



BHI's MBTA study: Derail budget buster

After decades of signing a blank check for the Massachusetts Bay Transportation Authority, the Commonwealth is planning to change the way taxpayers are charged for public transportation. But will these changes be enough? A new BHI study, *Financing the MBTA: An Efficient and Fare Solution*, raises doubts that they will.

For years, the MBTA has simply billed the state for rapid transit, bus and commuter line services it has provided to commuters in 78 communities. And, each year the legislature has paid the bill, asking few questions about cost containment, efficiencies and user fees.

The method, called "backward funding," is one reason why the MBTA is known as a perennial "budget buster." With backward funding, MBTA management has little incentive to bring costs into line.

Attempts to bridge the gap between revenues and expenditures have been mini-

mal. Fares were last raised in 1991. Years later when the Weld Administration's blueprint for privatization proved to be politically unpopular, the MBTA's financing problems left the collective radar screen.

And so the T chugs along on a budget that now approaches \$1 billion per year, of which only about 17% is derived from fares.

Now, however, even supporters of public transportation have, in effect, declared,

"This is no way to run a railroad." That's because the state faces a debt ceiling imposed by expenditures and commitments to the Central Artery/Tunnel project and other brick and mortar efforts.

While bridge and toll road drivers and taxpayers are called upon to sacrifice to alleviate this crisis, the MBTA and its users continue to enjoy an almost free ride.

Shouldering the MBTA's burden isn't good for the state's bond rating. By Wall Street's account, the more the T borrows, the less the state can borrow for other projects without impairing its bond rating.

Is forward funding the answer?

The new phrase on Beacon Hill is "forward funding," which means that the T will no longer have the luxury of billing the Commonwealth for services provided for the prior 18 months. In addition, the legislature wants to raise fares, dedicate 20% of the state's sales tax to the MBTA and assess charges upon another 97 communities that indirectly benefit from the transit agency.

Forward funding is a move in the right direction. However, forward funding doesn't address the real issue: *the MBTA needs to be put on a budget.* By guaranteeing a revenue stream that bears no relation to costs or

usage, the legislature is simply substituting one flawed budget practice for another.

An efficient and fare solution
Consider the following:

- The MBTA could save \$58.87 million in FY 2000 operating costs by increasing efficiency to levels achieved by comparable transit authorities and without sacrificing service.
- Massachusetts taxpayers pay on average \$203 per year each to subsidize the MBTA, whether they use the system or not. The total state subsidy is \$608 million. That comes to about 8% of the average taxpayer's tax bill.

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Single-trip base-fare (1999)

Metropolitan Area	Motor Bus	Subway	Commuter Rail*
National Average	\$1.00	\$1.36	\$2.34
Boston	\$0.60	\$0.85	\$0.85
Peer Average	\$1.33	\$1.38	\$2.60
New York	\$1.50	\$1.56	\$3.25
New Jersey	\$1.00	\$1.00	\$1.20
Chicago	\$1.60	\$1.60	\$3.15
Detroit	\$1.25	NA	NA
Philadelphia	\$1.60	\$1.60	\$2.50
Baltimore	\$1.35	\$1.35	\$3.25
Washington, D.C.	\$1.10	\$1.10	\$3.60
Pittsburgh	\$1.25	\$1.50	\$1.25

*Source: American Public Transit Association

From the Executive Director

What makes for good tax politics doesn't necessarily make for good tax policy.

In early May, the Massachusetts House of Representatives voted to drop the personal income tax rate from 5.95% to 5.75%. Though modest, the proposed new rate is at least headed in the right direction. Then by a vote of 153-0, the House passed a series of targeted tax cuts geared toward "working families." The measure is headed to the Senate.

The House package includes an expanded child-care deduction. It also includes dependent deductions, to be phased in over three years, which would be expanded to include elderly and disabled dependents.

The cost to the state for both the 5.75% income tax cut and the sundry targeted tax cuts is \$430 million.

In order to pay for the targeted tax cuts, the House would effectively raise taxes by scaling back a capital gains tax cut established in 1994. (The legislature revised the tax liability for holding an asset for six years. Under current law the tax rate for such an asset is zero.)

There is a problem here. Tax policy should be evaluated in terms of job creation, expanded payrolls and shored up capital stock. In short, good tax policy improves a state's comparative advantage and benefits the lives of everyone living there.

