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Liberty, Opportunity, Prosperity
New Mexico

Hood or Robin Hood? State Governments and the Reduction of Poverty

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March 5, 2007

EXECUTIVE SUMMARY

In modern politics, many believe that the government plays the role of Robin Hood. Through progressive taxation and spending, proponents believe that government reduces poverty while making everyone pay their fair share. The pages that follow will empirically evaluate the effectiveness of state government as Robin Hood.

In the mid 1990s, the federal government eliminated the largest welfare program, replacing it with a system of block grants to the states. In essence, the federal government admitted its failure in administering welfare, and looked to the states to serve as "laboratories of reform" in the effort to reduce welfare and poverty. The results have exceeded proponents' hopes.[1]

Likewise, states also serve as laboratories of democracy in fiscal policy. Some states maintain relatively low levels of taxation and spending, and others have much larger and ambitious state governments. Empirical evidence indicates these varying policies had real, measurable impacts on state policy rates. Nationwide, both general and childhood poverty rates dropped during the 1990s. Some states, however, reduced poverty much more than others. Some states, in fact, suffered increases in poverty rates during the 1990s despite the booming national economy and the general success of welfare reform.

A myriad of individual-level and state policy decisions influence the number of people living below the poverty line in a given state. Nevertheless, this paper addresses the broad question: are big or small government states better at reducing poverty?

Using data from the Census Bureau, the pages that follow demonstrate that low tax and spending states enjoyed sizeable decreases in poverty rates during the 1990s. High tax and spending states, meanwhile, suffered *increases* in poverty rates. This study grades each state with regards to reducing both general and childhood poverty rates during the 1990s.

Private sector job growth is the most effective anti-poverty program. Citizens and policymakers who seek to reduce poverty and improve the lot of the poor should embrace policies promoting as much private sector growth as possible.

INTRODUCTION: THE ROLE OF GOVERNMENT IN REDUCING POVERTY

What role should the government play in reducing poverty? For centuries, that question had a rather straightforward answer: not much. In medieval Europe, for example, conventional thinking understood poverty as the product of character flaws- indolence or drunkenness, for example. Government left the function of reducing poverty to religious and private charitable organizations.

The first anti-poverty legislation, Britain's Poor Laws of 1601, very much reflected this traditional thinking. The law distinguished between the "worthy" and "non-worthy" poor. The law defined the "worthy poor" as those unable to work through no fault of their own- those having suffered a debilitating injury or widowed mother with children, for example. The non-

worthy poor included everyone else, and certainly everyone who was able-bodied. The law kept the amount of aid strictly minimal, well below what a person could earn by working.[2]

This philosophy lasted in the United States until the advent of the Great Depression in 1929. The United States experienced a prolonged economic crisis, with mass unemployment. Politicians of the time blamed the downturn on "big business" and the "plutocrats" of the roaring 1920s.

President Franklin Roosevelt responded to the crisis by vastly increasing the size and scope of government in the area of poverty reduction. Economic historians now understand that the Federal Reserve along with the Hoover and Roosevelt administrations exacerbated and prolonged the downturn with a series of policy blunders. Monetary, trade, and labor market polices blunders worsened the Great Depression.[3]

Politically, however, Roosevelt's administration received credit for fighting the Depression. Roosevelt created the political and intellectual foundation for governmental anti-poverty efforts at the federal, and subsequently, the state level.

These efforts reached their crescendo with Lyndon Johnson's War on Poverty programs, the apex of the American government's anti-poverty efforts. Johnson transformed government ambitions from simply alleviating poverty to actually eliminating poverty. Within a decade, a powerful backlash against such programs began.

President Reagan famously quipped that "Some years ago the United States declared war on poverty, and poverty won." Reagan's jest reflected a concern that government anti-poverty programs had not only failed to reduce poverty, but actually contributed to an increase in poverty. Charles Murray's critique of the welfare system's perverse incentives discouraging work and marriage, for example, eventually led to major welfare reform in 1996.[4] Despite dire warnings of catastrophe from some, welfare reforms achieved substantial reductions in poverty rates.[5]

In spite of recent changes in welfare policy, many of the War on Poverty programs continue to this day. Some, such as Medicaid, remain major drivers of state budgets.

COMPETING MODELS FOR THE POVERTY REDUCTION

In broad terms, there are two strategies for poverty reduction: state government growth and private sector growth.

Government programs and subsidies do not lack boosters in New Mexico. These groups not only lobby for increased spending on their favored programs, they also advocate against reduction in state tax rates. For example, New Mexico Voices for Children, a New Mexico group focusing on state-led anti-poverty measures opined,

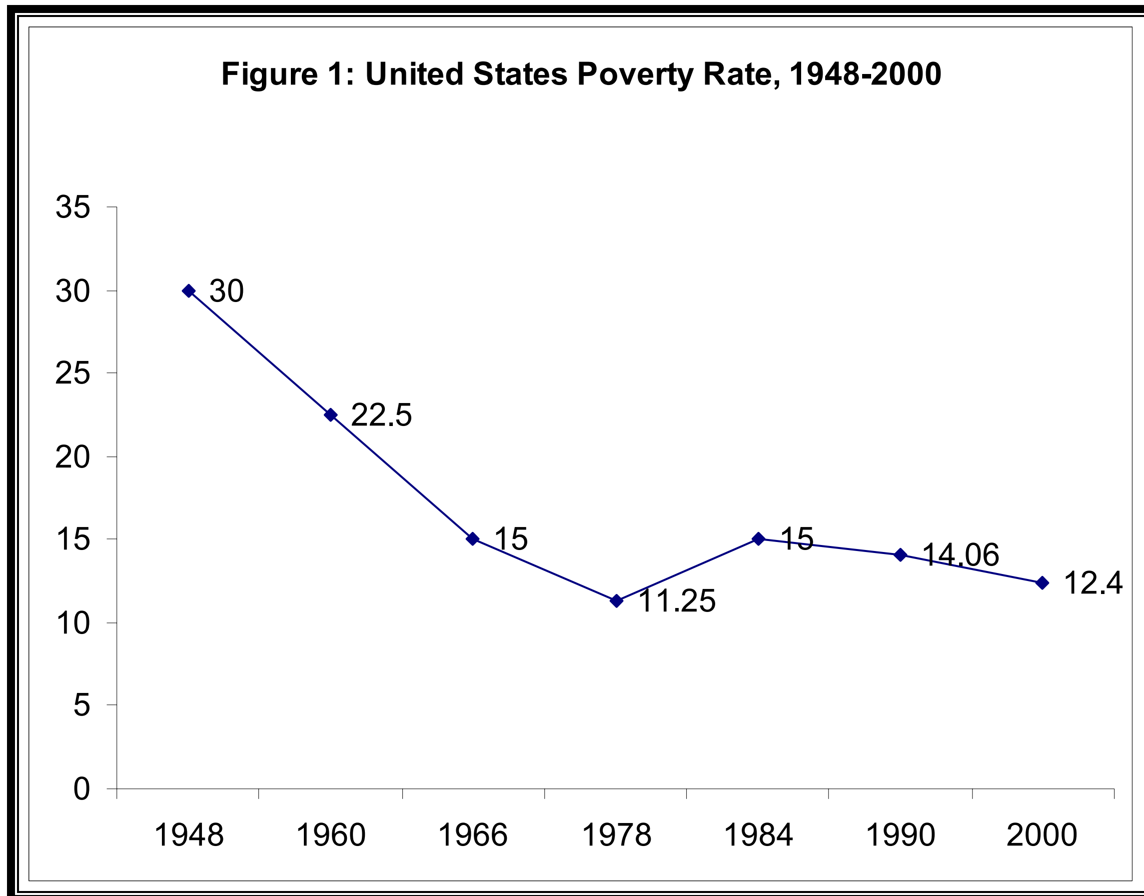
> "It's one thing to have a budget shortfall due to circumstances beyond your control: an economic downturn, for example.

