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Because Ideas Have Consequences

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"Mr. President, Read Our Lips: No New Taxes"

***Warren Brookes, Syndicated Columnist,* Detroit News**

Editor's Preview: *This is the first of a two-part series featuring prominent Americans' responses to President Bush's abandonment of his unequivocal stance against new taxes. Syndicated columnist Warren Brookes, often credited with being the real father of the "Massachusetts Miracle," explained the little known law of accounting called "tax capitalization" before an audience of over 250 Milwaukee leaders in the May 1990 Shavano Institute for National leadership seminar, "Does America Need More Taxes?"*

For years I have thought of George Roche as a kind of modern-day prophet–but today, I am a believer. How else can we explain that over a year ago he predicted that some of America's most fervent anti-taxers would now be hedging on the question of whether new taxes are necessary?

It is ironic indeed that halfway through the 8th year of the longest peacetime expansion in U.S. recorded economic history–in the 90th month to be exact, the president who is the direct political beneficiary of that recovery should even be tempted, as he now so obviously is, to answer that question in the affirmative.

There is little doubt that President Bush faces a serious fiscal challenge. The FY1990 budget deficit now appears to be headed toward $190 billion–nearly $40 billion above FY1989. That is because rev-

enues are growing half as fast (four percent) as predicted (eight percent), and spending is growing much faster (seven percent) than forecast (five percent).

That implies a budget deficit for FY1991 of $145-195 billion, depending on whose baseline economic and fiscal estimates you accept. Since the Gramm-Rudman-Hollings target is $64 billion, with a $10 billion leeway, those high forecasts could force a "sequester," or automatic cut, of $60-120 billion.

Any president might be tempted to accept a significant tax increase of $30-$50 billion as part of a "solution." Yet such a tax increase is virtually certain to make the deficit worse, not better. Not only will tax increases stimulate more spending growth, they will do far more harm economically than most politicians and even mainstream economists understand.

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Tax Capitalization: Why Taxes Cost Us 10 Times Over

This is because of something called "tax capitalization," an accounting principle used in measuring the influence of tax assessments on the value of assets such as real estate.

Since that value is a function of the income stream the property can earn, any diversion of that stream to higher taxes or increase in that stream from lower taxes will have a MULTIPLIER effect on the value depending on the current price earnings ratio of real estate.

If that current return on property is approximately 10 percent, every dollar of income represents $10 of value. Every dollar of income diverted to taxes reduces

that value by $10. Every dollar of income released by tax reduction increases the value by $10. Thus accountants know that an increase in the tax assessment of a property has an automatic 10-1 negative impact on value.

Think of the economy as a single business with both fixed and working capital on which an income stream is earned. To the degree that taxes on that business rise and fall, the income stream is lowered or raised. Thus the capital value of that business falls or rises at the nation's effective price earnings ratio, which on corporate bonds is about 10 to 1.

New Taxes Kill Prosperity

A $30 billion tax increase on the economy may not seem like much in a $5.5 trillion GNP–but its real impact is a $300 billion "tax capitalization" of the asset base of the nation. Since the nation adds less than $300 billion a year in net new investment, such a tax increase effectively destroys an entire year's capital growth.

That is why President Bush and Congressional leaders are now playing with economic dynamite. Not only will a $30 billion tax increase generate a likely $40 billion rise in spending, it will kill ALL capital expansion for at least a year and send the stock market down by at least 300-500 points.

This is why Bush was so right when he told a Republican audience in Boston in 1987, "There's no quicker way to kill prosperity than to raise taxes." In Chicago on September 13, 1988, he told a national audience of business leaders and economists, "The surest way to kill the recovery is to raise taxes. That will stifle everything from investment and personal savings to consumer spending. It will clamp down on growth. It will invite a recession."

But now Bush is equivocating. The spring 1990 budget summit was clearly intended to explore all options, including raising taxes.

Warren Brookes is an award-winning syndicated columnist for the *Detroit News* whose articles appear regularly in the *Wall Street Journal, Reader's Digest, Policy Review* and approximately 50 daily newspapers nationwide. The author of *The Economy in Mind*, published in 1982, he specializes in looking at the economic side of political and social issues. The well known annual *Media Guide* has given him four stars every year, making him the only journalist to earn that distinction.

A Tale of Two Massachusetts

No wonder Massachusetts Governor Michael Dukakis, wallowing in the slough of his own 83 percent negative performance despond, with a $2.3 billion 18-month deficit yawning before him, suddenly cheered up and flew to Washington to gloat that Bush's "no-tax" pledge had been "a fraud."