Tax policy that is engineered to some desired social end, without regard to the economic consequences to the state or all its residents, is quite simply bad tax policy. Designing tax policy according to what feels good may be political expedient, but it is at best economically naive and at worst reckless.

An across-the-board tax cut to 5%, such as the one proposed by Governor Cellucci, is the superior method of stimulating and sustaining economic growth.

Targeted cuts in Texas

On behalf of the Texas Public Policy Foundation, we recently built a Texas STAMP model to analyze several tax-cut proposals in the Lone Star state. Among the most contentious was a plan to establish a research-and-development credit in the state. Texas STAMP showed that the credit would do little to create jobs for Texans. The Federal Reserve Bank of Texas agreed, issuing its own report that effectively concurred with Texas STAMP.

Ending the "T" Party

When Aniko Laszlo, a senior lecturer in economics, presented her analysis of the Massachusetts Bay Transportation Authority, we were as stunned as anyone by what she found: a budget-busting agency that pays "Delivery Persons" \$40,000 a year before benefits; that fails to meet efficiency standards achieved by comparable authorities in and out of the state; that costs the average state taxpayer \$200 a year; and

that has become a virtual free ride for its users. We've offered our solution to the situation; there are others. The legislature is now deciding how the MBTA will be reformed. What's clear to us is that the good time should end. The only ones currently not invited to this party are the taxpayers.



Former Mass. HHS Chief joins BHI

In March, Joseph Gallant, former Massachusetts Secretary of the Executive Office of Health and Human Services, joined BHI as Director of Social Policy Studies. Gallant's lifelong experience in the human service delivery system is playing a key role in what we call "the next step of welfare reform." We're glad to have Secretary Gallant on board!

David G. Tuerck

Good tax policy improves a state's comparative advantage and benefits the lives of everyone living there.

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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Media Mentions

Our study, *Financing the MBTA*, received coverage throughout Massachusetts. The *Boston Herald* covered the story twice (May 24 & 25). The *Herald's* lead editorial of May 25 featured the study: "Tame the T beast before feeding it." (See reprint on this page.) The *Boston Globe* cited the study in a May 26 editorial and covered the story on May 24, "Scathing report targets MBTA."

The Associated Press story appeared in various newspapers including *The Patriot Ledger* ("New study of T rips fiscal practices, urges overhaul") and the *Worcester Telegram & Gazette* ("Study claims MBTA is inefficient"). The study was the feature of the *Worcester Telegram & Gazette's* lead editorial of May 25, "Feeding the beast." *The Wakefield Daily Item's* lead editorial of May 26 also featured the study, "Heavy price for a dream."

David Tuerck appeared on television and radio discussing the MBTA study: WBZ radio's "David Brudnoy Show" (May 26); WGBH-TV's "Greater Boston" (May 25); WRKO radio's "Howie Carr Show" (May 24); and WBZ-TV's "I-Team" (May 23).

Radio and television stations covering the MBTA story included Fox 25-TV, WBZ-TV, WBZ radio and WLVI-TV.

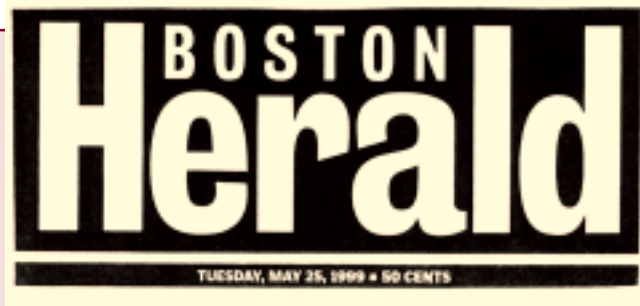
David Tuerck appeared on WBZ radio's "David Brudnoy Show" on May 13 opposing an increased minimum wage in Massachusetts.

Boston magazine cited BHI in an article, "For whom the pike tolls," in the May 1999 issue.

Our letter to the editor, "A middle road for welfare's least reformed," appeared in the April 30, 1999 edition of *The Christian Science Monitor*.

Richard Leonardi of the Buckeye Institute, our sister organization in Ohio, cited BHI in "State's tax surplus belongs to the people," in the March 12, 1999 edition of the *Columbus Dispatch*.

