



BHI State of the Household Survey 2003 With confidence low, challenges ahead for Gov. Romney

The picture is not pretty: The prospect of war with Iraq, a sinking stock market and a shrinking job market for the state's highly educated workers. Not long ago the state's economic picture was bright and consumers were teeming with confidence. Today consumer confidence is the lowest in a decade while states like Massachusetts face declining state revenues. It seems like 1990 all over again.

According to BHI's State of the Household Survey, slightly more than one-third of respondents believe that the state's economy will improve, with slightly less than two-thirds maintaining that conditions will either worsen or remain unchanged in what can best be termed a white collar recession.

The survey also found a lack of confidence in the national economy in the near term. A majority of respondents (55%) believe that the national economy will experience neither a recession nor moderate growth in the next

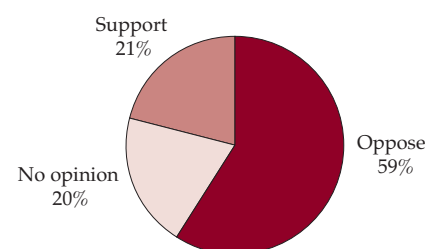
few months. However, 50% believe that the U.S. economy will improve sometime in 2003, while 27% believe that the economy will neither improve nor worsen.

Since 1999, BHI has informally surveyed an array of fiscal conservatives including Republicans, Independents, Libertarians and Democrats who have expressed a preference for lower taxes, less regulation and a business-friendly environment. The respondents support rolling back the state's personal income tax to 5 percent by the end of Governor Romney's first term (76%) and maintain that spending should be cut before tax increases are considered (87%.)

This year, BHI received 471 responses after mailing the survey to 2500 readers in January. The results have a margin of error of plus or minus 5 percentage points.

As expected, respondents overwhelmingly believe that Republican Gov. Mitt Romney will do a good job in his first year in office. More than 80% of the respondents place their faith in Romney and

Do you support or oppose cutting local aid to cities and towns?



BHI State of the Household Survey, Winter 2003

his reform message. However the BHI survey highlights several potential policy differences between respondents and Beacon Hill. These appear to be substantial.

While support for Romney is

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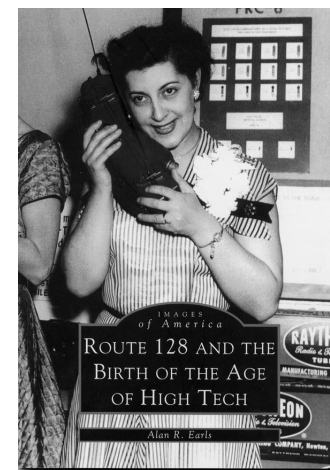
The "road to nowhere" everyone wants More than a Boston bypass: The story of Route 128

Route 128 is certainly more than a highway. To many, it's synonymous with high technology. Little did the first Massachusetts highway planners know that their long discussed idea for a Boston bypass would evolve into America's Technology Region. As far back as the beginning of the 20th century, some transportation experts wanted a nifty north-to-south arc for navigating around the city of Boston. At the end of World War II, however, entrepreneurs saw the true potential of the newly completed sections of beltway and created the first suburban industrial parks.

As the region grew, cutting edge companies such as Raytheon with its ra-

dars and transistors set up shop along the highway. Edwin Land's Polaroid, Ken Olsen's Digital, and Edson deCastro's Data General and a cast of small innovative companies staked their own claims to Route 128 and the I-495 beltway in the years that followed.

Alan Earls had his first exposure to computer programming on one of Digital's famed PDF-8 minicomputers in 1970 in high school. The son of an engineer, Earls was raised in one of the numerous suburban subdivisions that emerged as 128 was nearing completion. Later Earls went on to serve as editor of Mass High Tech, the region's newspaper of record. With his new book, *Route 128 and the Birth of the Age of High Tech*, Earls unfurls an alluring photographic essay on a key part of Massachusetts economic history.



NewsLink editor Frank Conte started an online conversation with Earls in January to learn more about the Route 128 community and its future.

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Survey

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strong, the survey found that several of his proposals for closing the budget gap that have surfaced over the past few months are receiving only lukewarm support. Overall, respondents oppose cutting local aid, oppose cutting lottery prize payouts and apparently are less than enthusiastic for other measures such the introduction of casino and slot machine gambling. Support for repealing the Pacheco law is lukewarm with a significant number indifferent to the issue.