> It's quite another to create one in order to give the wealthiest among us a big tax break. New Mexico did just that in 2003 when policymakers passed the most drastic personal income tax cut in New Mexico history. It could be called the Reverse Robin Hood tax cut. The top income tax rate of the highest income tax filers was reduced significantly (from 8.2 percent to 4.9 percent), while the rate of the lowest earners stayed the same. The wealthiest got a $13,000 tax cut. Those in the middle got about $100. The lowest income got nothing."[6]

Alternatively, some argue that tax cuts promote economic growth, and that economic growth is by far the best anti-poverty measure.

According to classical liberal thought, government should keep taxes and spending at the lowest possible levels. Governments should also avoid burdensome and counterproductive regulation of the private economy. Classical liberals argue that this model produces superior rates of economic growth, which in turn lead to a sustained reduction in poverty. George Mason University economist Tyler Cowen, for example, notes that had the United States grown one percentage point less per year between 1870 and 1990, the America of 1990 would be no richer than the Mexico of 1990. Cowen also noted the compound power of economic growth by calculating that at an annual growth rate of five percent it takes just over eighty years for a country to move from a per capita income of $500 to a per capita income of $25,000 in constant dollars. At a growth rate of one percent, such an improvement takes 393 years.[7]

The influence of economic growth on poverty rates can be seen in examining data from the post-World War II period. Figure 1 below presents the national percentage of the population living below the official poverty line between 1948 and 2000.



Source of data for Figure 1: 1948-1990. Theodore R. Marmor, Jerry L. Mashaw and Philip L. Harvey. 1990. *America's Misunderstood Welfare State*. (Basic Books, 1990) The figure for the year 2000 came from the United States Census Bureau.

As Figure 1 shows, the majority of the decline in poverty occurred before the advent of War on Poverty programs of the mid-1960s. The post-war economic boom, which roared through the 1950s and into the early 1970s ultimately served as the catalyst for a dramatic decline in the poverty rate. Likewise, the economic difficulties of the late 1970s and early 1980s increased the poverty rate. The national poverty rate has been stuck in double digits since the mid 1960s.

At the national level, the progress of the post-war boom eventually faded. The national statistics, however, represent an aggregate figure that may conceal much about the relationship between economic growth and poverty. Considerable variation exists between American states, for example.

Per capita income varies widely by state in the United States. In 2005, Connecticut had the highest per capita income at $51,390 while Mississippi had the lowest at $27,404.[8]
Five of the bottom ten states in per-capita income are southern states. This largely represents a legacy of the century of economic stagnation following the Civil War. Southern states clung stubbornly to a status-quo in economics and politics which slowly but surely transformed it from being one of the wealthiest regions in the world before the Civil War to having a per-capita income around half the national average by the early 1940s.

For slavery, the south substituted sharecropping and Jim Crow laws. Rather than embracing the industrial revolution, southerners maintained an agrarian economy. By the early 1940s, the southern states were growing more cotton than ever. Other regions, however, had embraced dynamic economic change, such as industrialization and immigration, and raced past the antiquated economies of the South.

More recently, strong rates of economic growth have led to a southern economic resurgence. It is interesting to note that the per-capita figure for the United States' poorest state (Mississippi) is equivalent to the average per-capita income of the nations of the European Monetary Union. This reflects the higher rates of economic growth in the United States in recent decades.[9]

STATE PERFORMANCE IN POVERTY REDUCTION

Table 1, which can be found below, ranks and grades states by general poverty reductions and/or increases from 1990-2000. Nationwide, the general poverty rate fell by 5.3 percent. The median state saw a 10 percent decline in general poverty. Because the median mitigates the impact of the extreme results, it serves as a baseline to judge the success of state poverty reduction. States scoring 50 percent or more above the median in poverty reduction earned an "A." The official poverty rate counts only monetary income, exclusive of taxes or transfer payments. The exclusion of taxes tends leads to an underestimation of poverty, while exclusion of transfer payments tends leads to an overestimation. These figures essentially tell us the percentage of each state's population failing to independently earn their way out of poverty, on a pre-tax basis. Despite these imperfections, these figures have long been studied. Given the broad consensus across the political spectrum that the aim of anti-poverty efforts should be to foster independence from public assistance, this seems entirely appropriate.

States scoring below the "A" level but still above the national median score a "B." States scoring below the median, but within 50% of the median fall into the "C" category. States with reductions in poverty less than 50% of the national median score a "D." States experiencing increases in poverty against a strong national decline receive an "F." The top two states in each category receive a "plus," the bottom two receive a "minus" for the purpose of distinguishing variation within categories.

NEW MEXICO AND POVERTY

New Mexico is a poor state. According to the Digest of Education Statistics, in 1990, New Mexico's overall poverty rate of 20.6 percent was third highest in the nation.[10] Although poverty in New Mexico did improve somewhat following strong national economic growth during the 1990s, by decade's-end New Mexico's poverty rate of 18.4 percent was still the third-highest in the nation, lower than only Louisiana and Mississippi.

Table 1: Grading the States in Reduction (Increase) of General Poverty, 1990-2000

State	Decline (Increase) in Overall Poverty %	Overall Poverty Reduction Grade

Minnesota	-22.5	A+
Mississippi	-21.0	A+
Iowa	-20.9	A
Colorado	-20.5	A
Michigan	-19.8	A
Wisconsin	-18.7	A
Utah	-17.5	A
North Dakota	-17.4	A
Arkansas	-17.3	A
South Dakota	-17.0	A
Louisiana	-16.9	A
Kentucky	-16.8	A-
Ohio	-15.2	A-
Texas	-14.9	B+
Tennessee	-14.0	B+
Kansas	-13.9	B
Nebraska	-12.6	B
Missouri	-12.0	B
Alabama	-12.0	B
Oklahoma	-12.0	B
Georgia	-11.6	B
Arizona	-11.5	B
Idaho	-11.3	B
Indiana	-11.2	B
New Mexico	-10.7	B-
Illinois	-10.1	B-
Montana	-9.3	C+
West Virginia	-9.1	C+
South Carolina	-8.4	C
Oregon	-6.5	C
Virginia	-5.9	C
North Carolina	-5.4	C-
Vermont	-5.1	C-
Wyoming	-4.2	D+
Washington	-2.8	D
Florida	-1.6	D-
Pennsylvania	-0.9	D-
Maine	0.9	F+
New Hampshire	1.6	F+
Maryland	2.4	F
Nevada	2.9	F
Alaska	4.4	F
Massachusetts	4.5	F
Delaware	5.7	F
New Jersey	11.8	F
New York	12.3	F
California	13.6	F
Connecticut	16.2	F
District of Columbia	19.5	F

Rhode Island	24.0	F-
Hawaii	28.9	F-

Source: Author calculations from Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

States vary widely in poverty reduction success, from Minnesota and Mississippi at the top- each with more than four times the national average in poverty reduction, to Rhode Island and Hawaii in the F- category with very large increases in the poverty rate. The difference between the best and worst experience is over a 50 percent difference in a single decade (Minnesota's 22.5 percent decline compared with Hawaii's 28.9 percent increase.)

