New Mexico 2000: A Study of Its Policies and Economic Health 10/17/00

Harry Messenheimer, Ph.D.

Executive Director and Senior Fellow, **Rio Grande Foundation**

Executive Summary

New Mexico's state and local public policies and their consequences for the state's economic health are assessed. That assessment is undertaken from a free market perspective: incentives matter, and overwhelming evidence indicates that economic freedom begets prosperity. The assessment provides answers to the question: **How does New Mexico stack up relative to other states in the region and nation with respect to economic freedom and prosperity?** An assessment of state and local governments' output of goods services, using primary and secondary education as an example, is provided. After all, the reason people agree to give up some economic freedom is to obtain government provided goods and services such as infrastructure, property rights enforcement and education.

Comparisons in the region are made between New Mexico and its bordering states: Arizona, Utah, Colorado, Oklahoma and Texas. Comparative measures are used for the lower 48 states to assess how New Mexico fares relative to the nation. This assessment uses longer term and improved measures of income than have appeared in prior assessments by others.

The answers for prosperity are not good. While New Mexico ranks fair to good with respect to domestic migration indicator of prosperity, it is at the bottom of states in the region and at or near the bottom of the lower 48 for measures of income and growth of income.

Not surprisingly also, *the answers for economic freedom are not good*. With respect to **taxes**, New Mexico has legislated greater harm than most states and the greatest harm of any state in the region. And that conclusion is invariant as to whether the harm is assessed by averages (taxes collected as a percent of income) or margins (tax rates on personal income and sales/gross receipts).

With respect to restraints on economic freedom imposed by **regulation** and **litigation**, New Mexico also fairs poorly. That assessment is drawn from the recent Clemson University study *Economic Freedom in America's 50 States: a 1999 Analysis*. In that study New Mexico is ranked 36th out of the lower 48 for freedom from regulation and 37th out of the lower 48 for freedom from litigation. In the region New Mexico is next to last for freedom from regulation and last for freedom from litigation.

How about government output? Does New Mexico deliver differentially more and better goods and services that other states in return for the differentially greater economic freedom given up? The answer is an emphatic **no**. Using primary and secondary education for comparison, New Mexico is last in the region and near the bottom of the lower 48.

The study concludes with an interstate cross-section econometric assessment of how economic freedom affects prosperity. It uses state and local government gross state product (gsp) divided by the quantity private gsp plus state and local government gsp as a measure of restraints on economic freedom for each state. And it looks at the growth rate of these restraints over 20 years. The results overwhelmingly validate the anecdotal assessments contained above: The findings can be summarized by what might have been for New Mexico: *If New Mexico now had state and local governments that were only slightly more coercive than the lower 48 average, then the median income for 4-person families is estimated to be $8,303 higher and per capita income is estimated to be $5,476 higher than they are today*.

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Table of Contents

Purpose, Perspective and Background of the Study

Purpose

How do New Mexico's fiscal policies affect its economic health? Are taxes too high, too low or about right? Do we have too much, too little or about right regulation? How well do our economic development incentives work? How well does our government perform in providing its services? The purpose of this study is to provide some tentative answers to these questions. The answers are based on assessment of New Mexico's economic condition as a consequence of its fiscal policies.

"Fiscal policies" in this study are defined as the combination of taxing, regulatory, judicial and spending policies that have emerged at the *state and local* levels in New Mexico. This fiscal regime, including expectations about potential changes in it, provides the background in which businesses and consumers make choices.

The plan of the study is to assess New Mexico's economic health vis-à-vis other states in the lower 48[1], paying particular attention to regional differences. Two comparative indicators assess economic health: population movement and income. The study will then proceed to a comparative assessment of New Mexico's tax, regulatory and judicial climate and its output of government services. The regulatory and judicial assessments are taken from the recent interstate study of economic freedom at Clemson University[2] (hereinafter referred to as the "Clemson Study"). Finally, the study will assess empirically the causal link between fiscal policies and economic health.

Perspective

The perspective of this study is founded in a body of scholarship that seems quite persuasive: *Increased individual liberty leads to increased economic well-being, individually and collectively, so long as voluntary contracts are enforced and well-defined property rights exist*. That this is so derives from a sound empirical foundation and examination of incentives. The empirical foundation seems irrefutable, even recognizing the many difficulties associated with measuring something as amorphous as "economic well-being": When societies are ranked by an index of economic freedom over the long run, we find the ranking of well-being of individuals within those societies to be in nearly one-to-one correspondence with that index. The more freedom there is, the better-off people are[3]. Doesn't it seem that such an empirical fact deserves notice in New Mexico?