The governor is unusually well-equipped to identify such duplicity. In 1974, he ran on a similar promise that it was "a lead pipe cinch" that he would NOT have to raise taxes in 1975. But of course he did, passing the largest tax increase in state history, some $500 million. That broken pledge cost him dearly in the 1978 Democratic primary, when a political neophyte conservative businessman named Ed King threw him out in a shocking landslide upset–running on the explicit promise to roll back the state's highest-in-the-nation property taxes, à la Proposition 13 in California of which Dukakis had said, "the people of Massachusetts are too smart to fall for a dumb idea like that!"

It seems no accident that in the middle-and-working-class communities where property taxes were two and three times the national average, King won pluralities of 15-20 points. In the affluent communities where taxes were at or below the nation, Dukakis scored his only majorities.

Before President Bush makes any deals with the Democrats for higher taxes in return for modest budget reforms or alleged spending cuts, he would do well to study and learn from the Dukakis/Massachusetts experience. It demonstrates the direct connection between taxation and economic growth–between political capital and economic capital. Taxes, he will discover, have not merely a direct but a powerful multiplier effect on both.

During the 1970s when the Massachusetts tax burden as a percent of personal income suddenly soared by 25 percent from about the national average to fifth highest in the nation, its average real personal income growth suddenly plummeted from 91 percent of the U.S. level to 57 percent.

By contrast, during the 1980s when the Massachusetts tax burden fell over 17 percent, to five percent *below* the nation, its real personal income grew nearly 45 percent *faster* than the nation's.

To put it in another way, from 1970 to 1978, when it became "Taxachusetts," the Bay State fell from 33rd in growth rate among states to 47th, and its per capita personal income fell from 10 percent above the nation to less than two percent above–while its tax burden jumped almost 25 percent.

By contrast from 1978 to 1983, while its tax burden fell 17 percent, it rose from third slowest growing in the nation to third fastest, and its per capita income rose from three percent above the nation to 14 percent above it–the largest and fastest turnaround in U.S. history, from the Taxachusetts Swamp to the Massachusetts Miracle in only five years.

From Fiscal Restraint to Spending Boom . . .

Sadly, it is now all too clear that Mike Dukakis had no idea what caused this turnaround or he would not have fought it at every step and then so willingly risked squandering it the way he did.

In June 1984, a booming and fiscally flourishing Massachusetts had its bond rating raised to AA. The same month, the state manufacturing base rose to 684,000 jobs, the highest level since the late 1960s in a state whose economy was literally exploding, after surviving the worst U.S. recession in postwar history with surprising ease. State revenues were growing at a 12-14 percent annual rate, 30 percent faster than its spending level, and unemployment was dropping by the month.

Unfortunately, that huge revenue surge

merely encouraged a newly re-elected and rejuvenated Dukakis to go on a spending spree, partly to pay off the special interests that had brought him back to office, and partly to build a powerful new campaign army for the 1987-88 national run.

State payrolls which had fallen by 6,000 under King re-exploded by 23,000 under Dukakis. State borrowing for housing development doubled in four years. State executive department spending, which had been going down in real terms under King, took off and rose to triple-inflation rate levels, 30-40 percent faster than the nation's.

The results were neither pretty nor hard to predict. A state that had been running four percent annual surpluses through FY1986 suddenly started running annual deficits of six percent. An FY1986 state surplus of more than $600 million suddenly turned into a $1 billion deficit by FY1989. A state that had been trying to fund its huge pension liability was secretly borrowing from it by the end of 1988, and running $300 million overdrafts at major Boston banks. Revenues that had been rising nearly 13 percent a year from FY1984 through FY1987 fell to a two percent annual rise FY1988 through FY1990, and are down this year one percent from 1989.

. . . to Total Fiscal Disaster

Above all, an economy that had been booming at one of the fastest rates in the nation began to fall apart under the pressure of that government explosion. As we speak, the once proud manufacturing job level is below 560,000 jobs, a 124,000 job plunge in a 4-year period when the nation's manufacturing jobs have actually risen by nearly 100,000. The state's total employment in March was 70,000 *lower* than in March of 1989, and its unemployment was 61,000 *higher*, rising from 3.3 percent to 5.4 percent. In spite of more than $400 million in special employment and training programs for welfare mothers, the welfare case load is almost 2,000 higher than it was when that program started in 1984.

In March, the state's bond rating was lowered for the third straight time, this time to BBB by Standard and Poors and Baa by Moody's. Not only is that the *lowest* bond rating of the 50 states, it is only one very small step above junk bonds.