Respondents were divided on the issue of casino gambling in Massachusetts: 45% favored the establishment of casinos while 43% opposed with 12% neither favoring nor opposing this potential source of state revenue. The survey also found that individuals opposed the introduction of gaming or "slot" machines to restau-

rants and racing tracks (49% opposed, 35% favored and 14% offered no opinion.)

BHI also asked about two proposals that surfaced last year that were promoted as revenue raisers. Respondents were divided on whether to support a proposal to lower the lottery prize payouts: for and against each registered 34% with another 32% neither favoring nor opposing lower lottery prizes. Only 33% of respondents expressed support for "securitizing" or selling the rights to future tobacco settlement monies to meet budget shortfalls, 46% opposed the idea and 22% offered no opinion.

Fifty-nine percent said they opposed cutting local aid to cities and towns as a way to balance the state's budget while 21% supported the idea. Twenty percent did not have an opinion either way.

Fifty-four percent would like to see a continuation of education reform spending at current levels while only 19% opposed such spending.

Support for repealing the so-called

Pacheco "anti-privatization" law garnered only a plurality of 38% while 50% neither support nor oppose scrapping the law enacted in 1993. Eleven percent of respondents oppose eliminating the law.

The survey revealed a strong inclination to control costs in several areas. For example, 48% of respondents maintain that Medicaid recipients ought to absorb a larger share of their health care costs through higher co-payments to health care providers, while 37% are opposed. With regard to public transit, 44% agree that it is a good idea to raise public transit fares while 27% disagree and another 27% offer no opinion. An overwhelming number of respondents (86%) believe that capping medical malpractice awards is a good idea.

Any initiatives to generate economic development by changing the state tax code may also be troublesome for the Romney Administration and the state legislature. Respondents to the BHI survey are

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BHI State of the Household Survey 2003

During 2003 do you expect	Improve	Neither	Worsen
the global economy to	29	47	24
the national economy to	51	30	19
the Massachusetts economy to	38	32	30
Do you support or oppose each of the following proposals that are likely to be raised in Massachusetts in the coming year?	Support	Neither support nor oppose	Oppose
enacting a law mandating universal health care coverage	37	8	54
providing unemployment benefits to new parents	18	10	72
repealing the Pacheco antiprivatization law	39	50	11
capping the number of charter schools in the Commonwealth	26	23	51
lowering the prize payouts at the lottery	34	32	34
cutting local aid to cities and towns	21	20	59
capping damages in medical malpractice jury awards	86	4	9
enacting a law requiring computer manufacturers to recycle their products	54	25	21
legislation that would control unsolicited e-mail or "spam"	77	11	12
Do you favor or oppose each of the following:	Favor	Neither	Oppose
a continuation of education reform spending at its current level	54	27	19
selling rights to tobacco settlement money in order to meet budget deficits	33	22	46
the establishment of casino gambling in Massachusetts	45	13	43
allowing slot machines in race tracks and restaurants	35	15	49
more co-pay for Medicaid recipients	47	16	37
a targeted tax cut for the biotechnology industry	31	26	43
relaxing MCAS grad requirement	22	10	68
cut state PIT to 5% by Romney's 1st term	76	11	13
state should cut spending rather than raise taxes	87	4	9

*numbers may not add up to 100 due to rounding.

NewsLink is published quarterly by the Beacon Hill Institute for Public Policy Research at Suffolk University. The Beacon Hill Institute focuses on federal, state and local economic policies as they affect citizens and businesses, particularly in Massachusetts. The institute uses state-of-the-art statistical, mathematical and econometric methods to provide timely and readable analyses that help voters, policy makers and opinion leaders understand today's leading public policy issues.

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BHI finds Project Labor Agreements costly for cities and towns

Project Labor Agreements (PLAs) are collective bargaining agreements that often set the terms of employment on large publicly-financed construction projects. Supporters of PLAs, most notably construction unions, argue that such agreements ensure labor harmony, and, in the long term, save taxpayer dollars. Under PLAs, unions must approve all workers on a given project, including workers who are not members of the union, in exchange for pledges not to strike or initiate any job actions.

Critics, mostly open-shop contractors, have argued that PLAs nullify their key competitive advantages, particularly those governing worker flexibility. In addition to raising costs by requiring firms to follow union rules, the smaller pool of bidders for public contracts that require a PLA reduces competition, raising bid prices further still.

