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How to Win the War on Poverty: An Analysis of State Poverty Trends

by Matthew Ladner, Ph.D., Vice President For Policy Research, Goldwater Institute

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, while others have much larger and ambitious state governments. Empirical evidence indicates that these varying policies have had real, measurable impacts on state poverty rates. Nationwide, both general and childhood poverty rates dropped during the 1990s. Some states reduced poverty much more than others did; however, there are other states that in fact suffered *increases* in poverty rates during the 1990s, despite the booming national economy and the general success of welfare reform.

Myriad 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: which are better at reducing poverty—big-government states or small-government states?

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

Private-sector job growth is the most effective antipoverty 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.

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I N S T I T U T E

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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, such as indolence or drunkenness. Government left the function of reducing poverty to religious and private charitable organizations.

The first antipoverty 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 a 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

In the United States, a similar philosophy lasted until the advent of the Great Depression in 1929, when the nation 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 D. 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 and the Hoover and Roosevelt administrations exacerbated and prolonged the downturn with a series of policy mistakes. Monetary, trade, and labor market policies 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 antipoverty efforts at the federal and subsequently the state levels.

These efforts reached their crescendo with President Johnson's War on Poverty programs, the apex of the American government's antipoverty 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 antipoverty programs not only had 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

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from some, welfare reforms achieved substantial reductions in poverty rates.⁵

Despite 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 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 Arizona. These groups not only lobby for increased spending on their favored programs but also protest reduction in state tax rates. For example, the Children's Action Alliance, an Arizona group focusing on state-led antipoverty measures, opined, "Some argue that raising taxes is the worst thing you can do to a state economy, but established economic thought runs counter to this assertion. Tax dollars circulate through the economy to buy goods and services and to pay salaries. Economists as early as John Maynard Keynes have recognized the important contribution of government spending to the economy."⁶

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

According to classical liberal thought, government should keep taxes and spending

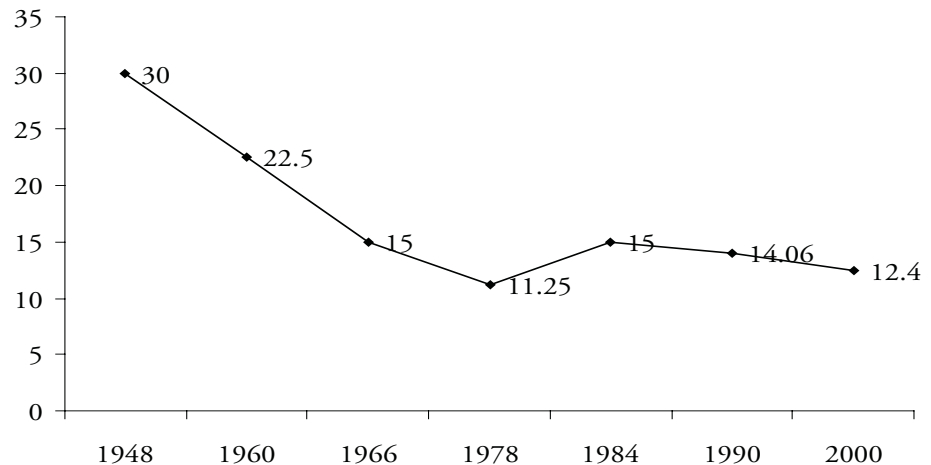
at the lowest possible levels. Governments should also avoid burdensome and counterproductive regulation of the private economy. Classical liberals argue that this model produces superior rates of economic growth, which in turn lead to a sustained reduction in poverty. George Mason University economist 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 notes the compound power of economic growth by calculating that at an annual growth rate of 5 percent, it takes just over 80 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 1 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 presents the national percentage of the population living below the official poverty line between 1948 and 2000.

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 postwar 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

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Figure 1: United States Poverty Rate, 1948-2000

Source: Theodore R. Marmor, Jerry L. Mashaw, and Philip L. Harvey, *America's Misunderstood Welfare State*, New York, Basic Books, 1990. Data for the year 2000 come from the U.S. Census Bureau.

the postwar 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 among U.S. 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 10 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 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.

In substitution of slavery, the South established 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, including industrialization and immigration, and were racing 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 ranks and grades states by general poverty reductions or increases from 1990 to 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 to lead to an underestimation of poverty, while the exclusion of transfer payments tends to lead 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 pretax basis. Despite these imperfections, these figures have long been studied. Given the broad consensus across the political spectrum that the aim of antipoverty 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 percent of the median fall into the “C” category. States with reductions in poverty less than 50 percent 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” and the bottom two receive a “minus” for the purpose of distinguishing variation within categories.