Another BHI letter to the editor, "Evaluating effects of tax credits" appeared in the *Wall Street Journal* (Texas Edition), February 24, 1999. The letter clari-



Tame the T beast before feeding it

Before lawmakers hand over 20 percent of the state's sales tax revenues to feed the beast that the MBTA has become, they ought to take a careful look at The Beacon Hill Institute's tough new analysis of the agency's many problems.

While much attention has focused on the institute's proposal for doubling MBTA fares - a move which is not only politically unpalatable, but likely self-defeating - it's the institute's exploration of the T's spending habits that is worth a long, hard look.

According to the Suffolk University-based think tank, the T had the highest wages and administrative costs of nine urban transit systems, and could save nearly \$60 million a year merely by bringing its operations to the same level of efficiency as its peers. Privatizing elements of its operations, a one-time goal of the Weld administration, would certainly help costs, according to the report. But what privatization efforts weren't stymied by the state auditor, were abandoned when Gov. Paul Cellucci signed a five-year give-away-the-store contract with the Carmen's Union in the midst of his gubernatorial race. That deal alone, providing for 18 percent pay

hikes, will guarantee the system remains one of the most high-cost in the nation.

There is no reason - save lack of political will - that, say, a delivery person on the T payroll should be paid \$21.85 an hour, when the Baltimore transit system pays someone in the same pay grade \$14.38 or that a "general helper" for the T should get \$20 an hour when even New York pays only \$16. This is fiscal lunacy.

The one point on which lawmakers and the institute report agree is that the T must be put on a forward-funded budget, just as every other state agency. But David Tuerck, executive director of the institute, also notes that it's time to consider the *level* of taxpayer subsidy too. Merely diverting 20 percent of sales tax revenues (currently \$600 million a year, but growing with the strong economy), doesn't solve the problem. What it could end up doing is simply encouraging more of the same.

Reprinted with permission of the Boston Herald. This editorial appeared in the newspaper's May 25, 1999 edition.

fied a point made by Robert Elder, Jr. in his February 10 *Wall Street Journal* article, "Texas alters analysis of tax cuts to account for economic effect."

Mass High Tech cited our findings in a February 1-7 editorial, "Income tax rollback makes good economic sense." Also mentioning BHI was the *Boston Business Journal* (February 5-11), "Study: Tax cut will boost jobs and capi-

tal spending."

Texas STAMP, which BHI built for the Texas Public Policy Foundation, factored into a February 4, 1999 *San Antonio Express News* article, "Group says tax cuts to bring more jobs, spending." Another article, "Capitol Report; In Brief" appeared in the *Austin American-Statesman* on February 4.

Study erases relationship between school performance and spending

An analysis of Massachusetts test scores finds there is no relationship between public school spending and student performance. The analysis, performed by Sanjiv Jaggia and Alison Kelly-Hawke, both Associate Professors of Economics at Suffolk University, appears in the current issue of *Contemporary Economic Policy*, published by Western Economic Association International.

Jaggia and Kelly-Hawke, who are also Resident Scholars of the Beacon Hill Institute, developed an econometric model that they applied to Massachusetts Educational Assessment Program (MEAP) test scores for virtually every 4th, 8th and 12th grade student in the Commonwealth. Among their findings:

- Increased education spending per pupil does not improve student performance.
- Student achievement is better in households in which both parents are present.
- Family background and the stability of a community are the main factors influencing student performance.
- Regardless of grade level, students in communities with better-educated parents (professionals and managers) perform better on average.
- Smaller class size leads to better student performance only in the early stages of education (primary grades).

The results strongly suggest that

higher levels of education spending do not improve student performance. The relationship between student performance and per pupil student expenditures is insignificant for all three grade levels.

The analysis shows in particular that administrative expenditures appear to exert a negative influence on student performance. "Per pupil administration expenditures are negatively related to student performance for all grade levels," note the authors. "For the 4th and 8th grades, the negative relationship is very strong, with a level of confidence of 99%. Apparently, if public administration expenditures increase then student performance slips."

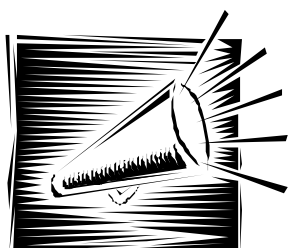
The study finds no evidence that parents in poorer, more crime-ridden or less professionally-oriented communities do not care about improving their children's education. Nor does it suggest that single mothers have any less desire to see their children educated well. One possible explanation for the find-

ings may be that since residents of more affluent communities are more likely to be able to afford alternative means of education, the public schools serving those communities must do a better job in order to continue attracting students.