This fact is not surprising when we examine individual incentives within alternative institutions. It usually escapes notice nonetheless. Lacking a careful examination of incentives, it often seems plausible that

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[1] Alaska and Hawaii are omitted because of the author's priors: their differentially high cost of living would distort empirical analyses contained herein.

[2] Byers, McCormick and Yandle (1999). The current study is very much on the same wavelength as Byers, McCormick and Yandle.

[3] A summary of the persuasive evidence focusing on international comparisons may be found in Hanke and Walters (1997) pp. 117-146. Persuasive evidence focusing on interstate comparisons may be found in Byers, McCormick and Yandle (1999).

increased taxation and/or regulation designed to achieve some worthy goal (improved safety, environment, transportation; or increased economic development; or helping the poor) may actually achieve that goal. This study begins with an introductory examination of incentives that exposes the myth behind such propositions. Such an examination is not narrowly focused on the effects of a particular tax or regulation; rather it focuses attention on the incentives of voters, politicians, regulators and bureaucrats. No claims are made about the character and motivation of anyone in the private or government sectors; it is only an examination of their incentives.

Introductory Examination of Incentives in Private and Government Sectors

Incentives in the government and private sectors are quite different. That these incentives matter has led to a widely accepted doctrine within the economics of public choice[4]: Those who administer the government apparatus, in their roles as politicians and bureaucrats, have less incentive to be responsive to consumers of public services than do their counterparts in the private sector. The main propositions for this are threefold. **First, private sector consumers have much greater choice**. Their choices are *voluntary* and alternatives exist. If a consumer does not like product brand X, then he or she can decline to purchase brand X and purchase brand Y. For example, you have many alternatives for today's lunch; but you have no choice in the budgets, education objectives and research objectives of your state universities.

Second, each consumer cannot influence public sector choices without great individual effort on his or her part. For example, the budget, education objectives and research objectives of your state universities cannot be altered by you, no matter how much effort you exert to change them. Unless you decide to "vote with their feet," you are coerced into accepting government policies as a state of nature. Choices in the private sector, on the other hand, are quite different. Individuals therein *personally* bear the costs and enjoy the benefits of their own decisions. Consequently individuals have greater incentive to acquire information about prospective choices in the private sector. You will have much more influence on your personal well being, with much less effort, if you focus energy on lunch alternatives rather than universities' policies. The implication of this proposition, combined with proposition one above, is that responsiveness to consumer wishes will be much more forthcoming in the private sector than in government sector.

Finally, state and local government entities have the power to tax and regulate, and private enterprise does not. Taxation as a source of revenue and regulation as a source of control, combined with the first and second propositions above, lead to *favor seeking by well organized interest groups*. Such things as tax breaks under the rubric "economic development," for example, are nothing more than wealth transfers from the average taxpayer to the interest group seeking the transfer. Regulation often leads to the granting of monopoly privilege as, for example, it did in the recent exposure of the Shuttlejack bus monopoly between the Albuquerque airport and Santa Fe. The larger is government as a proportion of the entire economy, the greater is the potential return to favor seekers; and the greater the amount of wasteful favor seeking.

[4] A good primer regarding "public choice" economics can be found in just about any principles textbook. A particularly good example is Gwartney and Stroup (1997) Chapter 4.

These three propositions about incentives lead to the conclusion that the high correlation between economic freedom (limited government) and economic well being is no accident. Doubters may want to check the empirical test of this conclusion below in the section "empirical evidence."

Prior assessments of New Mexico's economic condition have ignored the perspective laid out above. Instead they have concentrated almost exclusively on its tax climate, including (in some cases) economic development incentives. What follows is a review of those prior assessments as background for this study.

Background of the Study: Prior Studies of New Mexico's Tax Climate

States have widely different arrays of tax bases, tax rates and economic development incentives, making interstate comparisons extremely difficult. Nevertheless, several studies have recently been completed which purport to assess New Mexico's tax climate compared to neighboring states. These studies differ primarily in how they give weights to existing tax data. As a consequence they reach different conclusions.