The move to establish PLAs has been extended beyond large public projects such as the Central Artery/Tunnel Project in Boston, or the Boston Harbor cleanup. Moreover, the cost of securing a union's pledge not to strike or any other job actions may outweigh its benefits.

A new study by the Beacon Hill Institute shows that PLAs, which effectively limit municipalities to union-only contracts, add millions to the cost of building new schools.

Reviewing construction expenditures of 54 schools in the Greater Boston area, economists from the Suffolk University Department of Economics have found that a PLA adds \$37.88 per square foot to the cost of school construction. Cities and towns that sign PLAs spend, on average, 22.1% more than they would under a more competitive open bid process.

The potential saving from not using a PLA ranged from \$1.9 million for a 50,000-square-foot structure to \$9.5 million for a 250,000-square-foot structure. A typical structure of 130,000 square feet would save \$4.9 million.

If the 17 schools constructed under PLAs were built under an open competitive bidding system, state and local government would have saved a total of \$85.5 million.

The BHI study is the first attempt to provide formal statistical evidence on the cost of PLAs. The study notes that the state does not accurately track the details of PLA projects. Currently the state reimburses cities and towns for an average of 69% of the cost of new school construction. ❖

Survey

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divided on whether to support targeted taxes cuts for the state's growing biotechnology industry. (See story page 6.) Forty-three percent oppose giving tax breaks to this sector while 31% favor granting such incentives; 24% have no opinion.

However, when asked how best to provide affordable housing, respondents favored the use of tax incentives (33%) and cutting government red tape (23%). The other choices — enforcing the state's "anti-snob" law, increasing funding for state housing vouchers and enacting the Community Preservation Act all received a combined 27%. These findings were consistent with last year's BHI survey.

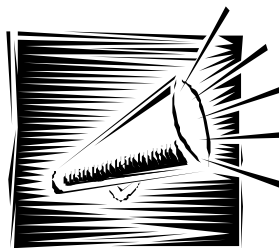
In a continuing effort to measure the influence of technology among its readers, BHI also asked respondents whether they would support legislation regulating unsolicited e-mail or "spam." A majority (78%) would support laws that curb the practice while only 12% opposed such a measure. This finding was consistent with other public opinion surveys at large.

When asked "would you support or oppose a law requiring computer manufacturers to recycle their products," 54 percent said that they would support such an environmental measure while 21% would oppose, with 25% offering no opinion. ❖

2003 Competitiveness Report released



LOOKING AT BOSTON'S ABILITY TO COMPETE
Charlotte Allen (l) of the Boston Foundation, Robert Tannewald (c) of the Boston Federal Reserve Bank and Sam Tyler (r) of the Boston Municipal Research Bureau field questions from BHI's panel discussion on the release of its *Metro Area and State Competitiveness Report* on December 10. The report, the second in a series, found that the Boston metropolitan area ranked third behind Seattle and San Francisco. The report garnered media attention across the nation.



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Route 128

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When they drew up the plans for Route 128, state officials believed they were finally addressing traffic congestion in downtown Boston, a rationale not different than you hear for the Big Dig. What exactly did state officials have in mind?

As automobile and truck traffic became more important, downtown Boston had become a choke point. One of the first solutions was to map out the original Route 128 — a circumferential highway created by fiat from existing roads that ran through towns like Lexington, Waltham, and Newton. It provided an alternative to, say, taking Route 1 from Dedham, through Boston, to Lynn.

Unlike the Big Dig, the solution that was selected was almost entirely and literally “greenfield” — in other words it was built where there was little or nothing in the way. Thus, it was pretty cheap — about \$63 million — it’s clearly not even in the same order of magnitude as the Big Dig. Route 128 was also sold as a way to link residents of the region to recreational opportunities, though I can’t imagine this weighed too heavily with planners.

Recall how people first called Route 128 “the road to nowhere”?

My understanding is that an American Automobile Association publication provided the moniker “Road to Nowhere” in part because the beltway concept was new and, perhaps because the road deliberately skirted the centers of towns.

Did the concept of a suburban industrial park emerge with the building of Route 128? Was there something about the tech-

nology itself that precluded it from being developed in the inner city?

I think there is a lot of agreement that Route 128 and its office parks represented the first coherent manifestation of the concept. However, suburbanization was already starting. Add to this a strong impetus for the creation of single story industrial structures coming from the insurance industry — experience had shown that multi-story structures were a much greater fire risk — and you have the basic ingredients for the suburbanization of industry and employment in general.