In 1993, the Education Reform Act established a seven-year spending plan to bring all per pupil expenditures in all Massachusetts school districts to a "foundation level of spending." This new spending aimed to improve student performance. However, recent test scores suggest otherwise.

Since Fiscal Year 1993, the Commonwealth has increased spending by 34%. The projected dollars per pupil spent as part of the state's foundation budget for FY 2000 will be \$6,463. When the last plan was first enacted, the spending per pupil was \$5,557.

In March of this year, the legislature began hearing testimony on how to continue funding public education.



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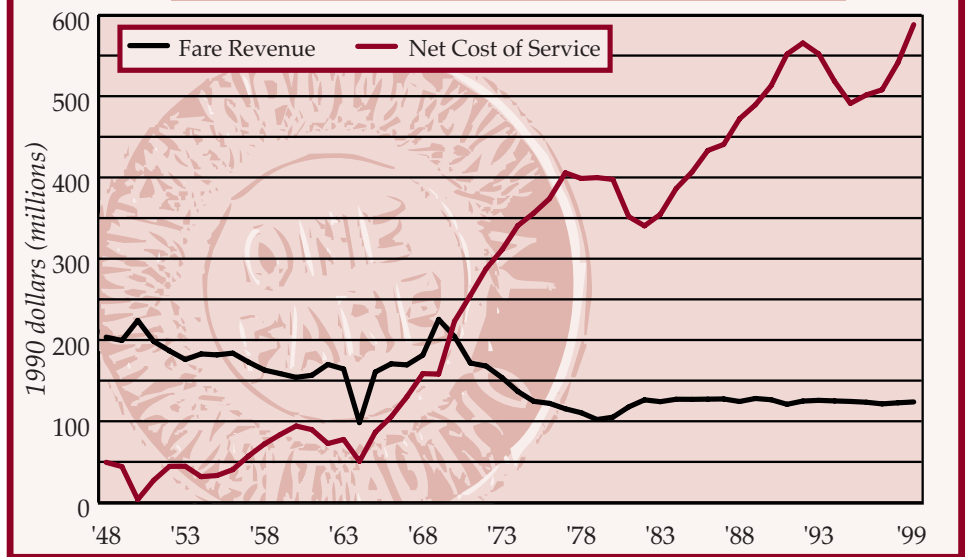
MBTA

continued from page 1

- In 1997, the MBTA paid 3,600 of its 6,000 workers on average 65% more than other Massachusetts employers for workers in certain comparable occupations.
- The MBTA pays as much as 52% more than other transit authorities pay the same workers. It pays a "Delivery Person" \$21.85/hr, compared to \$14.38/hr by the Maryland Transit Authority and \$15.69/hr by the New Jersey Transit Corporation. It pays a "General Helper" \$19.83/hr, compared to \$16.23/hr by the New York Transit Authority under its contract with the Transit Workers Union, Local 1056.
- The MBTA devotes a comparatively large share of its budget to administrative costs (20%) and to fringe benefits (31%).
- The MBTA charges one of the lowest fares in the nation. Subway fares are on average 38% below those charged by comparable authorities and bus fares are 55% lower.
- The state effectively subsidizes 100% of MBTA debt service, which, since 1980, has increased from 11% to 35% of the MBTA's total budget. Since the mid-1980s, the MBTA's reliance on state funds has risen from 40% to 65% of its capital expenditures.
- Adjusted for inflation, the MBTA's deficit increased 1060% from 1964 to 1999 or at an annual rate of 7.25%.
- In 1997, the MBTA made 3.8 times as many bus trips as all of the state's regional transit authorities combined. Yet, the state subsidy was 6.19 times higher for MBTA bus operations than for RTA bus operations. The MBTA subsidy per trip was \$1.54; the RTA subsidy was \$.94.
- MBTA reform would free up public funds for other projects. The MBTA could, by increasing efficiency and making reasonable fare increases, save the state \$217.24 million in subsidies permitting it to fund an additional \$2.66 billion in capital projects.

BHI released its year-long study in May. In it, BHI suggested MBTA efficiencies

Inflation adjusted real fare revenue and net cost of service in excess of income MBTA (1948-1999)



and budget reforms that could save Massachusetts taxpayers millions of dollars per year.