Despite New Mexico's having begun from a much higher rate of poverty than most other states in 1990, New Mexico's score of B- is only good for 25th-highest in the nation. So, while poverty did fall in New Mexico, the 1990s can be considered a missed opportunity to enact real free market reforms that will genuinely improve the lives of New Mexicans both above and below the poverty line.

Table 2 uses the same methodology to grade states with regards to childhood poverty reduction. Again, there is more than a 50 percent difference the top ranked state (Colorado) and the lowest (Rhode Island). The median state experienced a 10 percent decline in childhood poverty. The rankings again assign those states 50% larger than this median score an A. Those states with decreases between 50% larger than the median and the median score a B. Those states below the median to 50% below the median score a C. Those below this standard but still having some decline score a D, and those experiencing an increase in childhood poverty against a strong national decline receive an F.

Table 2: Childhood Poverty Rates of Reduction (Increase) 1990-2000.

	Decline (Increase) in Childhood Poverty Rates (%)	Childhood Poverty Reduction Grades
Colorado	-26.9	A+
Iowa	-25.0	A+
Wisconsin	-24.9	A
Minnesota	-24.1	A
Michigan	-24.1	A
North Dakota	-22.9	A
Ohio	-20.6	A
Mississippi	-20.2	A
Kansas	-19.0	A
Utah	-18.1	A
South Dakota	-17.5	A
Texas	-17.3	A
Indiana	-17.0	A
Louisiana	-16.7	A
Kentucky	-16.6	A

Illinois	-16.0	A
Arkansas	-15.4	A-
Tennessee	-15.1	A-
Georgia	-14.5	B+
Alabama	-12.5	B+
Idaho	-12.5	B
Arizona	-12.1	B
Missouri	-11.4	B
Oklahoma	-11.0	B
South Carolina	-10.5	B-
New Mexico	-10.4	B-
Virginia	-8.1	C+
Nebraska	-7.4	C+
Vermont	-7.3	C
North Carolina	-6.9	C
Maryland	-6.8	C
Montana	-6.8	C
Massachusetts	-6.7	C
Pennsylvania	-6.0	C-
Florida	-5.2	C-
West Virginia	-4.7	D+
Washington	-4.5	D+
Oregon	-4.2	D
Connecticut	-2.3	D
Maine	-2.2	D
New Jersey	-2.0	D
Wyoming	-0.6	D-
Delaware	-0.5	D-
New Hampshire	5.2	F+
Nevada	5.4	F+
New York	5.5	F
Alaska	7.1	F
California	7.4	F
Hawaii	22.5	F
District of Columbia	26.0	F-
Rhode Island	26.6	F-

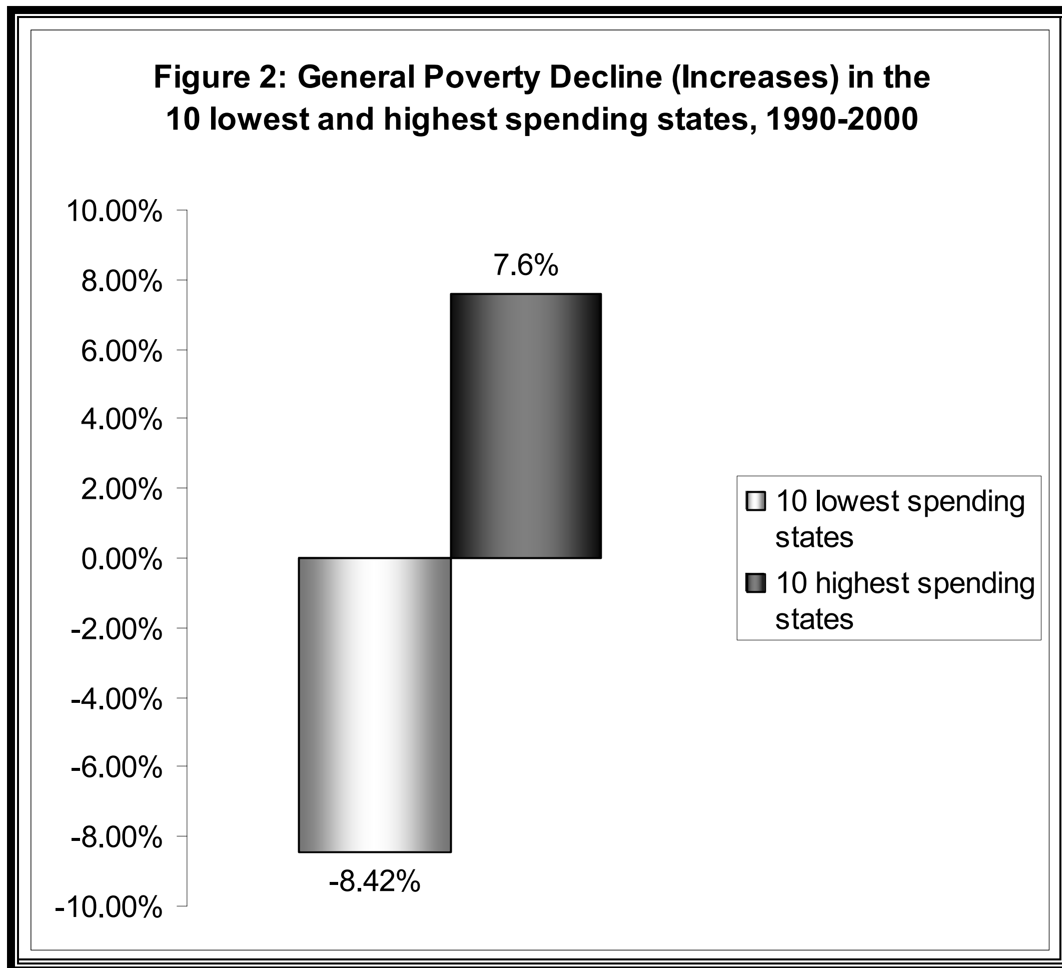
Source: Author calculations from Digest of Education Statistics, 2004. Data available online at http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

Again, despite our state's 26.3% childhood poverty rate at the start of the 1990s, New Mexico actually lagged slightly in reducing childhood poverty during the 1990s, finishing 26th out of 50 states. Perhaps unsurprisingly, Colorado – a state that implemented strict limits on government spending growth starting in 1993 – led the nation in childhood poverty reduction during the 1990s[11].