As far as the nature of the technology — there’s probably nothing inherently more tech-friendly about the suburbs. My book pays a lot of attention to Teradyne, a company that was launched in Boston in 1960 and still has most of its operations there today. And, of course, there’s Cambridge. However, commutes into Boston were hellish making accessible suburban locations very appealing. I suspect that the housing that was initially constructed in the suburbs was also comparatively affordable. So once the highway was in place, all the underdeveloped land offered affordable alternatives for commercial and residential development.

If you had to identify one individual who was the driving force behind the project, who would that be? Who’s the Robert Moses of Route 128?

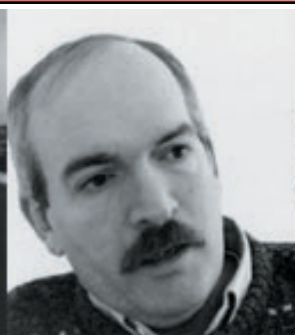
While there were clearly people who influenced the shape and development of Route 128, highway planners Benton McKay and Franklin C. Pillsbury, for example, the giant of 128 and, indeed, of almost all great road projects in the Commonwealth is William F. Callahan.

What role did the federal government play in promoting the eventual success of Route 128 not only building the road but by encouraging the industries that moved there? Or was it just an accident?

There is certainly a lot of serendipity to the Route 128 story. In terms of the road and the specific locations of industries, the federal government only contributed to the construction of the road in the smallest of ways — some modest efforts from the WPA in the 1930s. Later in the 40s and 50s, the move of industries and government agencies to the suburbs was encouraged by civil defense considerations of the federal government. Indeed, decentralization was the major portion of the “defense” rationale behind the 1956 Federal-Aid to Highway/Interstate Highway Act. However, there were no specific monetary incentives for such developments and I don’t know of any specific examples of organizations that chose the suburbs based on those reasons except perhaps the Air Force Cambridge Research Lab in Hanscom.

Over the years, Massachusetts definitely was a magnet for government research dollars — and remains so — though its relative share of those dollars has been dropping recently. There is no doubt the steady and generous flow of funds that started in World War II with the Radiation Lab at MIT and continued with things like project Whirlwind at MIT, the guidance and control work at MIT’s Instrumentation Lab (now Draper Lab), the spy satellite work of Itek, the missile and space program work conducted at Avco, and the various missile and radar systems developed by Raytheon employed a great many people and put in place some of the special advantages which we still rely upon today. It was the basis of the region’s success in mini-computers. Of course a lot of the complex software that came into existence in those early years made possible the large software sector we still have here today.

Policymakers who believe in an activist industrial policy may think they can point



of why government should be involved. Does the success of firms on Route 128 prove that government ought to row as well as steer an industry?

Well, as I mentioned, Route 128's successes were not really planned. If World War II and the Cold War hadn't come along, computers and radars wouldn't have been needed in such abundance. Could the government have developed a plan to create those industries or any similarly sophisticated industry? I really don't think so. The government had needs and saw organizations with the potential to meet those needs. They provided support and some of those organizations grew to be very successful...

There probably are times when government should consciously help nurture or support industries in the absence of a clearly defined need, such as defense. But I see no evidence from the 128 story that such support need be overt or frequent. It's probably better for government to simply be unobtrusive. That's the real secret of Route 128 — it was cost-effective public infrastructure that provided room for the economy as a whole to grow.

One of the watershed moments in the history of Massachusetts politics and public policy was the emergence of the Massachusetts High Technology Council. How did that come about?

I wasn't "present at the creation." My understanding is that some executives were fed up with doing business in a state that no longer seemed to recognize that the world was a competitive place. In the mid-1970s, there was a widespread flight of industry from the region, shrinking defense spending, and unemployment that briefly reached about 12 percent. As I recall, even middle-of-the-road folks used to refer to

the Bay State as "Taxachusetts" back then. Deserved or not, there was a widespread belief that all public policy issues were addressed by taxing someone — in effect, borrowing from Peter to pay Paul.

It appears that some political officials warmed up to the high-tech community's development agenda, Ed King for example. Years later, Michael Dukakis finally recognized the value of growing Route 128 high-tech firms. Was this a surprise?

