayed stubbornly high at 12.1 percent for the last two decades. Meanwhile, New Hampshire has cut its welfare caseloads by nearly 60 percent since 1970 and its poverty rate by 43 percent, from 14.9 percent, a level higher than Vermont's, to 8.5 percent, the best performance against poverty of any state in the nation.

Most of all New Hampshire dispels the notion that strong economic growth and low welfare produce more income inequity. Not only does New Hampshire have the lowest income inequity (or gini coefficient) of any state in the nation (19 percent lower than the nation) but over the last seven years that index dropped 21 percent, while the national index rose nearly six percent.

At the same time, Vermont with its progressive income tax and more generous welfare programs has seen income inequity rise five percent to a level 13 percent higher than New Hampshire's.

In sum, New Hampshire has proved that the low-tax-local-government model not only produces the best economic growth for its citizens and reduces poverty the most, but it provides better, more cost-effective human services for those in need and a more equitable society in which a rising tide is lifting all of the boats as President Kennedy argued it should.

New Hampshire also serves as a clear example that when a political pledge of trust against state wide taxes is taken that pledge becomes a veritable political goldmine that goes on year after year yielding a mother lode of economic capital for the citizens and political capital for politicians. ♟

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