Testing the Theories: Government versus Free Markets in Poverty Reduction

Fighting poverty is a major justification for state spending. However, does state government spending actually reduce poverty? Figure 2 indicates that big spending governments did a poor

job of reducing poverty during the 1990-2000 period. The figure compares average poverty rates in the 10 states spending the most money per capita at the end of the decade (Alaska, Connecticut, Delaware, Hawaii, Massachusetts, New Mexico, New York, Rhode Island, Vermont, and Wyoming) to the ten states spending the least per capita (Arizona, Florida, Georgia, Indiana, Missouri, Nevada, New Hampshire, Oklahoma, Tennessee, and Texas).[12]

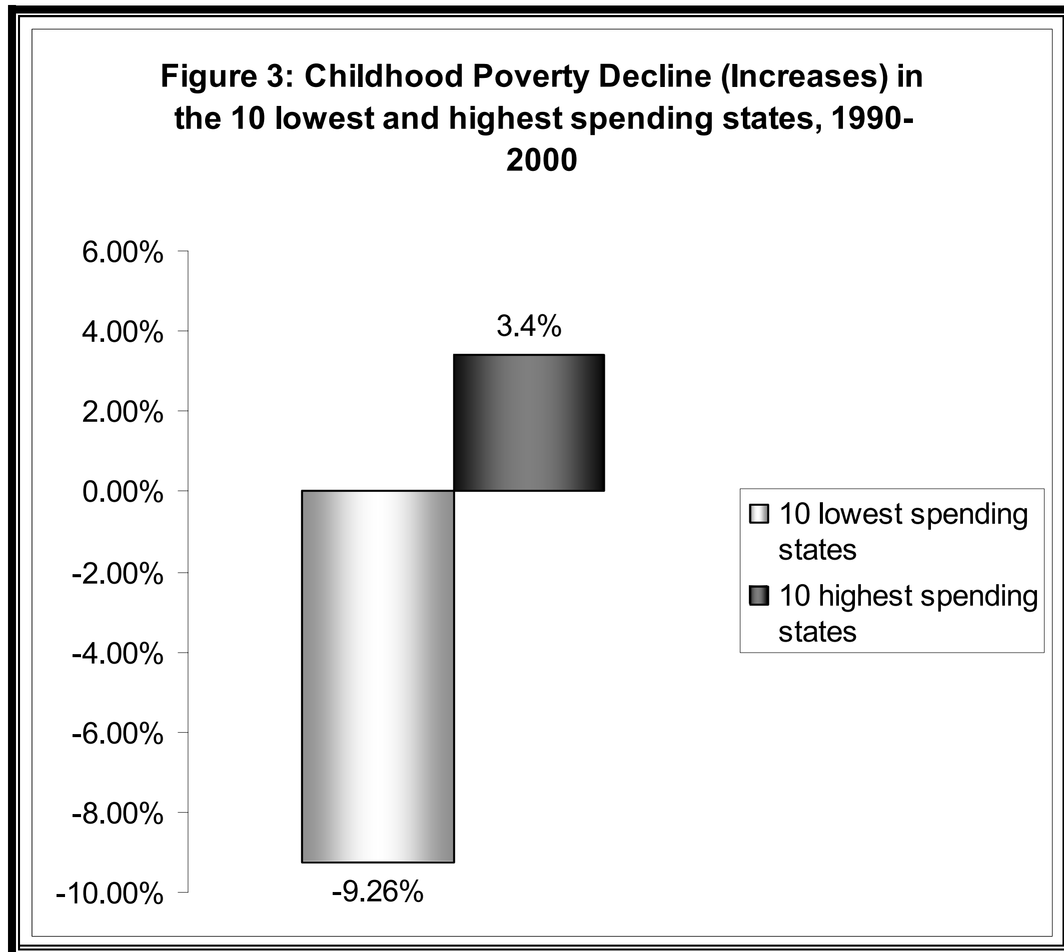


Source: Author calculations from Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

Although there are doubtlessly some who benefit from high state government spending, the poor do not seem to be among them.[13] The 10 states with the lowest per-capita spending enjoyed a sizeable reduction in overall poverty rates. On the other hand, the top 10 big spenders not only failed to reduce poverty rates, they actually suffered an *increase* in poverty rates of 7.6 percent.

Often, advocates justify high government spending on behalf of children. In New Mexico, for example, New Mexico Voices for Children implicitly imbeds this theory directly into the name of their organization. Voices for Children opposes cuts in New Mexico taxes and favors increased state spending as a part of its stated mission to promote “the well being of all of New Mexico’s families and children.”[14]

It is hard to imagine anyone disagreeing with the goal of promoting the well-being of children and families. The advocated means to achieving the goal, however, seem quite suspect. Figure 3 examines childhood poverty rates between states for the 1990-2000 period, again comparing the 10 highest spending states to the 10 lowest spending states.



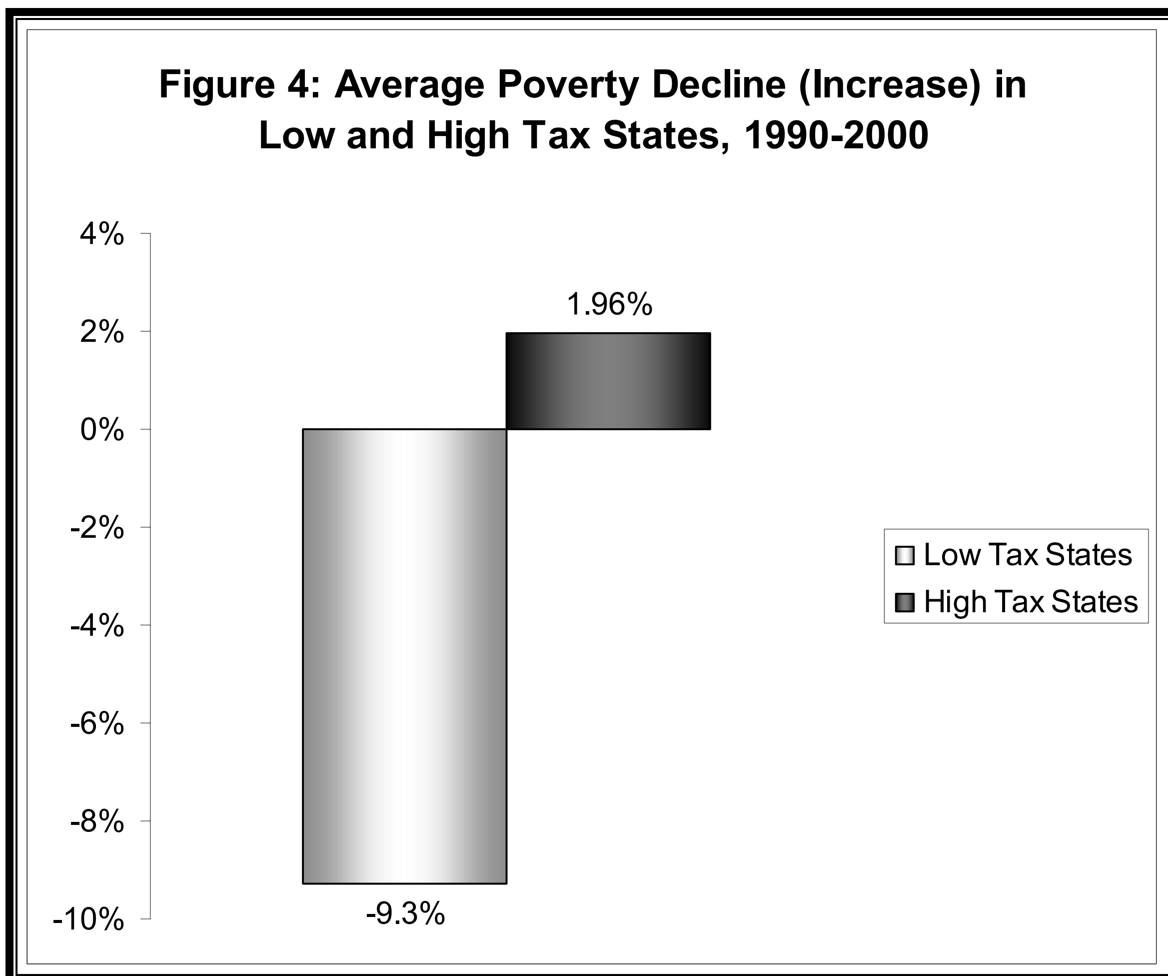
Source: Author calculations from Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

As Figure 3 demonstrates, low spending states experienced substantial declines in childhood poverty rates. Meanwhile, the highest spending states suffered an actual *increase* in childhood poverty. During this period, the average state saw childhood poverty decline by 8.4 percent, but in the 10 highest spending states, childhood poverty increased by 3.4 percent.