Last December, just to meet its current obligations to distribute local aid to the cities and towns, Massachusetts had to obtain a $1.2 billion line of credit from Japanese banks–a line that comes due this September. In fact, the state warned cities and towns it could not make all its June local aid distributions, even though the state Supreme Court has ordered it to reinstate some $200 million it cut last fall.

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Despite significant $300 million plus tax increases in 1988 and 1989, the state is now staring at a total fiscal disaster. State spending that was supposed to have been cut in FY1989, instead rose by 11.5 percent. Through April, the current FY1990 budget was in the red by a little under $800 million, headed for a fiscal year gap of over $1 billion. The state legislature is now trying to resolve the differences between a $1.3 billion tax increase passed by the House and $1.6 billion passed by the Senate. Both were rushed through as the Japanese creditors were calling in their notes. The day that latter increase was passed two of the state's oldest institutions checked out. Boston Gear decided to move to North Carolina taking all of its manufacturing jobs with it and the FDIC took over the venerable Merchant's Bank as insolvent.

Those were merely the latest evidences of the fallout from what one of the bond rating vice presidents called "the worst case of fiscal mismanagement I have ever seen. . . ."

The Destruction of Political Capital

At the heart of that bond-rating problem was not so much an impoverished economy as the disastrous slide in political capital which made either serious budget-cutting or significant tax increases virtually impossible until immediate bankruptcy was threatened. Over 70 percent of Massachusetts voters now have "no confidence" in state government. The mobs outside the State House recently have had a curiously familiar East European flavor.

This destruction in political capital is now directly causing an equally severe destruction in economic capital. Over the past six months, regulators have forced the four major Boston banks to set aside over $2.2 billion in additional reserves against losses on real estate loans. Those losses, in turn, are the direct result of a sudden collapse of the real estate market.

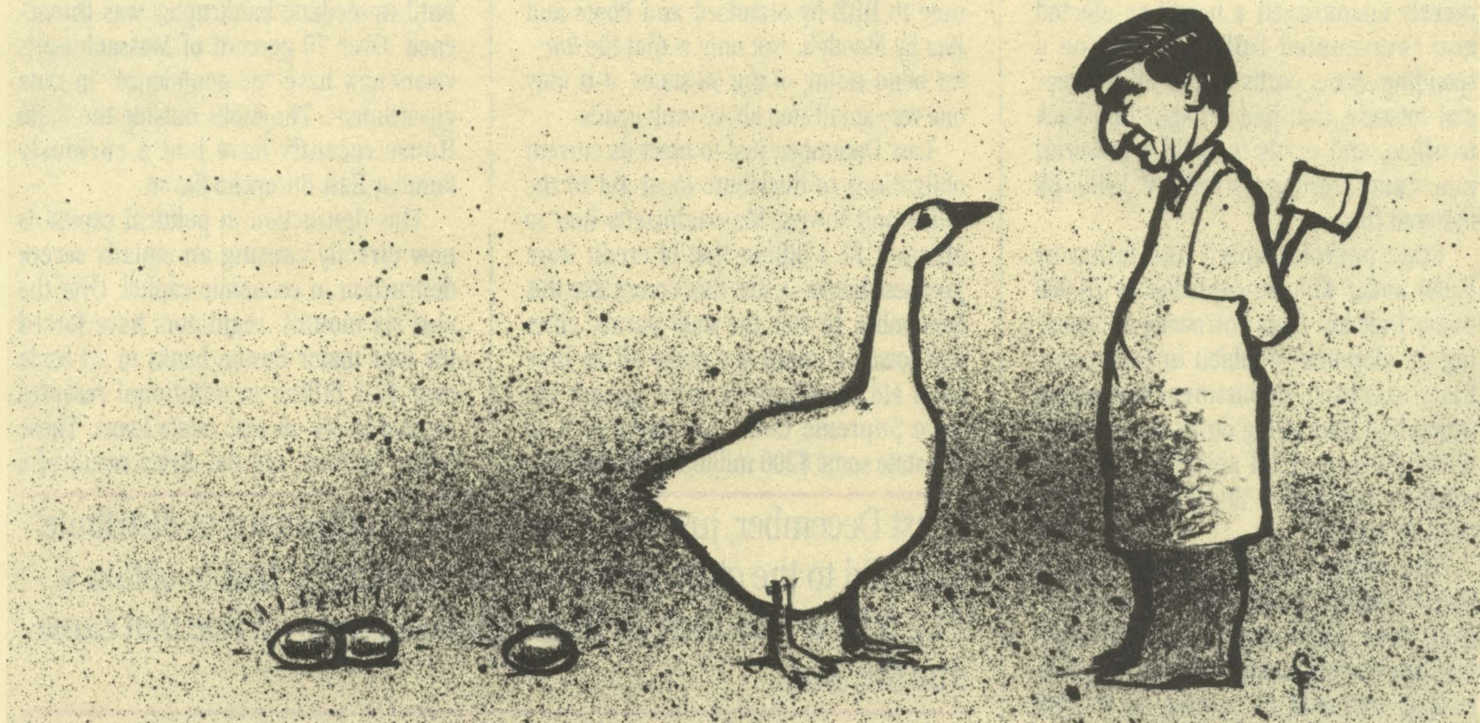
That market's unprecedented boom in values had been built almost entirely on the capitalization of the major property tax-cut and cap called Proposition 2-1/2 passed by the state in 1980, which stimulated a 22 percent annual rise in property values from 1981 to 1988.

