Governor Richardson's Positive Economic Legacy: New Mexico Personal Income Growth Shows Upward Prosperity since 2003 Tax Cuts

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As Governor Richardson prepares to leave the Governors' mansion, much discussion will take place about his legacy. Corruption will continue to dog him and some of his big-spending priorities such as the Rail Runner, the Spaceport, and the state's heavily-subsidized film industry have done and will continue to do economic damage to the state that may be irreparable, but there is one Richardson legacy that has been a rousing success that should be continued and extended by his successor. The initiative I'm referring to is Richardson's 2003 income and capital gains tax cuts, the legacy of which has been increased wealth and economic prosperity for all New Mexicans.

First, we need to establish that pro-growth income tax do in fact have a positive economic impact. According to Arthur Laffer and Stephen Moore:

> from 1998 to 2007, more than 1,100 people every day including Sundays and holidays moved from the nine highest income-tax states such as California, New Jersey, New York and Ohio and relocated mostly to the nine tax-haven states with no income tax, including Florida, Nevada, New Hampshire and Texas. We also found that over these same years the no-income tax states created 89% more jobs and had 32% faster personal income growth than their high-tax counterparts.[1]

This economic prosperity did not happen by chance. It is also no coincidence that the two highest tax-rate states in the nation, California and New York, have the biggest fiscal holes to repair. After all, dozens of academic studies – old and new – have found clear and irrefutable statistical evidence that high state and local taxes repel jobs and businesses.

New Mexico's Success Story

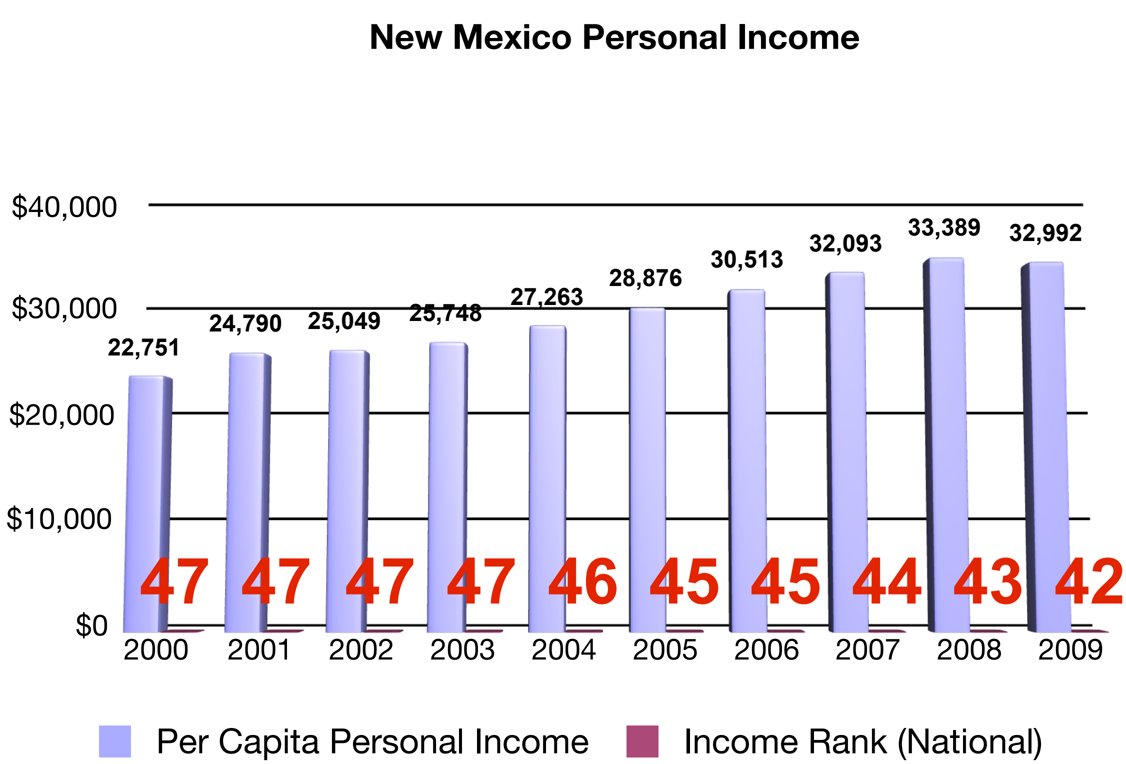
Since 2003, the year when Governor Richardson's dramatic income and capital gains tax cuts took effect, New Mexico has climbed approximately one step in the national income ranking each year. Such sudden upward mobility of our state's economic status indicates a successful change in economic conditions at the state level. While "proof" is hard to come by in economics, the reduction in the top personal income tax from 8.2% to 4.9% (phased in over 5 years time) and a 50% cut in the capital gains tax were the major policy changes at the time.

[1] Arthur Laffer and Stephen Moore, "Soak the Rich, Lose the Rich," *Wall Street Journal,* May 18, 2009, http://online.wsj.com/article/SB124260067214828295.html.