1. ***New Mexico Tax Study*** of June 1994 prepared by the Bureau of Business and Economic Research, University of New Mexico (updated July 1996). This well-written, well-presented study estimates taxes paid by businesses and individuals in New Mexico. For business taxes it compares states by "representative" firms using financial data representing national averages. Using this weighting method, the study finds that New Mexico business taxes are average or a little below average compared to our neighbors (the exception occurring in extractive industries). This study also includes a comparative estimate of the tax burden on individuals. It uses the 1990 Consumer Expenditure Survey to calculate taxes paid by low, middle, upper middle and high-income households. It finds that New Mexico's household taxes are about average for states in our region.

   The background and literature regarding economic development incentives is also summarized, along with New Mexico's approach to economic development. The survey of the literature concludes that "inconclusive evidence" exists that these incentives matter. It also concludes that there is little evidence that taxes matter for firms' location decisions, except possibly as "tie breaker" in selective cases in which decision between two locations is in final stages.

   This study seems particularly deficient in two respects. First, it assumes that the GRT "will be passed on to the buyer" and that any business-to-business GRT is "*small and insignificant*" [emphasis mine]. That is why BBER concludes that New Mexico's tax burden is no worse than average among our neighboring states. We think the business-to-business burden is more likely to be large and significant. Yet it is entirely omitted by BBER in their assessment of tax burden on businesses and individuals!

   The second respect in which this study seems particularly deficient is its emphasis on tax exporting. This gives it a bizarre mercantilist flavor that went out with Adam Smith. According to BBER, New Mexico gains at the expense of other states. This mercantilist flavor persists in BBER's assessment of local taxation in New Mexico. According to BBER, some communities gain at the expense of others (these others are usually cast as poor and rural and provide the rationale by BBER for more central control of the economy by Santa Fe). This whole perspective seems to reflect a total misunderstanding of market economies. The primary insight beginning with Adam Smith is that in a market economy *we all benefit from specialization and trade*. It is not one state against another, or one community against another in combat to gain tax revenue. That is stone-age economics.

2. ***Analysis of Corporate Tax Burdens in New Mexico and Surrounding States*** of August 1995 prepared for the Greater Albuquerque Chamber of Commerce (GACC) by Nancy B. Fisher and James A. Hayes (updated March 1996). Some members of the business community disagreed with the BBER's conclusion that New Mexico's taxes are average or a little below average. So, in reaction to it, the GACC commissioned its own study. This study also contains a well-organized compilation of tax data. However, instead of using a representative firm, this study simply calculates tax averages on a per firm or per capita basis. By using that weighting scheme, the study concludes that New Mexico's taxes are highest or nearly highest in the among states in the region.
3. ***New Mexico Business Tax Competitiveness Study*** of May 1997 prepared for the Mayor of Silver City and other "state, municipal and corporate economic development professionals" by Barents Group of KPMG Peat Marwick. This study focused on firms considering $100 million first expansions into nine states within our region, including New Mexico. These firms, representing 7 typical industries, assess their likely tax liability over 30 years in each state. The study found that for firms of this size New Mexico's tax burden is above average. However, the study is of limited value because of the $100 million weighting restriction on firm expansion. This study went on to make some adjustments downward for tax incentives for economic development, but those adjustments are also of quite limited value: Little economic activity is generated by firms of this size making their initial expansion into New Mexico.
4. **"High Taxes in New Mexico: Truth and Consequences"** of February 1999 prepared for ***New Mexico Independence Research Institute At-Issue*** newsletter by me. This short study provides anecdotal evidence of New Mexico's differentially high taxes and differentially poor economic performance. Taxes do matter. A major goal of the current study is to provide amplifying information and empirical evidence of the *truth* of higher taxes, higher regulation, poor judicial environment and poor government output of services and the *consequences* of poor economic performance.

Indicators of Economic Performance

Economists have no perfect indicators of economic performance. Unfortunately we cannot measure the economic well being of our population one-by-one. Furthermore, we cannot account for some non-quantifiable differential endowments of nature. New Mexico may have some differential advantage over most states, for example, because of its natural resources, breathtaking scenery and bountiful sunshine. The blessings of such endowed amenities are not easily compared across states. On the other hand, New Mexico may also suffer from come economic curses such as its arid climate and distance to population centers.

These caveats notwithstanding, two indicators suggest themselves as good proxies for measuring overall economic health: population movement and income. How does New Mexico fare with respect to each of these indicators?