But that growth rate collapsed in 1989, when it became clear that there was no way the state could continue to fund the Proposition 1-1/2 property tax cap with large local aid distributions.

That signaled the likelihood that the cap would not only begin to be over-ridden by fiscally starved communities (nearly 30 have already done so), but might eventually be amended by a desperate legislature. That in turn meant that taxes on property could once again soar and values could once again have to decline.

The results of anxiety about tax levels were almost immediately devastating to the state's real estate market which went from boom to bust within less than 12 months, forcing scores of Bay State banks onto the FDIC credit watch list because of large real estate loans gone sour.

That precipitate reversal in the state economy's fortunes is as clear proof of the direct role of taxation in economic growth and capital formation as the unexpected and rapid rise in those fortunes had been nearly a decade before.



What Caused the Massachusetts Miracle and its Demise?

While much has been written about the reasons for Massachusetts' 1978-1983 turnaround, the high-tech boom, the MIT-Harvard Route 128 complex, state development initiatives, industrial revenue bonds, the defense budget, you name it, none of those reasons hold water when tested by economic analysis.

After all, in 1978, Massachusetts had all of those factors going for it in abundance. It has been one of the leading high tech and defense spending states since the 1950s. Harvard and MIT have been around as long as anyone can remember.

But in 1978, the one thing Massachusetts did have that it didn't want or need was not only the fifth highest tax burden in the nation but the highest property taxes, some say, in the world. At the time California passed Proposition 13, its property tax burden was about three percent of market value and over six percent of personal income.

At that same time the Massachusetts property tax burden was 4.5 percent of market value, and over nine percent of personal income. The direct effect of such a massive property tax burden was to depress artificially the value of state property assets. During the 1970s, total market-based real estate values in Massachusetts actually fell about three percent, while in the nation as a whole they rose by over 35 percent in real terms.

Small wonder that at the same time, the state's share of new capital investment fell from an already anemic two percent of the nation in 1970 to less than 1.2 percent in 1978, and its job growth rate dropped to less than half that of the nation's. Little wonder also that the political capital of liberal governors, both Republican and Democrat, fell with it, paving the way both for the 1978 election of Edward King and the 1980 passage of Proposition 2-1/2.

"Every real estate investor knows that when property taxes go up 100 dollars, value falls by $1000, and vice versa; when taxes are cut, value rises. This is neither mystic nor theoretical. It operates as accounting LAW."

That combination forced state spending growth to fall in real terms to less than one percent a year and the state's tax burden to fall back to 14.6 percent, a massive three-percentage point drop. By 1983 Massachusetts' personal income was back up to 13 percent above the nation and headed to its current 23 percent lead, and the state became number three in growth.

Skeptics say, but how can tax cuts explain ALL or even the major share of such an amazing turnaround? The answer is remarkably simple–and it is summed up in a single phrase that accountants and investors, especially property investors, understand all too well but economists invariably ignore–tax capitalization.

Tax Capitalization at Work in Massachusetts

I've already discussed tax capitalization, but it is a lesson worth repeating: When you buy a piece of property, its value is directly the result of the net income you can expect to earn from it either as a business or as a simple home investor. That income in turn is directly affected by the amount of taxes you have to pay on this investment or this income or both. The higher the tax, the lower the income. The lower the income, the lower the value of the base investment.

What this means is that taxes are in fact "capitalized" as losses, at the average rate of return (or about 10 percent), a price earnings ratio of 10-1. Every real estate investor knows that when property

taxes go up 100 dollars, value falls by $1000, and vice versa; when taxes are cut, value rises. This is neither mystic nor theoretical. It operates as accounting LAW. It is really no different from the relationship between interest rates and bond prices. Those rates are a form of tax on borrowing. The higher the rates the lower the bond is worth and vice versa.