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 more than 50 percent a single decade (Minnesota’s 22.5 percent decline compared with Hawaii’s 28.9 percent increase).

Table 2 uses the same methodology to grade states with regard to childhood poverty reduction. Again, there is more than a 50 percent difference between 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 percent larger than this median score an A. Those states with decreases between 50 percent larger than the median and the median score a B. Those states below the median to 50 percent 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.

People commonly classify states as “Red” or “Blue” according to which presidential candidate won the state in the most recent presidential election. A number of states switch categories between elections, and many others are barely

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

State	Decline or Increase in Overall Poverty(%)	Overall Poverty Reduction Grade	State	Decline or Increase in Overall Poverty(%)	Overall Poverty Reduction Grade
Minnesota	-22.5	A+	North Carolina	-5.4	C-
Mississippi	-21.0	A+	Vermont	-5.1	C-
Iowa	-20.9	A	Wyoming	-4.2	D+
Colorado	-20.5	A	Washington	-2.8	D
Michigan	-19.8	A	Florida	-1.6	D-
Wisconsin	-18.7	A	Pennsylvania	-0.9	D-
Utah	-17.5	A	Maine	0.9	F+
North Dakota	-17.4	A	New Hampshire	1.6	F+
Arkansas	-17.3	A	Maryland	2.4	F
South Dakota	-17.0	A	Nevada	2.9	F
Louisiana	-16.9	A	Alaska	4.4	F
Kentucky	-16.8	A-	Massachusetts	4.5	F
Ohio	-15.2	A-	Delaware	5.7	F
Texas	-14.9	B+	New Jersey	11.8	F
Tennessee	-14.0	B+	New York	12.3	F
Kansas	-13.9	B	California	13.6	F
Nebraska	-12.6	B	Connecticut	16.2	F
Missouri	-12.0	B	District of Columbia	19.5	F
Alabama	-12.0	B	Rhode Island	24.0	F-
Oklahoma	-12.0	B	Hawaii	28.9	F-
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			

Source: Author calculations from U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics Tables and Figures*, 2002, Table 20, "Household Income and Poverty Rates, by State: 1990 and 1999-2001," <http://165.224.221.98/programs/digest/d02/dt020.asp>.

Table 2: Childhood Poverty Rates of Reduction or Increase, 1990-2000

State	Decline or Increase in Overall Poverty(%)	Overall Poverty Reduction Grade	State	Decline or Increase in Overall Poverty(%)	Overall Poverty Reduction Grade
Colorado	-26.9	A+	Montana	-6.8	C
Iowa	-25.0	A+	Massachusetts	-6.7	C
Wisconsin	-24.9	A	Pennsylvania	-6.0	C-
Minnesota	-24.1	A	Florida	-5.2	C-
Michigan	-24.1	A	West Virginia	-4.7	D+
North Dakota	-22.9	A	Washington	-4.5	D+
Ohio	-20.6	A	Oregon	-4.2	D
Mississippi	-20.2	A	Connecticut	-2.3	D
Kansas	-19.0	A	Maine	-2.2	D
Utah	-18.1	A	New Jersey	-2.0	D
South Dakota	-17.5	A	Wyoming	-0.6	D-
Texas	-17.3	A	Delaware	-0.5	D-
Indiana	-17.0	A	New Hampshire	5.2	F+
Louisiana	-16.7	A	Nevada	5.4	F+
Kentucky	-16.6	A	New York	5.5	F
Illinois	-16.0	A	Alaska	7.1	F
Arkansas	-15.4	A-	California	7.4	F
Tennessee	-15.1	A-	Hawaii	22.5	F
Georgia	-14.5	B+	District of Columbia	26.0	F-
Alabama	-12.5	B+	Rhode Island	26.6	F-
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			

Source: Author calculations from U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics Tables and Figures*, 2002, Table 20, "Household Income and Poverty Rates, by State: 1990 and 1999-2001," <http://165.224.221.98/programs/digest/d02/dt020.asp>.

in one category or the other. Nevertheless, it is interesting to note that, according to the 2004 definition of Red and Blue, Red states saw an average decline of 11.7 in general poverty rates during the 1990s, while Blue states saw an average 2.7 percent increase in poverty during the same period.

Testing the Theories: Government versus Free Markets in Poverty Reduction

The 10 states with the lowest per capita spending enjoyed a sizable reduction in overall poverty rates, approaching twice the national average. However, the top 10 big spenders not only failed to reduce poverty rates, but they actually suffered an increase in poverty rates of 7.3 percent.