Does it follow then that state government spending directly causes poverty? Not necessarily. Government spending ultimately derives from taxes. The American federal system presents a variety of choices for individuals and businesses in terms of where they wish to live and do business. States with relatively high tax rates suffer greatly from the process of internal emigration. People and businesses leave high tax states for low tax states. Such movements respectively damage and reward state economies according to their fiscal and regulatory choices.[15] Apparently, high taxes inflict more harm than spending does good for the poor.

TAX RATES AND POVERTY

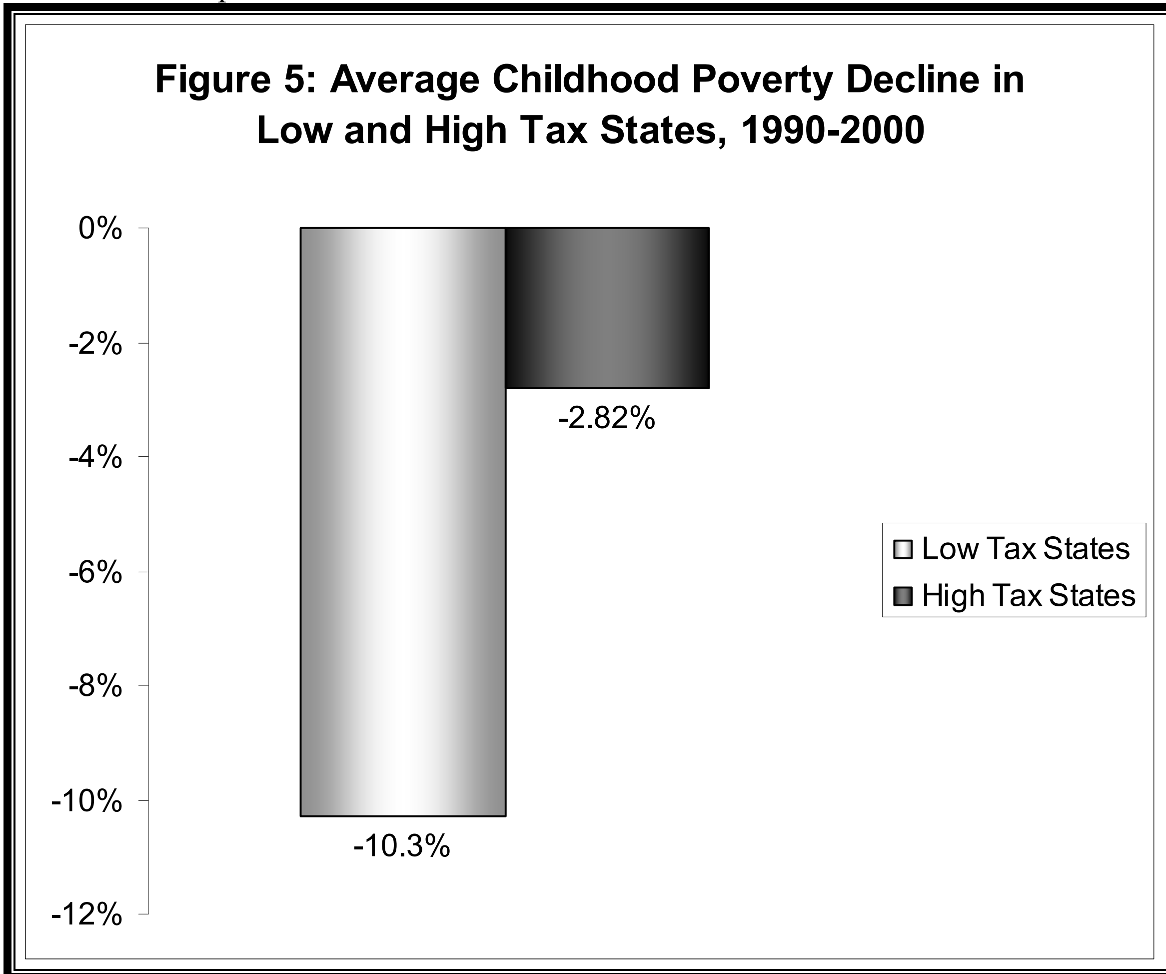
The data show that big spending states were very ineffective at reducing poverty rates. If classical liberals are correct that lower taxes will result in higher economic growth and thus in lower rates of poverty, we should be able to find evidence of this in state economic statistics. Figure 4 below presents data from the U.S. Census Bureau on state poverty rate reductions between 1990 and 2000. Figure 4 compares the relative performance in poverty reduction between the 10 states with the lowest and highest overall tax burdens in 2000. Alabama, Arkansas, Oklahoma, Louisiana, Mississippi, Montana, South Carolina, South Dakota, Tennessee and West Virginia were the least-heavily taxed per capita. Residents of Alaska, California, Connecticut, Hawaii, Maryland, Massachusetts, Minnesota, New Jersey, New York, and Wisconsin faced the heaviest burdens.[16]



Source: Author calculations from Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

The low-tax states saw a decline in poverty rates more than 9 percent while poverty rates actually increased in the high tax states by approximately 2 percent.