Under BHI's proposal, the Commonwealth would reduce the FY 2000 MBTA subsidy from a projected \$623.50 million to \$406.26 million. This \$217.24 million saving would permit the state to finance an additional \$2.66 billion in new infrastructure spending.

The share of MBTA operating expenses subsidized out of state funds would be brought in line with that for a "peer group" of eight comparable transit authorities. The share of MBTA debt service paid by state funds would be reduced by 25% to reflect the decrease in federal funding.

The MBTA would maintain existing service levels by raising fares and by increasing cost efficiency to a level comparable to that of the peer group. Fares would rise by 124%, with bus fares rising from \$.65 to \$1.35 and subway fares from \$.85 to \$1.90. In order to raise the revenue needed to compensate for the reduced subsidy, the MBTA would reduce costs by \$59 million per year. Then, the MBTA would begin to operate more as a business and less as a system of entitlements for its employees and users.

Far from being draconian or mean-spirited, such reforms would simply require the MBTA to achieve levels of efficiency and self-reliance already achieved by comparable transit authorities in Massachusetts and other states. It would create efficiency and a fare structure that would be, for once, fair to taxpayers.

Gallant named Social Policy Director

Joseph Gallant, former Massachusetts Secretary of Health and Human Services, has joined the Beacon Hill Institute as Director of Social Policy Studies. In his position, Gallant will assess the effectiveness of private initiatives and of mentoring in moving welfare recipients into work. He will also examine the potential of tax incentives like charitable tax credits to end dependency. Gallant will serve as a liaison between the Beacon Hill Institute and private organizations that assist individuals in making the transition from welfare to work.

Gallant served as Secretary of the Executive Office of Health and Human Services from 1996 to 1997. From 1991 to 1996, he was Commissioner of the Massachusetts Department of Transitional Assistance. In that capacity, he was instrumental in both drafting and promoting the Commonwealth's landmark welfare reform initiative. A former welfare caseworker, Gallant holds a bachelor's degree in social science from Boston College and a master's degree in social work from Simmons College.

Tuerck speaker at Heritage Foundation

The less a state taxes its residents and businesses, the better it positions itself to compete successfully with other states. States that enact broad-based tax reductions, such as personal income tax cuts, lay the groundwork for more powerful boosts to their economies than states that enact targeted tax cuts. While targeted tax cuts may be politically popular, they usually do little to build a state's economy.

BHI Executive Director David Tuerck spoke to this theme at the 1999 Heritage Foundation Resource Bank Meeting in Philadelphia in April. As one of two panelists addressing the topic, "Fundamental Tax Reform," he described the importance of measuring the effects of proposed state tax-law changes through dynamic modeling.

"Be suspicious when you hear that a state is relying on static modeling to analyze its tax policy," Tuerck said. "You need a dynamic model that considers complex but crucial factors like how taxpayers will respond to any proposed change."

Tuerck described BHI's State Tax Analysis Modeling Program (STAMP), first used in Massachusetts in 1994 and since applied to Oklahoma, New Jersey, Ohio and, in 1999, to Texas. STAMP uses state-specific data to determine how tax-

rate changes affect selected economic indicators within a state. "We are able to predict how many jobs will be created or lost, how much money will be derived for business investment and what the cost to the state's coffers will be. That helps policymakers make informed decisions."

Also on the panel was Brian Wesbury, Vice President and Chief Economist for Griffin, Kubik, Stephens & Thompson, a Chicago investment banking firm.

Unemployment insurance reforms will create jobs and increase payrolls

The Cellucci-Swift proposed reform of the unemployment insurance (UI) tax rate would result in the creation of 11,358 new jobs in 2000 for Massachusetts, with additional employment gains through the year 2003. In addition there would be an increase in the state's capital stock and tax revenue, and a slight growth in the wage rate during this period. The Beacon Hill Institute has estimated the economic effects of these proposals by using STAMP, the Institute's State Tax Analysis Modeling Program.

The UI rate reform aims to reverse UI contribution increases in the next four years that would apply under the current law and reduce the average cost of unemployment insurance from 2000 to 2003. According to the Department of Employment and Training, the reform will trim the average cost per employee to around \$270 in years 2000-2002, which is a 15% reduction below the 1999 level

and 25% below the level that would otherwise pertain in the absence of the reform. Under the proposal, Massachusetts businesses will save \$566 million for the next three years. By reducing the cost of hiring workers the state becomes more competitive – attracting business and bringing about an expansion in employment, payrolls and capital stock.