I don't know exactly how Ed King got religion but in listening to what he said and talking to him I got the sense that he had somehow acquired a sincere and probably genuine respect for entrepreneurial people. He certainly made every effort to be a cheerleader for the state's businesses — something we've not seen much since then. As far as Mike Dukakis, I don't think he really grasped things in the same way. He had a reputation for rationality and thoughtfulness but his commitment to the high-tech industry developed after the industry — and the Massachusetts Miracle it helped create — had already seized the public's imagination.

Route 128 has been compared unfavorably to Silicon Valley lately. Some observers believe that Silicon Valley's culture is more conducive to innovation? Why?

You are probably referring to Annalee Saxenian's book, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. I've always felt that Saxenian was a bit unfair in that she looked at the two regions during the period in time when the microprocessor — particularly the Intel architecture — became the dominant

factor in computing and much of the rest of electronics. This development gave all enterprises — anyone with the ability to buy an off-the-shelf CPU — the same standing in the industry as older, established players.

To cite an obvious example, for a time, anyone could build PC clones and everyone did. So, naturally, Silicon Valley, which grew up in this period, drew success from extremely rapid change. Companies grew and changed. Started and failed.

People moved from one job to another — sometimes after just a few months. In this same period, the great minicomputer companies of the 128 region were struggling to hold on to their positions, adopt new technology, and continue to service customers globally. In the long run, they failed, I suppose, but that may have been almost inevitable given the vastness of change in the industry as a whole. What Saxenian didn't acknowledge, in my opinion, is that these firms had become entrenched, had sought to foster loyalty and long-term commitment in their employees, and so on, because that was the key to their success up to that point. If she had looked at a 25-year time-span her conclusions might have been different.

Do you agree with the notion that few regions illustrate the theory of creative destruction more precisely than Route 128?

I think you are correct. There certainly is both destruction and creation going on. I personally

*"I see no evidence from the 128 story that direct government support need be overt or frequent. It's probably better for government to simply be unobtrusive. That's the real secret of Route 128 — it was cost-effective public infrastructure that provided room for the economy as a whole to grow."
— Alan Earls, Author*

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Should state grant targeted tax breaks for biotechnology firms?

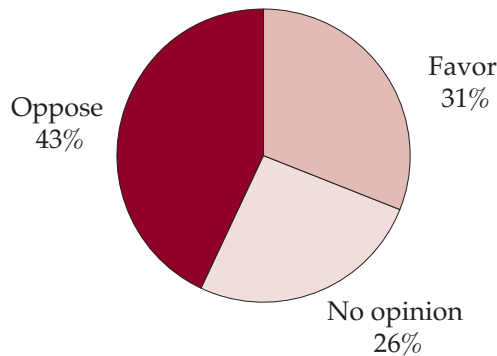
During the past five years, the Massachusetts biotechnology industry has grown at an annual rate of 10 percent, representing half of all industrial job growth in the Commonwealth. The industry currently includes 280 firms that employ approximately 30,000 employees. Companies that call Massachusetts home are responsible for eight percent of the drugs now in the world's pipeline. The biotech industry's track record in attracting venture capital is impressive – drawing 18 percent of the state's venture capital investment.

Given its skilled workers and its top universities and hospitals, Massachusetts will continue to attract cutting edge life science firms. Last year, Switzerland's Novartis AG announced plans to establish its global research center in Cambridge.

Nevertheless, as the industry matures, competition from other regions is intensifying. The Bay State's main technology competitor states – California and North Carolina – continue to attract not only research centers but also manufacturing facilities. That, according to the Massachusetts Biotechnology Council, spells trouble for Massachusetts. Industry leaders say it's time for the Bay State to step up to the plate and compete ac-

tively for the future job growth promised by the breathtaking innovation taking place. Having a vibrant cluster of universities, hospitals and venture capital firms is not enough. The Commonwealth must be not

Do you favor or oppose a targeted tax cut for the biotechnology industry?



BHI State of the Household Survey, Winter 2003

only a vigorous cheerleader but also a vigilant steward, offering predictable and, preferably, low taxes, a flexible regulatory environment and, if possible, direct and indirect public investment.

"If the state's political, business and academic leadership does not respond, the Massachusetts biotech industry will continue to grow, but it will represent an ever diminishing share of biotech jobs," writes the Mass Biotechnology Council, which coauthored the report, *MassBiotech 2010*, with the Bos-

ton Consulting Group. "Alternatively, if the state mounts a concerted effort now, by 2010 the industry could expand its share of employment, create nearly 100,000 additional state jobs and raise more than \$1 billion in cumulative personal income tax revenues."