Population Movement Indicators

Long-term population movement indicators are a good proxy for economic health because people *choose* to move. Prospects for improved quality of life motivate moves. Voluntary movement away from one geographic area to another leads to the inference that the area moved to is preferred to the area moved from. Long-term trends are used so that the effects of local business cycles; which tend to cancel out over time, do not overly influence the analysis.[5] For example, journalists recently have been bemoaning the negative net domestic migration that occurred from 1997 to 1998. But such a short-term measure is too subject to such things as temporary downward fluctuations in extractive industries and tourism to be a meaningful indication of real economic health.

The interstate movement of people is known as domestic migration. The difference between domestic in migration and domestic out migration within any one state is known as *net domestic migration*. Net domestic migration is an indicator of economic health: the greater is net domestic migration the healthier is the economy.

When it comes to net domestic migration over the past 14 years, New Mexico (whose net increase is 2.14%) fares slightly better than the national average (which is zero). But New Mexico fares less well in comparison to states in the region: It is significantly worse than Arizona (24.86%) and Colorado (10.12%), about the same as Texas (1.47%) and Utah (2.30%) and a little better than Oklahoma (—2.50%). Figure 1 below depicts this comparison graphically.

Regional comparisons tend to produce better indicators of relative economic health because differences in endowments of geography, climate, natural resources and culture tend to be less pronounced than they are nationwide. *When ranked against regional states by this indicator, New Mexico's economic health is fair to good*.

[5] This analysis uses 14 years (1985 to 1999) as the "long term," since population movement data are readily available for that period on the Census Bureau's web site.