Using an econometric model developed specifically for the Massachusetts economy, the Beacon Hill Institute has examined how the proposed reforms of the unemployment insurance rate will affect employment, wages and capital stock growth. Details will soon be available on the institute's web site at www.beaconhill.org.



ROMANIAN SCHOLARS VISIT — As part of a new collaboration with the Center for Social Science Research at West University, Timisoara, Romania, Suffolk University's Economics Department – along with the Beacon Hill Institute – hosted two economists in April. During a seminar for students and faculty, Dr. Ali Pirzadeh (left) discussed, "The Effects of Dollarization and Seigniorage: Evidence from Hungary, Bulgaria and Romania." With Suffolk graduate student Erika Gulyas translating, Dr. Horia Cristea (right) addressed the issue of "Fiscal Reform in Romania." Meanwhile, a member of the audience, retired Northeastern University professor, Dr. Anghel Rugina (center) underscored the importance of economic reforms in Romania.

Actors on the global stage: No strings attached



Economic Puppetmasters: Lessons from the Halls of Power

Lawrence B. Lindsey, 1999, 215 pages.

Reviewed by Frank Conte

Lawrence B. Lindsey, economist and former Federal Reserve Board Governor, targets his new work, *Economic Puppetmasters: Lessons from the Halls of Power*, to three types of readers. They are: the investor who seeks to protect himself in the market; the student of political economy who wants to understand how decision makers act in the face of crises; and the informed voter who may soon be asked to accept new institutional arrangements that govern world finance.

Presumably, all three are interested in securing a competitive advantage in the global economy. And, if the growth in the stock market is an indicator, all seek to divine the messages of titans such as Federal Reserve Board Chairman Alan Greenspan; Japanese vice minister of finance, Eisuke Sakakibara; former German chancellor, Helmut Kohl; and world-renowned financier, George Soros.

Few insiders can give a better picture of the international monetary system and, more specifically, the American Federal Reserve System than Lindsey. His premise is clear: In spite of public perceptions to the contrary, these **strong-willed** puppetmasters “may never be masters of the systems over which they hold sway, no matter how much they delude themselves and the public into believing the opposite.” To Lindsey, this is clearest when success eludes the puppetmasters.

Lindsey highlights Greenspan, appointed to his post by three American presidents. The other three puppetmasters stand in his shadow but are able to convince others perhaps unintentionally that they too can part the waters.

Sakakibara manifests the pitfalls of a rigid mandarin who fails to adopt economic dynamism — the ability to use flexible labor markets and the encouragement of an entrepreneurial class. Hence, in its quest for uniformity, Japan has failed to produce a Bill Gates or a Michael Dell or even, for that matter, a marketing icon like Michael Jordan.

Kohl is lauded for his unification of Germany and his vision of a European monetary union. Yet Kohl, despite holding his of-

fice longer than anyone since Bismarck, did little to reverse the excesses of the welfare state and rigid work rules.

In truth, these men are constrained by global instabilities from acting like puppeteers. At best they may manage to untangle some of the strings of a world in which there is no alternative to a market economy.

Some (Greenspan, Soros) do better than others (Kohl, Sakakibara) in a game in which the rules are continually being rewritten and growing democratic movements disaggregate economic decision-making into many hands.

In the final analysis, it is triumphant America that the rest of the world should emulate, says Lindsey. Americans have demonstrated “how to get the policies right.”

Much has to do with flexible labor markets, lower taxes, technology and its attendant forces of creative destruction. Needless to say, Greenspan’s faith in markets and skepticism about government action are the first principles upon which he operates. But his most incisive asset is his “real-time mind.” Able to digest industry-sector information, Greenspan is better able to overcome “decision lag.”

Lindsey believes that the American system allows Greenspan to play the role of contrarian, a role first carved out by British economist John Maynard Keynes. This is not an odd juxtaposition. Another player, Ronald Reagan, for whom Lindsey served as an advisor, also played contrarian by refusing to trade away two key planks of his policy: flexible labor markets and aggressive tax policy.

Given enough latitude, contrarians can rebuff politicians seeking easy money and painless growth. By Lindsey’s account, “Alan Greenspan is successful at his job because he found a way of taking unpopular actions without arousing sufficient wrath to cause elected officials to curtail his power. This is a remarkable achievement.” Add to this record, another milestone: Greenspan has never lost a vote on monetary policy, nor, according to Lindsey, even come close to losing one.