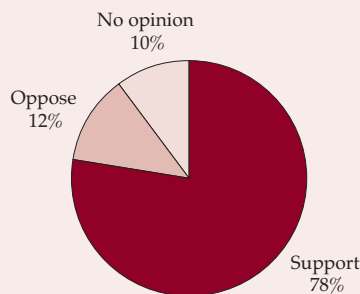
The Biotechnology Council believes that more than two-thirds of that hoped-for job growth will be in service and support industries. But for that to happen, Massachusetts must build from its strong base in research and move "down the value chain" into other activities, such as development and manufacturing. In fact, the future of the research sector depends on the ability to co-locate research jobs with manufacturing. "Not only do downstream jobs allow the state to spread the benefits of biotech employment to a far broader segment of society, they also serve as an important anchor for keeping upstream jobs in the state," says the report.

The industry clearly isn't sitting still. In December it launched a legislative effort to obtain tax incentives that could specifically help the biotech sector. Industry leaders are calling on the state to make research and development and investment tax credits as well as the "single-sales" factor permanent. Passed in 1995, the single sales factor changed the way multi-state corporations' income is subjected to the corporate income tax. The following year, the benefits of the single sales factor were extended

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It's time to can the spam!

Do you support or oppose legislation that would control unsolicited email or "spam"?



BHI State of the Household Survey, Winter 2003

According to industry experts, unsolicited e-mail messages or "spam" accounted for 40% of all e-mail traffic in November 2002 compared to 13% a year before. And the news isn't getting any better. Observers believe that by this July the volume of "spam" making its way to your mail box will soon outstrip the e-mail you'd like to read. End users aren't the only ones annoyed at this phenomena. According to Ferris Research, spam costs Corporate America \$8.9 billion in lost productivity. All that time cleaning up inboxes, buying filtering software and securing servers definitely adds up. Internet service providers and private industry have attempted limited technical solutions on their own. But that's apparently not enough. Annoyed by the increasing rate and the ever appalling content (unsolicited mail about pornography and mortgages for example), most e-mail users are now calling for legislation to regulate or outlaw spam. A new poll from Harris Interactive indicates that nearly 75% of e-mail users support making spam illegal. In January 2003, when BHI asked computer users whether they would support legislation controlling spam an overwhelming 78% answered in the affirmative. Only 12% said they would oppose such a proposal.

The world according to Bono is wrong!



The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics

William Easterly, MIT Press, 2001, 342 pages.

Reviewed by Frank Conte

Some 50 years ago, after the cataclysm of World War II, certain economists, perhaps thinking themselves as the optimistic, unacknowledged legislators of the world, sought to discover the means by which poor nations could become rich. They were motivated by the suffering of the poor who lived beyond the boundaries of a prosperous First World.

But economists – usually in the service of some well-meaning international entity such as the World Bank – failed to find the elixir that would lift nations out of poverty.

William Easterly, formerly of the World Bank and now a professor of economics at New York University, identifies what went wrong with the formulas that failed. Economists lost track of the basic principles of economics he says in his book, *The Elusive Quest for Growth*. Quoting economist Steven Landsburg, Easterly reminds us, “People respond to incentives; all the rest is commentary.”

The pervasive problem facing development economics today is that that trinity of First World donors, Third World governments and the ordinary citizens who inhabit them face disincentives to engage in economic growth.

These disincentives remain despite the noblest goals. Investing in a nation’s “human capital” was one proposed formula. From 1960 to 1990, there was a remarkable expansion in schooling. The results have been disappointing. “Having the government force you to go to school does not change your incentives to invest in the future. Creating people with high skills where the only profitable activity is lobbying the government for favors is not a formula for success,” observes Easterly.

The eyes of the world may glaze over on reading Easterly’s stunning, trenchant critique. More palatable, probably, is the message of Jubilee 2000, the last crusade of rock star Bono, joined by Pope John Paul II, Pat Robertson and the Dalai Lama. The message of this erstwhile group of do-gooders was “debt forgiveness”: We can fix the problems of the Third World by forgiving its debts. The problem with the drop-the-debt effort is that is a matter of the heart ruling the head. Debt forgiveness grants aid to those recipients who are compulsively bad at managing their economies, creating a disincentive to manage effectively. Meaningful debt relief would require governmental and market reforms and would be conferred only once. Otherwise governments will just borrow, figuring that they’ll get off the hook during the next round of debt relief.