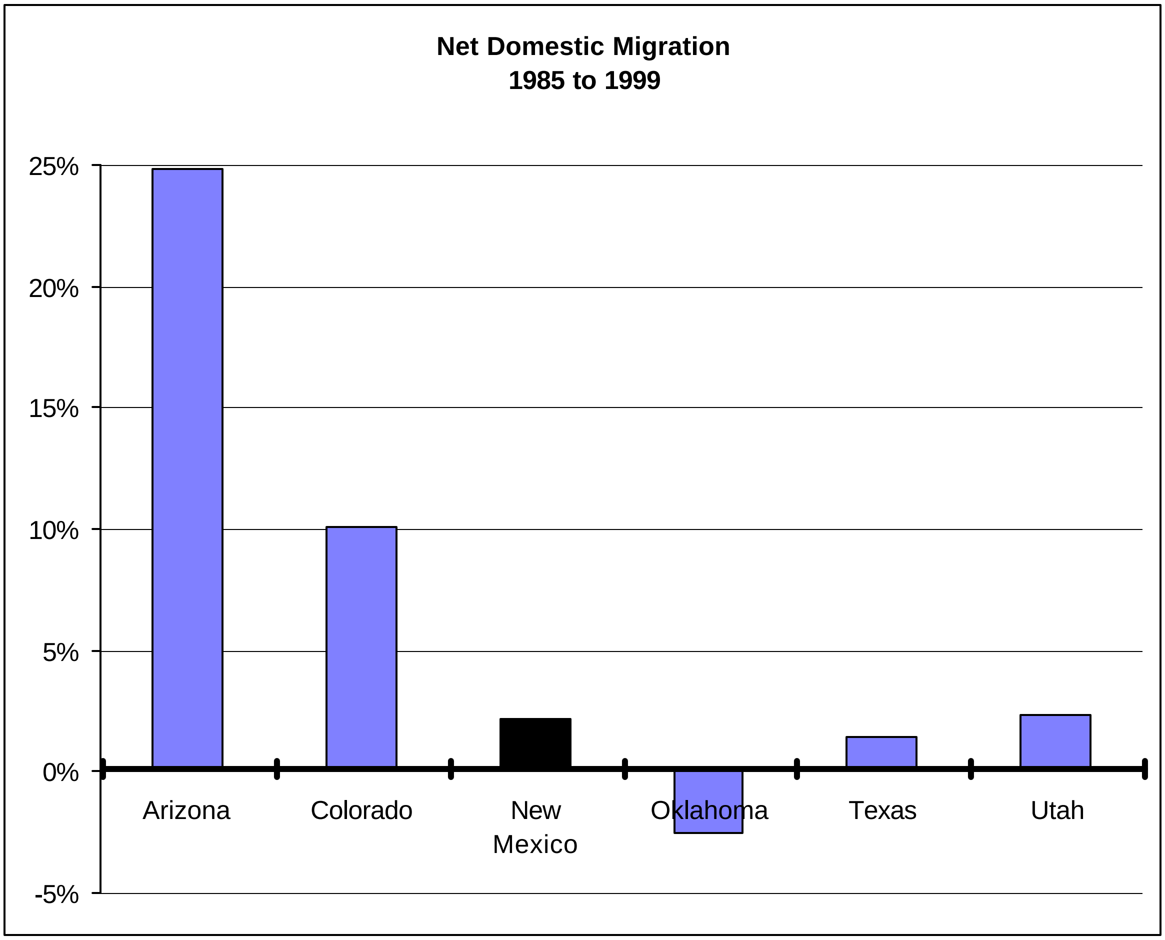

Figure 1: Regional Interstate Comparison of Net Domestic Migration

The last column in Table I below provides a more detailed tabulation of net domestic migration for New Mexico and the other lower 48 states. Notice that New Mexico is in the upper half of states in the lower 48. *When ranked against all states in the lower 48 by this indicator, New Mexico's economic health is good*.

In addition to net domestic migration over the past 14 years, Table I completes the migration picture somewhat by also tabulating overall population growth and growth from international migration by state.[6] The relationship of these other measures to economic health are more controversial, so are provided for reader information and consideration only.

[6] Overall population growth is composed of net domestic migration, international migration, births and deaths.

Table I: Population Growth by State 1985 to 1999[7]			
	Overall Population Growth	**Population Growth from International Migration**	**Population Growth from Domestic Migration**
United States	14.61%	5.22%	0.00%
Alabama	10.00%	1.10%	3.66%
Arizona	50.09%	5.78%	24.86%
Arkansas	9.64%	0.96%	5.76%
California	25.35%	14.07%	-7.48%
Colorado	26.41%	3.75%	10.12%
Connecticut	2.53%	4.44%	-8.50%
Delaware	21.88%	2.69%	9.65%
Florida	33.13%	8.98%	18.72%
Georgia	30.62%	3.29%	16.03%
Idaho	25.92%	2.91%	11.51%
Illinois	6.39%	5.08%	-7.78%
Indiana	8.86%	1.12%	1.55%
Iowa	1.40%	1.34%	-3.84%
Kansas	9.34%	2.48%	-1.56%
Kentucky	7.20%	1.13%	2.06%
Louisiana	-0.82%	1.25%	-8.60%
Maine	7.75%	1.26%	2.11%
Maryland	17.19%	5.46%	0.96%
Massachusetts	5.01%	5.09%	-5.59%
Michigan	8.68%	1.90%	-3.60%
Minnesota	14.13%	2.16%	2.16%
Mississippi	6.97%	0.73%	0.75%
Missouri	9.36%	1.43%	2.56%
Montana	7.35%	1.02%	-0.50%
Nebraska	5.13%	1.73%	-2.71%
Nevada	90.24%	8.94%	62.36%
New Hampshire	20.50%	1.85%	9.21%
New Jersey	7.64%	7.67%	-7.39%
New Mexico	**20.96%**	**4.34%**	**2.14%**
New York	2.28%	9.51%	-14.93%
North Carolina	22.34%	1.96%	13.14%
North Dakota	-6.40%	1.78%	-12.68%
Ohio	4.86%	1.13%	-2.83%
Oklahoma	2.65%	1.84%	-2.50%
Oregon	24.08%	3.96%	12.87%
Pennsylvania	1.90%	1.79%	-2.77%
Rhode Island	2.26%	3.88%	-5.18%
South Carolina	17.64%	1.48%	7.46%
South Dakota	4.97%	1.42%	-3.53%
Tennessee	16.29%	1.28%	10.23%
Texas	23.18%	6.56%	1.47%
Utah	29.64%	3.37%	2.30%
Vermont	12.02%	1.75%	4.17%
Virginia	20.26%	5.10%	5.53%
Washington	30.82%	5.59%	13.14%
West Virginia	-5.24%	0.43%	-3.65%

[7] Source: 14-year growth calculations performed on data obtained from Census Bureau's web site.

Table I: Population Growth by State 1985 to 1999[7]			
	Overall Population Growth	Population Growth from International Migration	Population Growth from Domestic Migration
Wisconsin	10.59%	1.21%	1.12%
Wyoming	-4.02%	0.99%	-11.83%

Income Indicators: Per Capita Income, Per Capita Income Growth, Median Income, Median Income Growth

Income represents the power to purchase goods and services. The greater is income, the greater is that power. Thus income would seem to be another good proxy for economic well-being.