Prior to these cuts, New Mexico's top personal income tax rate was the highest in the region. These tax cuts, for those making more than $16k per year, passed the House without a single dissenting vote and passed the Senate by a margin of 39 to 2 and were signed into law on Valentine's Day, 2003.

New Mexico's personal income growth, a leading indicator of economic prosperity, has driven the state's national income ranking upward from a dismal 47th place (where it stood in 2003), to an improved 42nd place (see Figure 1 below). This is a remarkable accomplishment that clearly shows the power of pro-growth tax cuts.

Figure 1



Income data from the U.S. Dept. of Commerce, Bureau of Economic Analysis, shows an increase in New Mexico's personal income simultaneous with a rapid climb up the national personal income ranking (1st place being the state with the highest income, 50th place, the lowest) only after 2003. In order to know whether these changes are a causal result of the 2003 pro-growth tax cuts (and not a coincidental correlation), we will need to inquire into what changes in the national income ranking means, and we will also need to put New Mexico's economy in context with both itself and other states.

The National Income Ranking as an Indicator of Internal Change

In order to know whether New Mexico has actually transformed itself due to changes in its policy, we need to be able to separate larger, national economic fluctuations from the fluctuations actually caused by our own policy. The time span that Figure 1 covers provides sufficient information to put our state into context. Throughout the recession of 2001 (and for 3 years following), New Mexico maintained its ranking of 47, and only began climbing the national income rankings after 2003. Since New Mexico rapidly began climbing the national personal income ranking ladder only after 2003, and those changes are contemporary with drastic changes in state level tax policy, it is reasonable to assume, therefore, that changes in the national income ranking are a good indicator of changes in New Mexico's economy independent of the national economic environment.

Putting New Mexico's Growth in Perspective

To put our analysis into further context, Table 1 takes a look at how New Mexico's personal income has changed, not just in terms of absolute numbers, but more importantly, how it has improved dramatically *relative to the other states*.

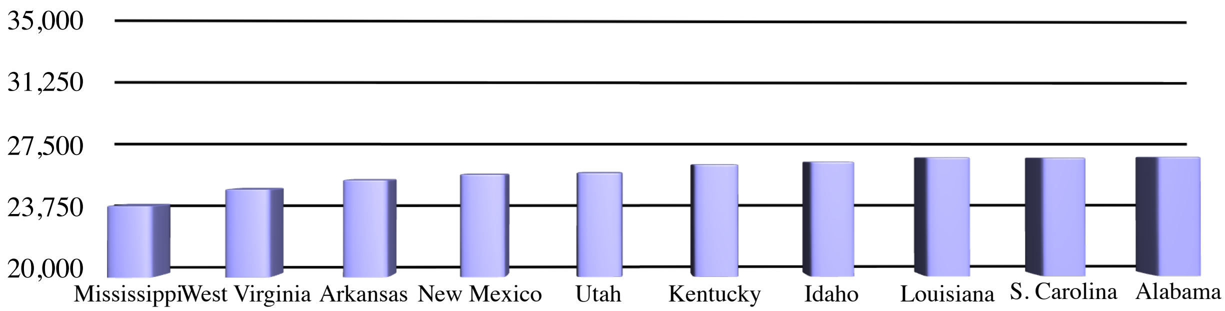
Table 1

New Mexico	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Per Capita Personal Income	$22,751	$24,790	$25,049	$25,748	$27,263	$28,876	$30,513	$32,093	$33,389	$32,992
Income Rank (National)	47	47	47	47	46	45	45	44	43	42
Difference	$1,290	$2,039	$259	$699	$1,515	$1,613	$1,637	$1,580	$1,296	-$397
% Change	6.01%	8.96%	1.04%	2.79%	5.88%	5.92%	5.67%	5.18%	4.04%	-1.19%

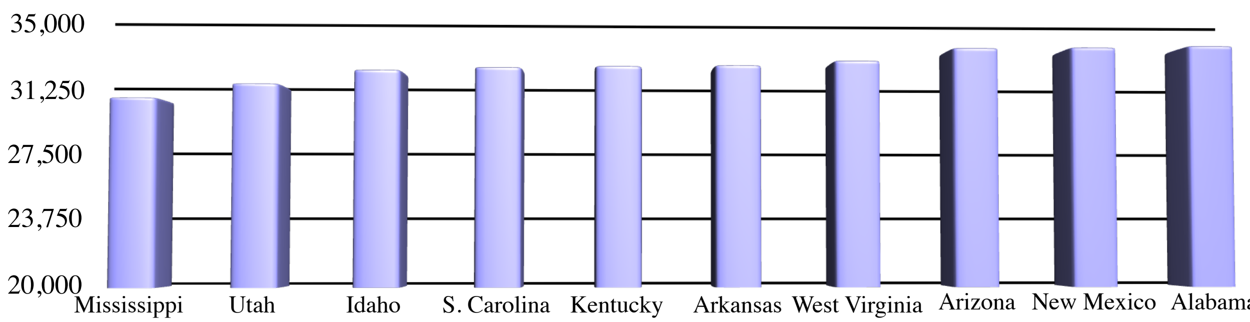
What it does tell us is that, New Mexico experienced a consistent positive growth rate throughout the past decade, with two drastic falls in the positive growth rate occurring at moments of national economic downturns: the first being after the 2001 recession and the second occurring during the 2009 recession, which actually brought a slight negative growth rate to New Mexico's personal income. The major difference between New Mexico's reactions to these national economic downturns is that in the 2009 recession (as Figure 1 shows), New Mexico continued climbing the national income ladder. Despite the fall in the growth rate, for the first time in the decade, New Mexico was actually growing relative to other states, and, as the two plots in Figure 2 shows, began climbing out of the ranks of the poorest states in the nation (as seen in its left to right movement).