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 (Alaska, California, Delaware, Hawaii, Massachusetts, New Mexico, New York, Rhode Island, Vermont, and Wyoming) with the ten states spending the least per capita (Arizona, Colorado, Florida, Georgia, Missouri, Nebraska, Nevada, South Dakota, Tennessee, and Texas).

Although there are doubtlessly some who benefit from high state government spending, the poor do not seem to be among them.¹⁰ The 10 states with the lowest per capita spending enjoyed a sizable reduction in overall poverty rates, approaching twice the national average. However, the top 10 big spenders not only failed to reduce poverty rates, but they actually suffered an *increase* in poverty rates of 7.3 percent.

Often, advocates justify high government spending on behalf of

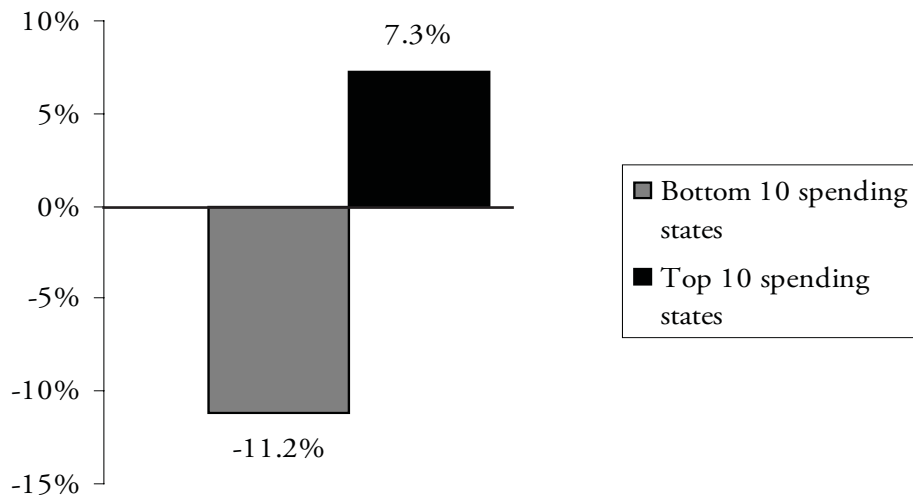
children. In Arizona, for example, the Children's Action Alliance implicitly imbeds this theory directly into the name of its organization. The Children's Action Alliance opposes cuts in Arizona taxes and favors increased state spending as a part of its stated mission to promote "the well-being of all of Arizona's families and children."¹¹

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 with the 10 lowest-spending states.

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 4.5 percent. Meanwhile, the average reduction in childhood poverty in the states with the lowest state and local spending per capita was 45 percent greater than the average state's spending.

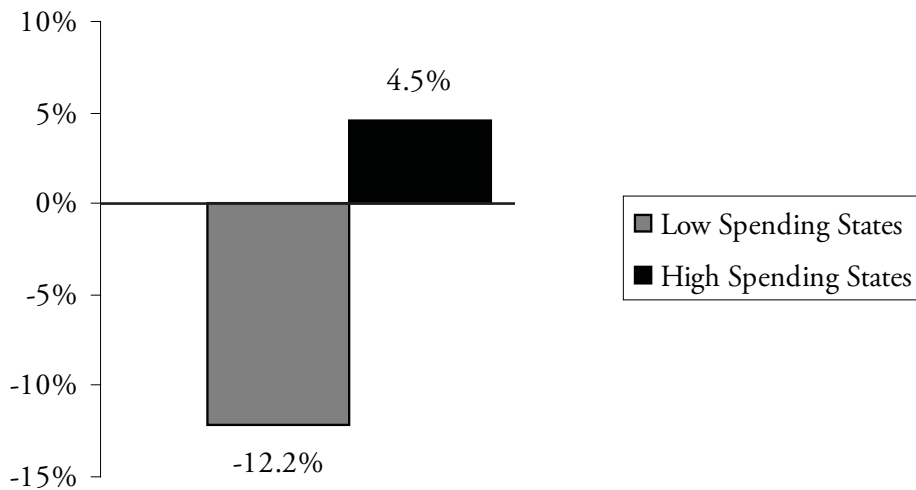
Does it follow then that state government spending directly causes poverty? Not necessarily. Government spending ultimately derives from taxes. The American federal system presents a variety of choices for individuals and businesses in terms of where they wish to live and do business. States with relatively high tax rates suffer greatly from the process of emigration—that is, people and businesses leave high-tax states for low-tax states.