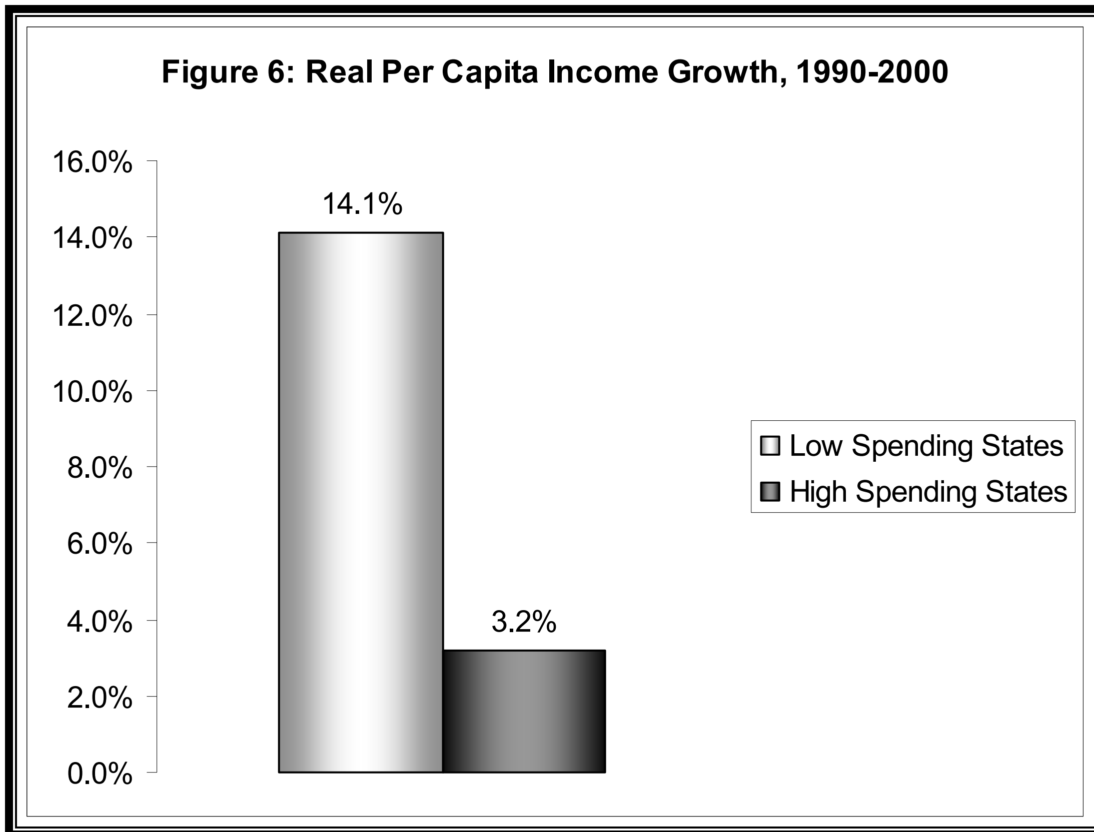
Figure 5 demonstrates the childhood poverty rate trends for the same states. Again, the same pattern holds: the high tax states badly under-perform when compared to the average and do much worse in comparison to the low-tax states.



Source: Author calculations from Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

Again, low tax states substantially outperformed high tax states in reducing poverty. In fact, the low tax states experienced a reduction in childhood poverty nearly four times larger than the high tax states.

The dramatic declines in poverty in the "small government" states strongly confirm the classical liberal hypothesis: low spending and low taxes promote economic growth, which in turn reduces poverty. These states seem to have succeeded in reducing poverty by allowing the private economy to flourish. We can further test this hypothesis using the growth in real per-capita income. Figure 6 compares the records of the 10 highest spending states to the record of the 10 lowest spending states (the states in question are mentioned earlier in the paper in the discussion of figure 2) in generating real per person income growth during the 1990-2000 period.



Source: Author calculations from Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp

ALTERNATIVE EXPLANATIONS: IMMIGRATION AND ECONOMIC CATASTROPHE

Taxes and business climate alone, of course, do not completely explain trends in poverty or per capita income. A number of factors could influence such trends, and difficult problems vex attempts to statistically model per capita income growth.[17] High rates of illegal immigration into states such as Arizona, California, and Texas, for example, could put downward pressure on per capita income figures. Relatively affluent retirees moving out of the Northeast and into states like Florida make an impact. Some states experience the good fortune of having a world-beating firm develop within their state to become a major generator of wealth and employment. Arkansas, headquarters of Wal-Mart, certainly comes to mind.

With regards to immigration, some states with very large increases in the percentage of the population born in a foreign country also experienced large decreases in poverty rates during the 1990s. For example, Arizona and Texas both more than doubled the number of foreign-born residents during the 1990s, but experienced poverty declines well above the national average. Texas gained more than 1.3 million foreign born residents during the 1990s, and respectively scored a B+ and A on the rankings of general and childhood poverty reduction. New York scored an "F" in both categories after gaining fewer than a million foreign born residents.[18]

Despite the fact that immigrants often come to the United States poor, there is no reason to assume that they will largely stay poor in a vibrant economy. Immigrants, both legal and illegal, often come to the United States in search of economic opportunity. In a healthy state economy producing large numbers of jobs, there is nothing inevitable about even the most penniless immigrant remaining in poverty long. A state with the combination of being a traditional immigration destination and experiencing stagnant economic growth, however, will be almost certain to see their poverty rates rise. Both California and New York fall into this unfortunate category. These states have been gateways for decades as immigrants have accessed social and family networks in each of these states. What changed for the worse in these states during the 1990s was not immigration, but rather the ability of these state economies to economically assimilate immigrants through job creation.

Another possible explanation to explain poverty trends: regression to the mean. States with high levels of poverty in 1990 might have found it much simpler to reduce poverty rates than states with low rates. Twenty-five percent of Mississippians, for example, lived below the poverty line in 1990, while only 6.4 percent of those living in New Hampshire lived in poverty. One could argue that New Hampshire had nowhere to go but up, while Mississippi had nowhere to go but down. Several of the states that were star performers in poverty reduction, however, began the 1990s with poverty rates well below the national average. Colorado, Iowa, Minnesota and Wisconsin, for example, began the decade with poverty rates well below the national average and still experienced dramatic declines. The District of Columbia meanwhile had a poverty rate 29 percent higher than the national average in 1990 but 60 percent higher than the national average in 2000.

Localized economic downturns can also influence state poverty rates. States sometimes experience external shocks, leaving them out of sync with the national economy. Take Hawaii, for example, which scores at the very bottom of the state rankings with a 28.9 percent *increase* in poverty rates during the 1990s. Hawaii faced severe economic difficulties associated with the collapse in the Japanese stock market beginning in 1989. Asian interests had invested heavily in Hawaiian real estate, and the prolonged Japanese recession, coupled with subsequent troubles in other Asian stock markets, put a severe strain on the Hawaiian economy.

These circumstances, however, do not absolve Hawaii of its terrible economic performance. As a high tax, high regulation state, it has failed to adapt quickly to a changed economic environment.[19] Other states have had more success facing similar economic calamities. For example, Texas faced an economic catastrophe in 1986 when the price of oil dropped from $40 to $9 a barrel. That same year, Congress removed “passive loss” provisions for real estate investments from the federal tax code in the Tax Reform Act of 1986. Coupled with the collapse in the oil, these changes led to a collapse in the Texas commercial real estate market and, subsequently, a Savings and Loan banking crisis.[20]

During the 1970s, the Texas economy swam against the national trend, experiencing strong economic growth fueled by the oil industry and speculative real estate investments. In 1986, the wax on the wings melted. While the national economy grew stronger during the late 1980s, Texas found itself mired in a regional recession, facing the need to reinvent its once high-flying economy to changed circumstances.

The Texas turnaround stands in stark contrast to Hawaii's experience. Market forces went to work as the collapse of the commercial real estate market helped attract major corporate headquarters looking to leave high cost states. Firms formerly associated with the petroleum industry reinvented themselves. High-tech entrepreneurs found a low-cost and business friendly state. Good luck also plays a role. During this period, for instance, a small company in Houston invented the first personal computer clone. Around the same time, a student named Michael Dell mapped out the beginnings of a company that would revolutionize the computer industry from his dorm room in Austin.

While the Texas calamity occurred three years prior to Hawaii's, it is instructive that Texas experienced a 14.9 percent decline in poverty during the 1990s while Hawaii experienced a 28 percent increase. Economic growth represents a mysterious phenomenon, with a wide myriad of possible explanations. Solid fiscal policy, however, can only help, while poor policy can make a bad situation much worse.