Greenspan’s steering rather than rowing of the American economy is even more remarkable when one looks long-term. Since the recession of 1982, the United

States has enjoyed a continuous 16-year period of economic expansion save for one “relatively mild recession” (1991-92). Since the introduction of Reaganomics

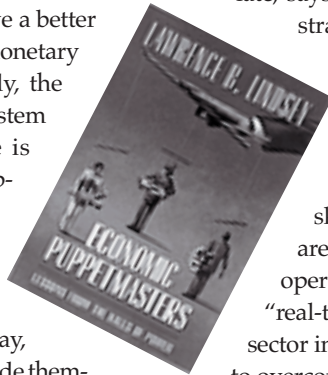
(which Lindsey rightfully argues laid the groundwork for the current expansion), the U.S. economy has weathered a 1987 stock market crash; a banking (S & L) crisis; the Mexican peso crisis; an Asian flu; corporate downsizing; and record-breaking 1993 Clinton tax increases. With this prosperity prevailing, observers have perhaps forgotten to ask how the great Greenspan would handle a real crisis. As he did during the October 1987 stock market crash, he would probably play contrarian. By early May 1999, Greenspan was again warning that tight labor markets and rising wages without continued growth in productivity would trigger inflation.

In highlighting the drive toward European Union, Lindsey underscores the benefits of American tax and fiscal policy as well as the composition of its central bank. Any puppetmaster would certainly be wise to steer the EU into the path beaten by the Americans. But this will be difficult. That’s because the EU’s basic unit rests not on Hamiltonian federalist principles of checks and balances, but on the nation-state in which each member has virtual veto power.

The European Central Bank members are chosen by the nation-states, which means they will reflect the political views of their governments. “While the Fed tends to act like a collective CEO or corporate board of directors, the ECB is designed to work more like a legislature,” observes Lindsey.

As if being a puppetmaster were not bad enough without a nation-state entangling one’s strings.

In the final analysis, it is triumphant America that the rest of the world should emulate.



In Point of Fact

G

overnment failure at the world's center stage

The world has changed its mind about markets and their workings. Before, the focus was on "market failure" and the ways governments needed to fix it through nationalization or regulation. Today, the focus has shifted to "government failure," what goes wrong or does not work very well when governments try to manage economic affairs directly. Almost everywhere, there is a focus on fiscal prudence. Much of the world is now privatizing. In the United States, this shift has taken the form of deregulation – or at least a move to a sort of "regulation lite," with greater confidence in the ability of competition to protect consumers and the public weal. Daniel Yergin, *The New Republic*, April 26, 1999.

The digital economy unleashed

From automated teller machines to supermarket scanners, technology has seeped into nearly every corner of life, helping propel the U.S. economy in its eight-year-old expansion. Generating millions of

dollars in corporate spending and creating thousands of new jobs, the high-tech industry accounts for a growing chunk of the economy. "The contribution of computers to GDP growth has been very, very substantial," said Joel Prakken, chairman of Macroeconomic Advisers. "Spending by businesses on computers has been growing at a ... 60% to 70% annual rate over the past few years."

Reuters, April 2, 1999.

What savings crisis?

Concerns about the personal savings rate are largely misplaced, for they rely on an incomplete picture of the economy. The rate of personal savings, measured for national income purposes...excludes key sources of savings: business savings and the appreciation of stock values, rising housing values and even the appreciation of IRAs. Nor does it include personal claims on private pensions and other forms of deferred compensation.

Mickey D. Levy, *Wall Street Journal*, February 4, 1999.

Alas, the new age dawns upon Professor Solow's computer screen!

"You can see the Computer Age everywhere," Robert Solow, a Nobel prizewinner from MIT wrote a few years ago, "but in the productivity statistics." Yet today even renowned skeptics on the subject of technology's contribution to the economy, like Solow, are having second thoughts. The question, posed by economists, is whether higher productivity growth, averaging about 2% in the last three years, is the long-awaited confirmation that the nation's steadily rising investment in computers and communications is finally paying off. "My beliefs are shifting on this subject," said Solow. "I am still far from certain. But the story always was that it took a long time for people to use information technology and truly become more efficient. That story sounds a lot more convincing today than it did a year or two ago."

Steve Lohr, *New York Times*, April 14, 1999.

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