Figure 2: Average Poverty Rate Declines (Increases) in Low and High Spending States, 1990-2000



Source: U.S. Department of Education (2002).

Figure 3: Average Rates of Childhood Poverty Decline (Increase) in Top and Bottom 10 Spending States, 1990-2000



Source: U.S. Department of Education (2002).

Such movements respectively damage and reward state economies according to their fiscal and regulatory choices.¹² 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 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 spent the least per capita. Alaska, California, Connecticut, Hawaii, Minnesota, New Mexico, New Jersey, New York, Vermont, and Wisconsin spent the most.¹³

Overall, the low-tax states saw a decline in poverty rates more than twice as large as the average state decline (-13.7 percent decline compared with -6 percent). Poverty rates increased in the high-tax states by 3 percent.

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

Again, low-tax states substantially outperformed both the national average and the high-tax states in reducing poverty. In fact, the low-tax states experienced a reduction in childhood poverty more than four times larger than the high-tax states.

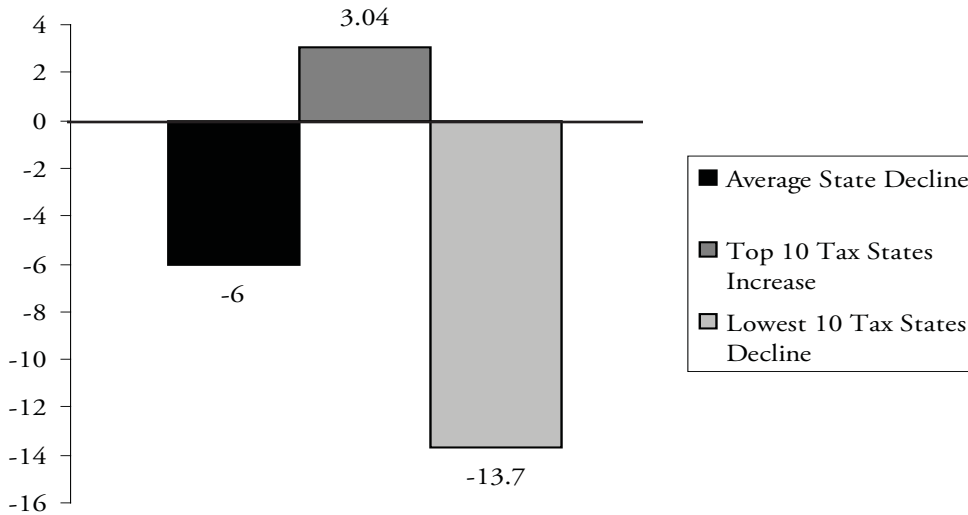
The dramatic declines in poverty in the “small government” states strongly confirm the classical liberal hypothesis: Low spending and low taxes promote economic growth, which in turn reduces poverty. These states seem to have succeeded in reducing poverty by allowing the private economy to flourish. 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 with the record of the 10 lowest spending states in generating real per person income growth during the 1990-2000 period.

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.¹⁴ High rates of illegal immigration into states such as Arizona, California, and Texas 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-leading firm develop within their state to become a major generator of wealth and employment. Arkansas, headquarters

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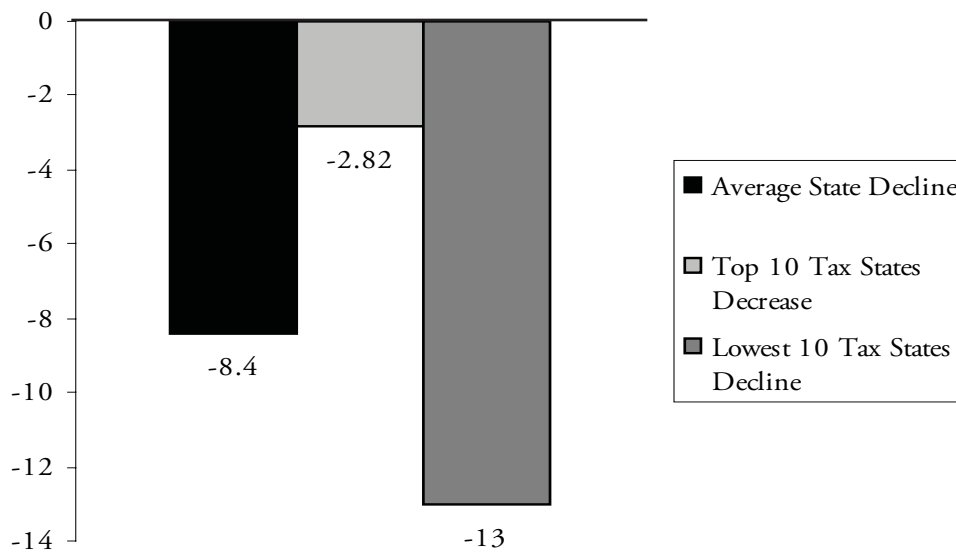
Figure 4: Decline (Increase) in State General Poverty Rates, 1990-2000