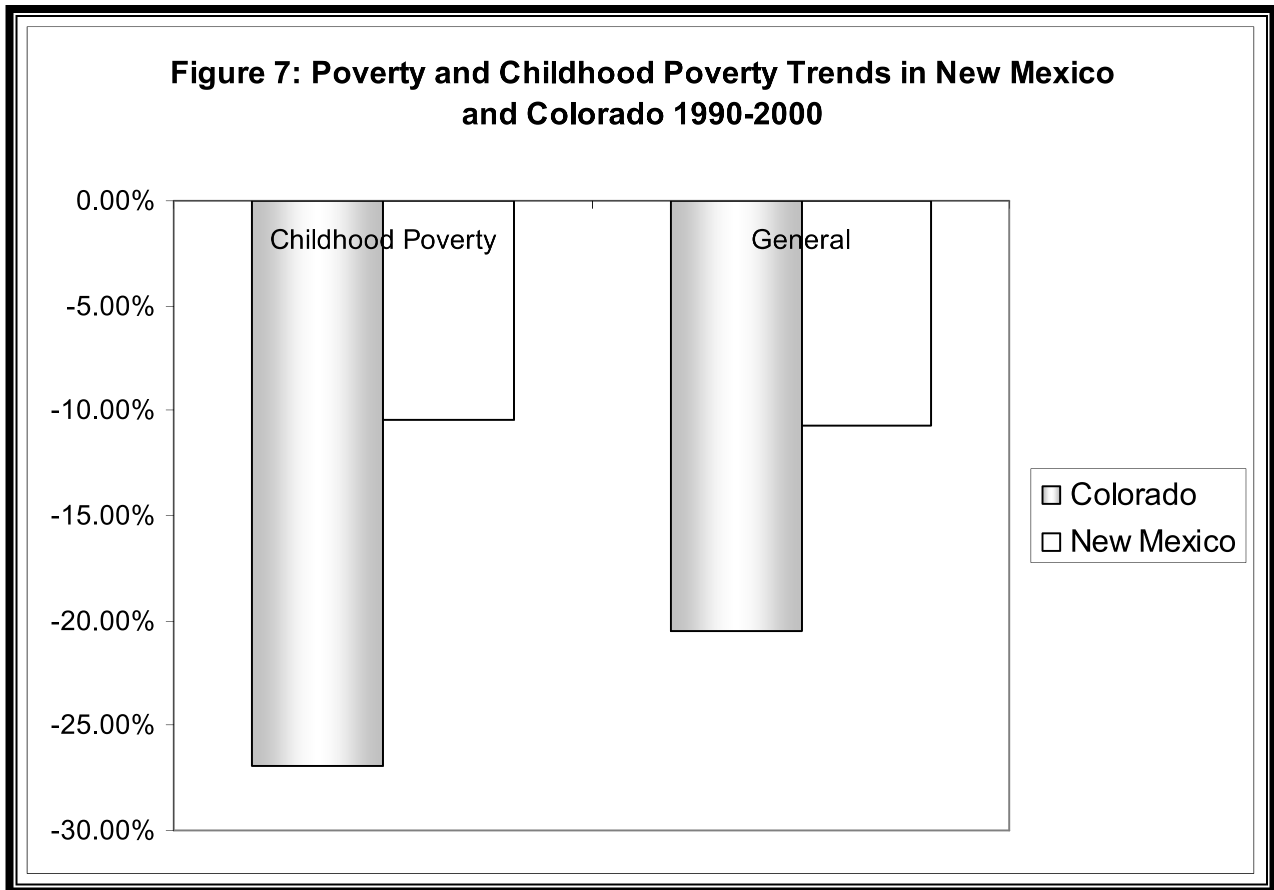
COLORADO: FISCAL RESTRAINT AND POVERTY DECLINES

Colorado's fiscal policy helped make its remarkable income progress possible. In 1992, Colorado enacted a Taxpayer's Bill of Rights (TABOR) which limited increases in state government spending to the combined rate of inflation and population growth. Under TABOR, the state rebated excess revenue to Colorado taxpayers.

As a result, Colorado taxpayers have received $3.2 billion in tax rebates between 1997 and 2002, an average of $900 per taxpayer. Colorado's economy has been exceptionally strong. Between 1995 and 2000, Colorado ranked first among all states in gross state product growth and second in personal income growth.[21]

Ironically, during the 1992 campaign, then-Colorado Gov. Roy Romer bitterly denounced the TABOR proposal, saying that defeating TABOR at the ballot box was the "moral equivalent of defeating the Nazis at the Battle of the Bulge." Governor Romer warned that the Colorado border would have to be posted with signs reading, "Colorado is closed for business."[22]

The trends in poverty rates tell quite a different story, as seen in Figure 11. Colorado made enormous gains, Arizona made solid gains, and California suffered higher rates of poverty. Despite the predictions of doom TABOR opponents offered in 1992, Colorado's economy enjoyed a golden era of income growth and poverty reduction.



CONCLUSION: THE MORAL CASE FOR SMALL GOVERNMENT IN NEW MEXICO

In the fight against poverty, it is clear that less is more. We cannot know all the reasons that high tax/spending states proved so inept at reducing poverty during the 1990s. Some broad explanations, however, should be considered.

First, the failure of many government programs to reduce poverty should instill policymakers with a sense of humility. The causes of poverty have proven to be complex and the ability of government programs to affect them limited.

Second, despite the apparent complexity of poverty to government agencies, economic growth has proven to be an effective tonic in reducing poverty. Private sector growth possesses much greater power in the fight against poverty than do government programs. Government spending beyond what is necessary to ensure law, order and property rights, provides limited economic returns.

Although advocates justify high taxes for the sake of the poor and children, the truth of the matter is that taking money out of the private sector slows job creation and income growth. The economy creates fewer private sector employment opportunities, meaning less competition for labor, both skilled and unskilled. Ultimately, it will be the most vulnerable hurt by this process-

those looking for the first rung on the economic ladder. The best anti-poverty program is a four-letter word: jobs. Taxes and regulation destroy them.

Also, the Robin Hood mythology of state as anti-poverty crusader requires serious re-examination. Economists term the pursuit of government subsidy, whether through direct government appropriation or through the tax code, as "rent seeking." Rent seeking represents an alternative way to seek riches. Justifying a subsidy to a handful of politicians, rather than producing something for which people will voluntarily hand over their money, can grant enormous fortunes.

Accordingly, we should not be surprised that the poor suffered in high spending states. Wealthy interests possess enormous advantages over the poor in the process of rent seeking. The poor vote, participate in civic organizations, make campaign contributions, and hire lobbyists at very low rates. The wealthy pursue all of these activities at much higher rates. Progressives implicitly assume that government spending will help the poor as if a non-political board of altruists set fiscal policy.

The reality is quite different. Politicians set fiscal policy in an entirely political context. Rather than a Federal Reserve peopled by figurative Mother Theresas, politicians often need to repay those special interests who helped elect them in the first place. High tax and spending states dole out a great deal of "rent" but we should not be shocked to find that it is the powerful, not the powerless, who benefit. In the real world, Robin Hood often takes from the poor and gives to the rich.