Figure 2

The Poorest 10 States in 2003



The Poorest 10 States in 2009



How Does our Growth Compare to our Neighbors?

What we see, is that despite growth fluctuations, New Mexico's growth has fared rather well in comparison to its neighboring states, especially after a turning point in 2006 (see Table 2).

Table 2

	United States	New Mexico	Oklahoma	Texas	Utah	Arizona	Nevada	Colorado
2000	$30,318	22,751	24,605	28,504	24,517	26,262	30,986	33,977
2009	$39,138	32,992	35,268	36,484	30,875	32,935	38,578	41,344
Percent Increase 2000-2009	29.09%	45.01%	43.34%	28.00%	25.93%	25.41%	24.50%	21.68%

As Table 2 illustrates, New Mexico (along with Oklahoma which will be discussed further shortly), vastly outperformed both the United States as a whole in terms of personal income growth over the last decade. The Land of Enchantment dramatically outperformed every other state in its region over the time span.

Oklahoma: A Similar Pro-Growth Success Story

So, what did Oklahoma do to keep up with New Mexico's economic success? Simply put, Oklahoma too pursued significant, pro-growth, tax cuts.

In 2004, Oklahoma's personal income tax rate for those making more than $10k was 7%. Over a five year period it was reduced to a 5.5% tax rate for those making more than $8.7k annually[2]. According to Oklahoma Governor Brad Henry, his tax cuts were "the largest personal income tax cut in [Oklahoma] state history"[3], implemented to be more competitive with neighboring Texas which has no personal income tax. The cuts also eliminated the capital gains tax on Oklahoma-based property.

As Table 3 shows, post-2004 Oklahoma experienced growth similar to that of New Mexico, where it saw itself climb the national income ranking from 39th place up to 34th over the five year period of the tax cuts.

Table 3

Oklahoma	2001	2002	2003	2004	2005	2006	2007	2008	2009
Per Capita Personal Income	$26,218	$26,218	$26,909	$28,789	$30,469	$33,222	$34,298	$35,969	$35,268
Income Rank (National)	39	39	40	39	39	37	37	33	34
Difference		$0	$691	$1,880	$1,680	$2,753	$1,076	$1,671	-$701
% Change		0.00%	2.64%	6.99%	5.84%	9.04%	3.24%	4.87%	-1.95%

During the past decade, New Mexico and Oklahoma led the region in growth of personal income for the simple reason that they allowed their citizens to hang onto more of their hard-earned money. This includes small businesses and sole proprietorships that were able to re-invest significant resources that they'd otherwise not have had, into their businesses. Even those who work for the federal government or bigger businesses had additional money to spend which in turn filtered through the state economy.

Conclusion

New Mexico's recent movement up the ladder of prosperity is certainly not an accident, but a result of our recent pro-growth tax cuts. Similar pro-growth policies have also led to Oklahoma's new found prosperity. Aside from the benefits of personal income tax reductions putting money directly back into people's pockets, there is a lot of evidence in favor of how personal income taxes can make or break the business environment of the state. Luckily for both New Mexico and Oklahoma, policy makers have been wise to institute pro-growth tax policies.

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[2] The Tax Foundation, *State Individual Tax Income Rates 2000-2010*

[3] http://www.ok.gov/governor/gov_henry.php

But we still have a long way to go. The Land of Enchantment must aspire to higher dreams than 42nd place, and that will require asking what other anti-growth taxes might still be plaguing the books. The Gross Receipts tax might be a good place to start.

About the Authors

Paul Gessing is the president of, and Justin Muehlmeyer is a policy analyst with, the Rio Grande Foundation, a non-partisan, tax-exempt research and educational organization dedicated to promoting prosperity for New Mexico based on principles of limited government, economic freedom and individual responsibility. Find out more about the Rio Grande Foundation at www.riograndefoundation.org.

Data Source: Personal Income data from the U.S. Dept. of Commerce, Bureau of Economic Analysis, released March 2010 as presented by the Bureau of Business and Economic Research, University of New Mexico. % change calculations and charts by Justin Muehlmeyer.