In 1980 Massachusetts voters mandated a nominal property tax cut of $1.2 billion in discounted present value. They also set a cap that allowed no more than 2.5 percent rise in tax assessments per year. Over a period of six years this meant an implicit tax reduction of some $7 billion.

In 1981 the instant effect of the implementation of Proposition 2-1/2 was to convert the Massachusetts real estate market from one of the nation's most depressed to one of its hottest. From 1981 to 1987, property values soared at a 22 percent annual rate, the most in the nation. The state's equalized value base shot up from $89 billion to more than $224 billion–a real increase in real estate wealth of more than $90 billion.

Now you say, what has that boom in paper real estate wealth got to do with the economy? Well, think of what the infusion of $90 billion in new capital value would mean to a state economy whose total gross domestic product was then less than $90 billion and whose net annual business capital investment was then less than $1.5 billion a year and whose total tangible worth was less than $400 billion.

To put it on a national perspective, consider that a Massachusetts-style infusion of wealth would translate into $3.6 trillion in added tangible worth to the nation during the period of 1981-1986 when that total tangible worth grew only $4.4 trillion. Thus the Massachusetts tangible net worth growth from 1981 to 1986 from property values alone was the equivalent of nearly doubling the nation's net worth growth in the same period.

Is it really any wonder that its per capita income jumped from seven percent above the nation in 1981 to 24 percent in 1987, the greatest rise of any state in U.S. history?

Now if you understand this, you will begin to understand why tax capitalization may well explain both the surprisingly positive benefits of national tax reductions, and the equally astonishing negative impacts of national tax increases.

"Understand that all taxes represent a diversion of income from the nation's basic capital structure, whether that capital is property, or plant and equipment, or merely working capital needed to keep a business going and a payroll met."

Tax Capitalization Affects Everything

Understand that all taxes represent a diversion of income from the nation's basic capital structure, whether that capital is property, or plant and equipment, or merely working capital needed to keep a business going and a payroll met.

When you increase the taxes on anything– sales, property, income, capital, payrolls–you are automatically diverting some of the income stream that goes to support the capital that in turn supports those activities. In the aggregate, you have to be reducing the nation's total capital asset base. And if the price earnings ratio of that base is roughly 10 to 1, every dollar you take away from that income to capital stream means you are reducing the value of that asset base by 10 dollars.

Thus when Congress decides to raise taxes by $30 billion, its real impact is $300 billion OFF the capital asset base of the economy. That may not seem like much to a country whose total capital base is now over $20 trillion–but remember, that base value is not growing all that rapidly. Consider the fact that in 1989, the nation's net rise in private domestic investment was only $225 billion after allowing for depreciation or capital consumption, and less than $110 billion of that net went to non-residential business fixed investment.

A $30 billion tax hike of any kind will cost the U.S. ALL of the net rise in real domestic investment and then some, killing most real economic growth in the process. Conversely, a $30 billion tax cut will have the opposite effect; it will more than double the capital expansion of the nation.

To this day, even conservatives tend to downplay the actual effect of both the Kennedy and Reagan tax cuts. Yet consider that the last time we had nearly nine years of uninterrupted expansion was during the 1960s, which were punctuated by a 29 percent cut in federal income tax rates across the board. In both cases, the immediate effect was to expand the capital asset value of the nation enormously–and the best surrogate for that was and is the stock market. From 1960 to 1968 the S & P 500 rose 44 percent in constant dollars.

But following massive tax increases on capital and income in 1969, during the 1970s the S & P 500 fell in constant dollars by 30 percent. It is significant that the total movements up and then down in equity values is almost exactly the multiplier of price-earnings ratios–10 or 15 to one–times the annualized amounts of the tax cuts and subsequent tax increases.

"A $30 billion tax hike of any kind will cost the U.S. ALL of the net rise in real domestic investment and then some, killing most real economic growth in the process."

For example, during the 1980s, we have seen the S & P 500 rise in real terms by 84 percent. If that rise had been applied to all of the equities in the market in 1980 (many of which were removed during leveraged buyouts), it would have raised their total value by some $800 billion–or slightly more than 13 times the effective annualized Reagan tax cut of $60 billion a year. In short, the rise and fall of the tax burden has a direct multiplier effect on the nation's equity asset base.

Once you understand this, you will no longer be tempted to think that tax increases are "modest" or "necessary," especially to "reduce the deficit"! As President Bush himself has already

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.

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

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.

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 effec-

tive 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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