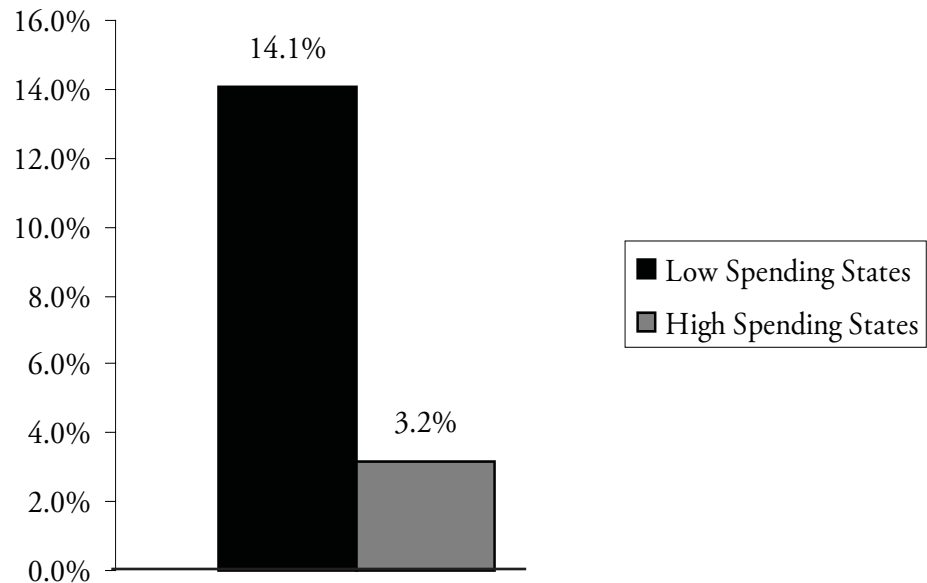
Source: U.S. Department of Education (2002).

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Figure 5: Decline (Increase) in State Childhood Poverty Rates, 1990-2000



Source: U.S. Department of Education (2002).

Figure 6: Real Per Capita Income Growth, 1990-2000

Source: U.S. Department of Education (2002).

of Wal-Mart, certainly comes to mind.

With regard 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, both Arizona and Texas more than doubled their 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 scored a B+ and A on the rankings of general and childhood poverty reduction, respectively. New York scored an “F” in both categories after gaining fewer than a million foreign-born residents.¹⁵

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 its 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 their inability to economically

assimilate immigrants through job creation.

Another possible way to explain poverty trends is through 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.¹⁶ 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.¹⁷

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 played 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, from his dorm room in Austin, mapped out the beginnings of a company that would revolutionize the computer industry.

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.

During the 1990s, Arizona engaged in a series of tax cuts, moving the state from having the fifth-highest tax burden in 1990 down to the 25th-highest tax burden in 2000.

Arizona and California: Two States Moving in Opposite Directions

During the 1990s, Arizona and California embraced different fiscal policies and, in some sense, switched places. Judged on the poverty statistics alone, Arizona made wise fiscal decisions, while California did not.

In 1990, Arizona had the fifth-highest state and local tax burden in the nation, at 11.6 percent of state income. Almost 16 percent of Arizonans lived below the poverty line, and more than 20 percent of Arizona children lived below the poverty line. Both of these figures were well above the national average of 13.1 percent for general poverty rate and 17 percent for childhood poverty. In 1990, Arizona suffered from a poverty rate 25 percent higher than California's. Arizona had a childhood poverty rate 18 percent higher than California's.

California had a lower tax burden than Arizona in 1990, ranking 24th in the nation. California also had lower rates of poverty. With general poverty at 12.5 percent and childhood poverty at 17.2 percent, California had better numbers than both the national average and Arizona in 1990.