Easterly ploughs through the fallacies of at least three other development approaches. He points out that foreign aid rarely fills the gap between saving and needed investment. Easterly also discredits the capital fundamentalist school, which seeks to increase the number of machines per worker. In the one of the book’s two most fascinating chapters, Easterly deftly invokes economist Robert Solow’s growth model to illustrate that economic growth falls “as machines become abundant relative to the labor force.”

The other must-read chapter is aptly named “Governments can kill growth.” Armed with strong evidence that governments are harmful, Easterly points to a litany of economic disincentives. “Things like high inflation, high black market premiums, negative real interest rates, restrictions on free trade and poor public services create poor incentives for growth.”

International economics is often vulnerable to the cries of those calling for debt relief or the end of capitalism. Such movements attract sloganeers, who at their worst are full of passionate intensity (to paraphrase Yeats) as the defenders of markets lack conviction. One welcome comfort is that Easterly embraces the forceful conviction that incentives matter. This is a must-read book. ❖

Biotech

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to include mutual fund companies.

The Biotechnology Council is also calling for the establishment of a novel idea: the creation of a state market in R&D and investment tax credits which would allow start-up companies to sell their credits to profitable companies that can use them to defray taxes.

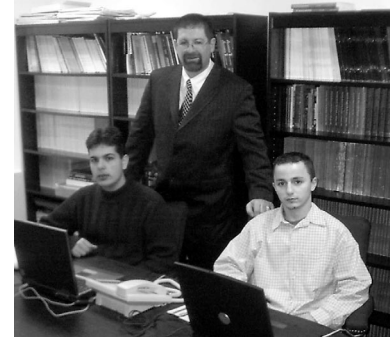
The push for favorable tax treatment comes at an inopportune time, however. Not only is the state budget facing a supposed shortfall, but elected officials are reopening the debate over the value of most of the business tax breaks it passed in the 1990s, including the single sales factor and the investment tax credit. “We’re certainly going to justify with a fine toothed comb any tax credit at this stage in the game,” one legislator told the Boston Herald recently.

But there are other reasons that targeted tax cuts don’t make sense. A

1995 STAMP analysis by BHI found that such targeted tax cuts would not create many of the jobs promised by supporters. The reason is that business tax breaks for manufacturers spur firms to substitute capital goods – plant, equipment and other fixed assets – for workers. By stimulating investment, these tax breaks provide long-run benefits to the economy but not benefits of the kind that can be sold politically as job-creating.

For political as well as economic reasons, sound tax policy requires that tax cuts be applied to all firms – firms that provide services as well as manufactured goods – not just to those with the strongest political influence. Cutting taxes on all corporations would be a better way to increase jobs, payrolls and capital stock.

The push for business-specific tax cuts, as opposed to broad-based ones (i.e. cutting the personal income tax rate) is drawing skepticism even among voters who tend to support business. This year’s BHI State of the Household Survey found that taxpayers are opposed to specific tax cuts for the biotech industry. About 43% oppose while only 31% favor; 26% offered no opinion. ❖



CASTING A BRIGHT JOB SHADOW – For the fourth year, the Beacon Hill Institute participated in the Boston Private Industry Council’s Job Shadow Day. On Jan 31, two students, Ernany M. Fonseca (R) a senior, and Rodrigo F. Andrade (L) a sophomore, from Boston’s Madison Park Technical Vocational High School shadowed BHI’s Frank Conte (C), to learn about working in a high-paced think tank. Both students, prospective information technologists, helped BHI staff configure and update the Institute’s intranet and web site during their visit.

In Point of Fact

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aging class warfare without the wit

The administration claims that dividend income should be exempt from the income tax because corporations already pay taxes on their profits. "It's unfair to tax money twice," the president has declared. Buy why special treatment for dividends? Workers pay income taxes on wages and salaries, and then they pay sales taxes at the store and property taxes on their homes and excise taxes on tickets - all on spending from earnings that have already been taxed once." "Bush's titanic tax deceptions," Robert Kuttner, *Boston Globe*, January 8, 2003.

OK, then is triple taxation fair?

