# Why Massachusetts Booms and New York Just Sputters Along

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*By Thomas E. Doyle*

NEW YORK — New York and Massachusetts are both industrial states with liberal political establishments. Yet while Massachusetts' economy booms, New York's sputters along.

How is it that two states with similar economies and similar political milieus should achieve vastly dissimilar economic results? According to recent work by Kermit Morrissey a professor at the University of Massachusetts, the answer is that the Bay State's incredible results were achieved by a mechanism that is external to the political party system and which is unavailable in New York: initiative and referendum.

Although Morrissey attributes part of Massachusetts' economic resurgence in the 1980s to events at the federal level — the Reagan tax cuts and defense buildup that benefited the state's large defense industry — he believes that 50 percent of its current boom is due to tax cuts resulting from passage of a statewide referendum.

Morrissey points out that back in the late 1970s Massachusetts' economy had reached an economic low point. In 1975, its unemployment rate was 11.2 percent and the state faced a $500 million deficit. Its economic doldrums were due in large part to its high taxes. From 1972 to 1977 Massachusetts' tax burden — total state and local revenues as a percent of personal income — rose rapidly and was 10 percent above the national average by 1977.

Things started to turn around in 1980 when an organization called Citizens for Limited Taxation gathered enough signatures to put Proposition 2½ on the ballot. It capped property tax increases and Massachusetts' tax burden fell dramatically to where it is now 10 percent below the national average.

As its tax burden fell, Massachusetts' economy boomed. From 1980 to 1985, its relative personal income growth — the best surrogate for economic growth — was 6.6 percent higher than the national average. Its latest unemployment rate is 3.8 percent.

New York's current unemployment rate, on the other hand, is 6.7 percent. And its income growth from 1980 to 1985 (1.2 percent higher than the national average) pales in comparison to the Bay State's. But it was Massachusetts' citizenry through initiative and referendum, not its current political leadership, that turned the state's economy around. Unfortunately, New York is one of 27 states that doesn't have initiative and referendum and thus the people themselves cannot propose and pass or defeat legislation. We're dependent on Albany for fiscal reform.

Ironically, the phenomenal results in Massachusetts over the last six years have spawned a new reform effort by the same group that backed Proposition 2½. Since 1980, the state's economy has grown so rapidly that a $330 million surplus had accumulated by fiscal 1985. It now stands at an astounding $585 million.

The Citizens for Limited Taxation, through referendum, is seeking to cap state spending and return the money to the taxpayers. They want to ensure that the state government's power to tax doesn't exceed the citizen's power to earn. Their proposed amendment would limit the growth-rate revenues to the overall growth rate in wages and salaries.

Over the last three years Massachusetts has experienced a 15.7 percent annual growth rate in tax revenues. In the meantime, wages and salaries have increased at a 9.4 percent annual rate. The amendment would return the difference to Massachusetts' taxpayers. The Citizens for Limited Taxation has estimated that returning this 6.3 percent differential would yield a $450 million bonanza for the state's taxpayers in this year alone.

The lesson to be learned from Massachusetts is clear. Albany needs to reduce that state's level of taxation to speed up economic growth. In addition, it must cap state spending to encourage fiscal discipline and responsible taxation. But it will be tough to get these measures past the current political gridlock of special interest groups. That's why we need initiative and referendum as well — using it as a tool to make state government more responsive to the needs of the general electorate. If we act now, we can make Massachusetts' success story our own.

*THOMAS E. DOYLE is an editor*