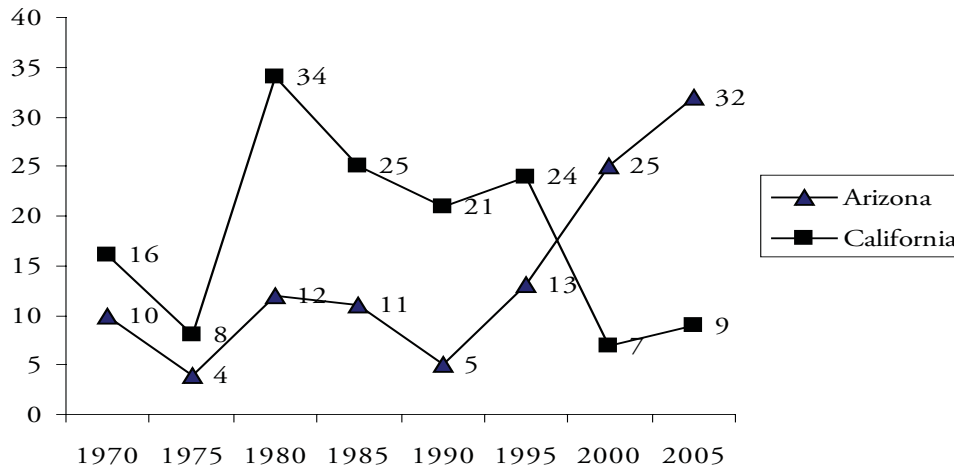
During the 1990s, however, Arizona and California diverged significantly. Under Gov. Fife Symington, Arizona engaged in a series of tax cuts, moving the state from having the fifth-highest tax burden in 1990 down to the 25th-highest tax burden in 2000. California vacated the 25th spot, moving up the rankings to the 9th-highest tax burden in 2005.

If the current decade matches the results of the 1990s, California will have overtaken Mississippi by 2010 in terms of the percentage of the population living below the poverty line. Although Mississippi started the 1990s with a poverty rate twice as high as California's (25 percent compared with 12.5 percent), Mississippi's poverty rate declined by 20 percent during the 1990s to 19.9 percent, while California's increased from 12.5 to 14.2 percent. A further decline of 20 percent would leave the Mississippi poverty rate at 15.92 in 2010, while another increase like that experienced in the 1990s would result in a 16.13 percent poverty rate for California in 2010.

The trend proves very similar with childhood poverty rates, as seen in Figure 9.

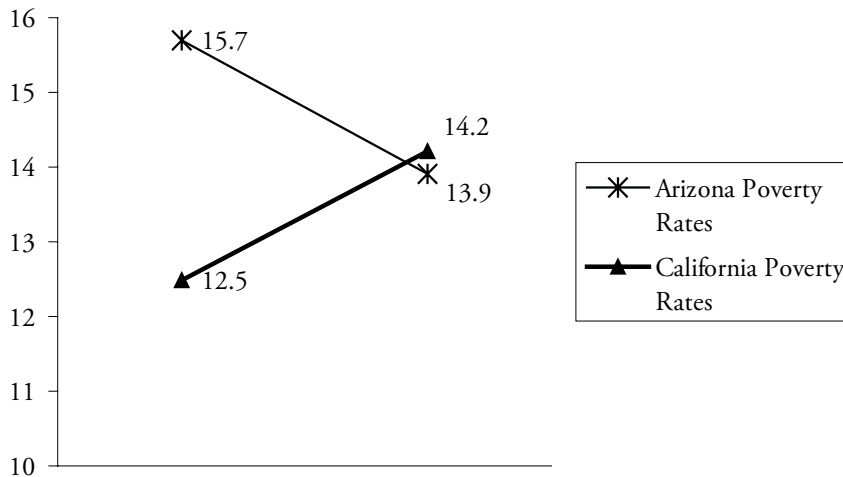
Arizona should not feel complacent, however, as the star performer well outperformed both Arizona and California

Figure 7: Ranking of Arizona and California Tax Burdens (1=Nation's Highest Tax Burden)