"Kuttner argues that there should be no "special treatment for dividends" because "workers pay income taxes on wages and salaries, and then pay sales tax at the store and property taxes on their homes, all spending from the earnings that have been taxed once." Using this argument, is it not also true that those who buy any goods and services using earnings from dividends are taxed three times? As stockholders/owners of corporations, their corporate earnings are taxed, as recipients of dividend income their dividends are individually taxed; as buyers of products and services they pay the consumption taxes to which Kuttner refers. Following the Democrats mantra of "fairness" Kuttner should be

asking, "Is triple taxation fair?" Letter to the Editor, *Boston Globe*, "Bush right to eliminate dividend tax," Paul Frangos, Boxford. January 12, 2003.

Crushed by the grabbing hand of government

To put an end to a three-month state pricing probe that he says has cost him customers and nearly \$70,000 in legal and consulting fees, the owner of a small dairy and supermarket chain yesterday agreed to raise milk prices slightly in his three stores in Massachusetts. Demetrios E. Haseotes, president of Midland Farms of North Easton, said that after listening to his lawyer and a lawyer for the state shout at each other, he decided to throw in the towel and ask state officials what he needed to charge for his milk to end their predatory pricing probe. They suggested one approach, which would raise his prices slightly and he accepted it. "I'm pretty sick of it, and quite honestly I can't afford to continue the battle," said Haseotes, who launched his business in June and faced the prospect of losing his license to sell milk if he lost. "I'm getting beat up all over the place."

"Dairy to raise milk price: Midland Farms owner puts end to state probe," Bruce Mohl, *Boston Globe*, January 9, 2003.

What would Henry David Thoreau do?

Christopher Hardy could be a poster boy for environmental correctness. The 29-year-old walks to work, recycles his bottles, and lugs groceries home in a reusable cloth bag. He even works for the Mass. Audubon Society.

But a study released today suggests Hardy is committing an egregious environmental sin: He's living alone. In a novel analysis of how social trends affect the environment, scientists say the proliferation of smaller households - because people are staying single longer, having fewer children, divorcing more often, and living longer - is straining the world's natural resources. A demand for more housing units creates a need for building materials, appliances, and energy, and it also produces more waste. Patricia Wen, *Boston Globe*, January 13, 2003.

Exactly the sentiments of 45 percent of the voters in Massachusetts who voted "Yes" on Question 1 last November!

Governor Mitt Romney praised the Senate's majority decision to forgo a scheduled pay raise as "courageous" and an "excellent act" - but insisted he wasn't trying to ratchet up pressure on the House. "My action should in no way be seen as trying to force the issue," Romney said. Most House members interviewed yesterday said they would take the \$3,258 raise - but donate it to charities. "I don't trust the governor or the speaker or the Senate president to put the money where I think it will do the most good," said Rep. Carol A. Donovan (D-Woburn).

"Travaglini creates titles pay hikes for Senate pals," Elisabeth J. Beardsley, *Boston Herald*, January 3, 2003.



Route 128

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am concerned that, for the most part, the region no longer has companies that dominate an important section of the market. Twenty years ago, decisions that Digital or Wang made could help set standards or have ripple effects. Nowadays, the ripples start somewhere else and end up here.

The photographs in your book detail the evolution of technologies from computers to hand held telephones. Are there any firms that might bring some of the old glory back to Route 128?

That's impossible to predict. As I noted, there's still a lot happening. All the fundamentals exist here to spawn new companies and industries. What is of concern, and I think there is a chance that Gov. Romney may address this, is that only highly compensated individuals can afford to live here. Due to a variety of land-use policies, the suburbs are no longer a place of opportunity but, instead, a barrier to economic growth. I serve on my suburban town's Open Space Committee. I'm not in favor of unrestricted growth. But there needs to be a better way of creating places for people to live and work within the metropolitan area as a whole. That will require regional thinking and creative leadership.

Economist Jaggia to address panel on Ed Reform

BHI Senior Economist, Professor Sanjiv Jaggia will discuss education reform in Massachusetts at the upcoming annual meeting of the Midwest Economics Association in St. Louis on March 28. Jaggia, co-author of last year's "Getting Less for More: Lessons in Massachusetts Education Reform," will participate in a panel discussion dedicated to policy evaluation. His presentation, "Assessing Education Reform in Massachusetts: A Value-added Approach" will examine how BHI's model provides an alternative method of evaluating the success of education reform.

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