The poor may not be a strong lobbying force, but the same cannot be said for public employees. Government employees have become a major political force in lobbying for bigger government. Teacher unions, for example, constantly lobby and engage in electioneering for the purpose of increasing public school spending, while parents and taxpayers do so only on a much smaller scale, if at all. It should be no surprise then that welfare programs – even those designed at the state level – are not necessarily created with the poor in mind. Perverse incentives and programmatic inefficiencies often result.

New Mexicans interested in reducing poverty should seek to emulate Colorado. We should reduce taxes and limit the growth of spending, preferably by amending the Constitution to limit taxes and spending growth. New Mexico has cut its personal income tax and capital gains taxes in recent years. These cuts were important steps in the right direction, but there is much work to be done. Gross receipts tax rates continue to creep upward and income tax rates are still high relative to the rest of the region.

Limiting state spending increases to a combination of the inflation and population growth rates, and returning surplus amounts to the taxpayers would be an excellent way to increase future income growth. High taxes and wasteful spending destroy wealth and hurt the poor. New Mexico should follow Colorado's example by taking the low-tax path to economic prosperity for all its citizens.

Appendix A: State Poverty Profiles, 1990-2000

Arizona: Arizona experienced above average reductions in both childhood and general poverty during the 1990s. The percentage of Arizona residents living in poverty declined 11.5 percent, while childhood poverty dropped by 12.1 percent.

California: California experienced large and disappointing increases in both general and childhood poverty rates during the 1990s against a national trend of improvement. With a 13.6 percent increase in general poverty and a 7.4 percent increase in childhood poverty, California was one of the few states to earn an "F" grade in both categories.

Colorado: Colorado reduced poverty more than any other state during the 1990s, with a 20.5 percent reduction in general poverty and an astounding 26.8 percent decline in childhood poverty rates. Colorado was the only state operating under an effective restraint on state spending during the 1990s: the Taxpayer Bill of Rights (TABOR).

District of Columbia: The District experienced high increases in poverty rates during the 1990s despite strong progress nationally. General poverty increased by almost 20 percent and childhood poverty increased by 26 percent.

Hawaii: Hawaii experienced a disastrous decade during the 1990s, as general poverty rates increased by 28.9 percent and childhood poverty increased by 22.5 percent. Hawaii experienced an economic setback with the collapse of Asian investment, but failed to quickly adapt to a changed economic environment.

Mississippi: Mississippi began the 1990s as the poorest state in the nation with 25 percent of residents below the poverty line. A strong decade of economic growth, however, reduced both general and childhood poverty rates by more than 20 percent. Another decade like the 1990s (by no means guaranteed) would allow Mississippi to overtake California, with a smaller percentage of people living below poverty.

New Mexico: As pointed out in the paper, New Mexico is among the poorest states in the nation. Unfortunately, while the only two more impoverished states (Mississippi and Louisiana) received "A" ratings for poverty reduction during the 1990s, New Mexico received grades of "B minus." Simply put, New Mexico, despite the spending restraint of the Johnson years (1994-2002), pro-growth policies were not implemented.

Texas: The Lone Star State recovered nicely from economic catastrophe in 1986 (collapse in the price of oil, collapse of the real estate market, Savings and Loan crisis) to experience large reductions in poverty rates while creating enough jobs to absorb a large increase in the number of foreign-born residents.

Wisconsin: Despite relatively high taxes during the 1990s, Wisconsin experienced strong drops in poverty rates. Wisconsin, under the leadership of Gov. Tommy Thompson, led the nation in the area of welfare reform beginning in the late 1980s, foreshadowing what became a national trend towards welfare reform.

[1] *See* Robert Samuelson "One Reform that Worked: The welfare overhaul of 1996 has helped reduce poverty. Why can't we duplicate this sort of pragmatic progress in other areas?" August 7, 2006, http://www.msnbc.msn.com/id/14096483/.
[2] Theodore R. Marmor, Jerry L. Mashaw and Philip L. Harvey, *America's Misunderstood Welfare State*, (Basic Books, 1990), 22-52.
[3] Jim Powell. *FDR's Folly: How Roosevelt and his New Deal Prolonged the Great Depression.*(Crown Publishing, 2004).
[4] Charles Murray, *Losing Ground: American Social Policy 1950-1980,* (New York: Basic Books, 1984).
[5] Robert Rector and Patrick F. Fagan, *The Continuing Good News About Welfare Reform,* Heritage Foundation Backgrounder #1620, February 6, 2003, http://www.heritage.org/Research/Welfare/bg1620.cfm.
[6] Gerry Bradley, "Robin Hood in Reverse," *Albuquerque Tribune,* June 15, 2005, http://www.nmvoices.org/column_structuraldeficit5_15_05.htm.
[7] Tyler Cowen "Why the Growth Rate is Important," Entry on the weblog "Marginal Revolution," August 20, 2004, http://www.marginalrevolution.com/marginalrevolution/2004/08/why_the_growth_.html.
[8] Tax Foundation, "*Total Income by State Per Capita, 2005"* March 9, 2006. http://www.taxfoundation.org/news/show/290.html.
[9] Finfacts Ireland website, *Global Income Per Capita* http://www.finfacts.com/biz10/globalworldincomepercapita.htm.
[10] Digest of Education Statistics, 2004, http://nces.ed.gov/programs/digest/d04/tables/dt04_020.asp.
[11] Article X of the Colorado Constitution, http://www.i2i.org/Publications/ColoradoConstitution/cnart10.htm.
[12] Counting California, Total State Government Expenditures Per Capita, Fiscal Year 2000-2001, http://countingcalifornia.cdlib.org/pdfdata/csa03/P14
[13] A lack of comparable and detailed state budget data precludes an examination of anti-poverty spending by state.
[14] See "Business Climate Rankings - Biased in Favor of Tax Cuts and Less Government Regulation - Useless as Guide for Policymaking, (June 30, 2005)" New Mexico Voices for Children press release, June 30, 2005, http://www.nmvoices.org/pressrelease_gradingplaces_06_30_05.htm.
[15] Matthew Ladner, *The Tax Man and the Moving Van*, Goldwater Institute Policy Report no. 194, May 24, 2004.
[16] Washington State Department of Revenue, *Revenue News,* http://dor.wa.gov/Docs/Pubs/News/2003/nr_03_01_ComparativeTaxes2000Final.pdf.
[17] See Dani Rodrick, "Why We Learn Nothing from Regressing Economic Growth on Policies," Harvard University Working Paper, http://ksghome.harvard.edu/~drodrik/policy%20regressions.pdf.
[18] Data from the Center for Immigration Studies, http://www.cis.org/articles/2003/back1203.html#table1.
[19] *See* Lowell L. Kalapa, "Let's Talk About This Economic Slump," Tax Foundation of Hawaii Weekly Commentary, September 20, 1998, http://www.tfhawaii.org/cols/1998/092098.html.
[20] For a summary of the petroleum downturn in Texas, see David Brown, "The Crash of '86 Left Permanent Scars," January, 2006 http://www.aapg.org/explorer/2006/01jan/crash.cfm.
[21] In 2005, Colorado voters narrowly voted to temporarily suspend TABOR after the early decade recession "ratchted down" state government spending. The combination of a general economic downturn and a reduction in air travel following the 9/11 attack forced cuts in state government spending, which then under TABOR became the new baseline for the following year. This is a design feature of TABOR that need not be replicated in other states.
[22] Stephen Moore and Dean Stansel, "The Great Tax Revolt of 1994," *Reason*, October 1994.