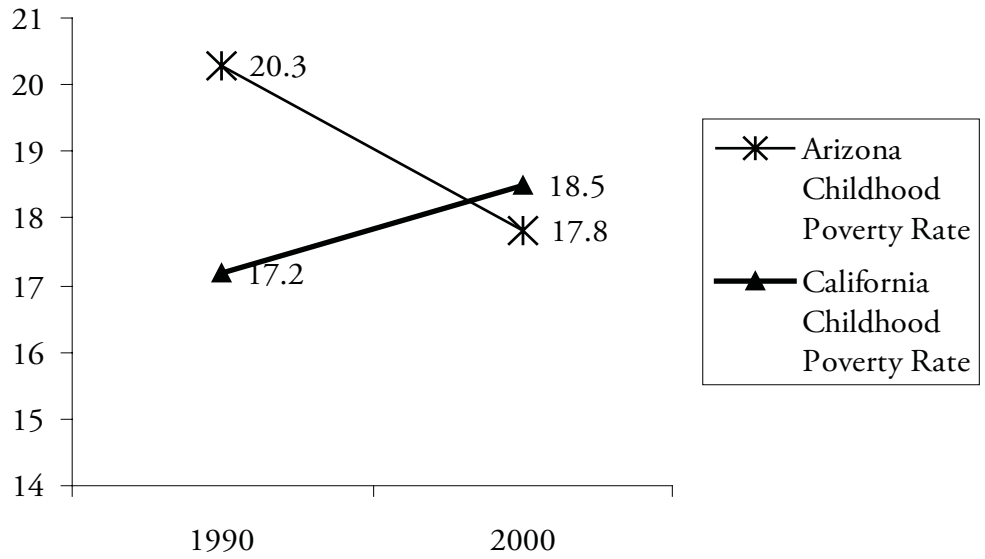
Source: Tax Foundation, "Total Income by State Per Capita, 2005," table, March 9, 2006, <http://www.taxfoundation.org/news/show/290.html>.

Figure 8: Trends in Poverty Rates, Arizona and California, 1990-2000



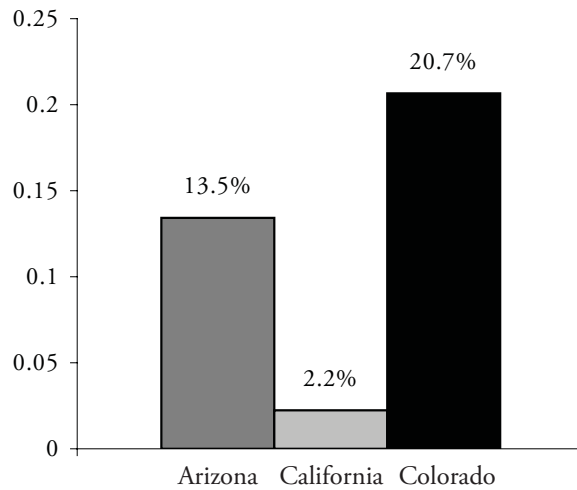
Source: U.S. Department of Education (2002).

Figure 9: Childhood Poverty Rates, Arizona and California, 1990-2000



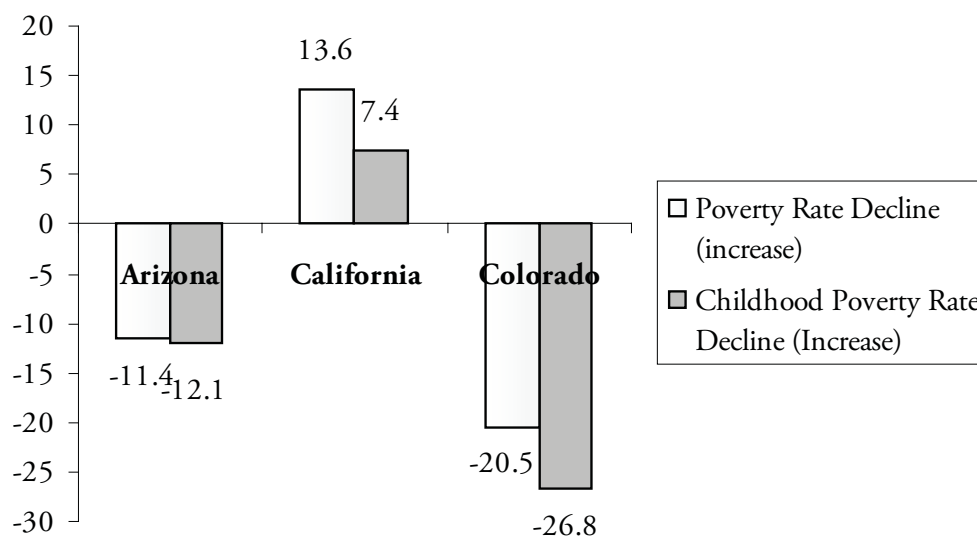
Source: U.S. Department of Education (2002).

Figure 10: Real Per Capita Income Growth, 1990-2000



Source: U.S. Department of Education (2002).

Figure 11: Poverty and Childhood Poverty Trends in Arizona, California and Colorado, 1990-2000



Source: U.S. Department of Education (2002).

during this period. Colorado experienced the largest combined decline in general and childhood poverty in the nation, despite starting from already relatively low levels in 1990. Colorado also experienced the second-highest level of per capita income growth during the 1990-2000 period, narrowly edged out of first place by fellow small-government state South Dakota. Figure 10 compares the per capita income growth figures for Arizona, California, and Colorado.

Figure 10 demonstrates that Colorado made more than *nine times* the per capita income growth of California. Colorado began the decade with a per capita income figure 16 percent lower

than California's, but it closed the gap in a single decade. During the early part of the current decade, Colorado surpassed California in per capita income.

Colorado: Fiscal Restraint and Poverty Declines

Colorado's fiscal policy helped make its remarkable income progress possible. In 1992, Colorado enacted the 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 since 1997, 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.¹⁸

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."¹⁹

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 Arizona

In the fight against poverty, it is clear that less is more. We cannot know all the reasons high-tax and -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 has been limited.

Second, despite the apparent complexity poverty poses 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 then creates fewer private-sector employment opportunities, meaning there will be less competition for labor, both skilled and unskilled. Ultimately, those looking for the first rung on the economic ladder will be the most vulnerable victims of this process. The best antipoverty program is a four-letter word: jobs. Taxes and regulation destroy them.

Second, the Robin Hood mythology of state as antipoverty crusader requires serious reexamination. 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

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 has been limited.

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 these activities at much higher rates. Progressives implicitly assume that government spending will help the poor as if a nonpolitical 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 Therasas, politicians in competitive democratic races make decisions about state taxing and spending. 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, rather than the powerless, who benefit. Outside of fairytales, Robin Hood often takes from the poor and gives to the rich.

The poor seldom lobby for their own interests, but the same cannot be said for public employees. Government programs have reached sufficient scale that those employed by the system have become major political forces in lobbying for the expansion of government programs. This has occurred at all levels of government, primarily representing the efforts of government service providers rather than consumers of services. 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.

Arizonans interested in reducing poverty should seek to emulate Colorado

rather than California. We should reduce taxes and limit the growth of spending. Recent Arizona legislative sessions have resulted in cuts in business and income taxes. These cuts were important steps in the right direction. They will make Arizona a more attractive state in which to work, invest, and create jobs.

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. Arizona should continue on 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.

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 toward welfare reform.

NOTES

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?" *Newsweek*, 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*, New York: 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. *Strengthening Families: A Research Bulletin on Arizona Fiscal Policies*, publication of the Children's Action Alliance, May 2003, http://www.azchildren.org/caa/_mainpages/Publications/_reliable_revenues.pdf.

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," table, March 9, 2006, <http://www.taxfoundation.org/news/show/290.html>.

9. Finfacts Ireland, "Global Income

Per Capita," <http://www.finfacts.com/biz10/globalworldincomepercapita.htm>.

10. A lack of comparable and detailed state budget data precludes an examination of antipoverty spending by state.

11. See Children's Action Alliance, "State Lawmakers Neglect Kids and Families in Budget Proposals," press release, April 18, 2006, http://www.azchildren.org/caa/_mainpages/Press_Room/Budget_Press_Conference_4-18-06.pdf

12. Matthew Ladner, *The Tax Man and the Moving Van*, Goldwater Institute Policy Report no. 194, May 24, 2004.

13. Washington State Department of Revenue, "Washington's State and Local Tax Burden Ranking Drops in Fiscal 2000," *Revenue News*, January 10, 2003, http://dor.wa.gov/Docs/Pubs/News/2003/nr_03_01_ComparativeTaxes2000Final.pdf.

14. See Dani Rodrik, "Why We Learn Nothing from Regressing Economic Growth on Policies," Harvard University Working Paper, March 25, 2005, <http://ksghome.harvard.edu/~drodrik/policy%20regressions.pdf>.

15. Data from Steven A. Camarota and Nora McArdle, "Where Immigrants Live: An Examination of State Residency of the Foreign Born by Country of Origin in 1990 and 2000," Center for Immigration Studies, September 2003, <http://www.cis.org/articles/2003/back1203.html#table1>.

16. 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>.

17. For a summary of the petroleum downturn in Texas, see David Brown, "The Crash of '86 Left Permanent

Scars,” *Explorer* (American Association of Petroleum Geologists), January 2006, <http://www.aapg.org/explorer/2006/01jan/crash.cfm>.

18. In 2005, Colorado voters narrowly voted to temporarily suspend TABOR, after the early decade recession “ratcheted down” state government spending. The combination of a general economic downturn and a reduction in air travel following the attacks of September 11, 2001, 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.

19. Stephen Moore and Dean Stansel, “The Great Tax Revolt of 1994,” *Reason*, October 1994.

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