One way to measure this proxy for economic health is by per capita income. New Mexico is universally acknowledged to have low per capita income. In that sense, it is known to be in poor economic health. Figure 2 below illustrates how New Mexico compares to the other states in the region with respect to per capita income in 1997. Notice that New Mexico's per capita income is substantially less than the U.S. average, Texas and Colorado; somewhat less than Arizona and a little less than Oklahoma and Utah. *When ranked against regional states by this indicator, New Mexico's economic health is poor*.

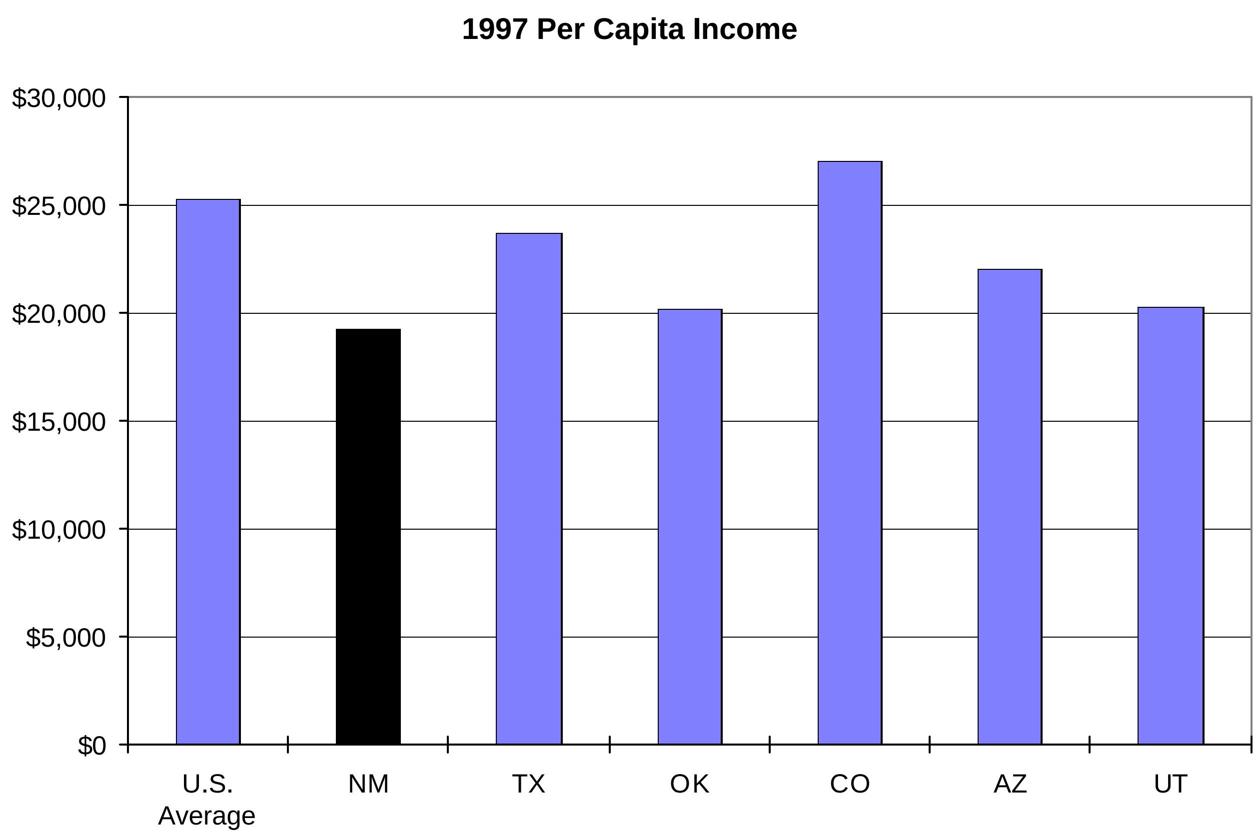

Figure 2: Regional Comparison of Per Capita Income

What about longer term trends in income? Is New Mexico beginning to catch up to other states? After all, it is not where New Mexico is today that matters so much, but where it is heading. Another income indicator of economic health is growth of per capita income. Figures 3 and 4 below compare per capita income growth of New Mexico to major regions of the nation and bordering states from 1979 to 1998.

The story is the same in both cases. New Mexico is losing ground. It appears to have the rather dubious distinction as favorite to win the race to the differential bottom. *When ranked against regional states by this indicator, New Mexico's economic health is poor and getting poorer*.[8]

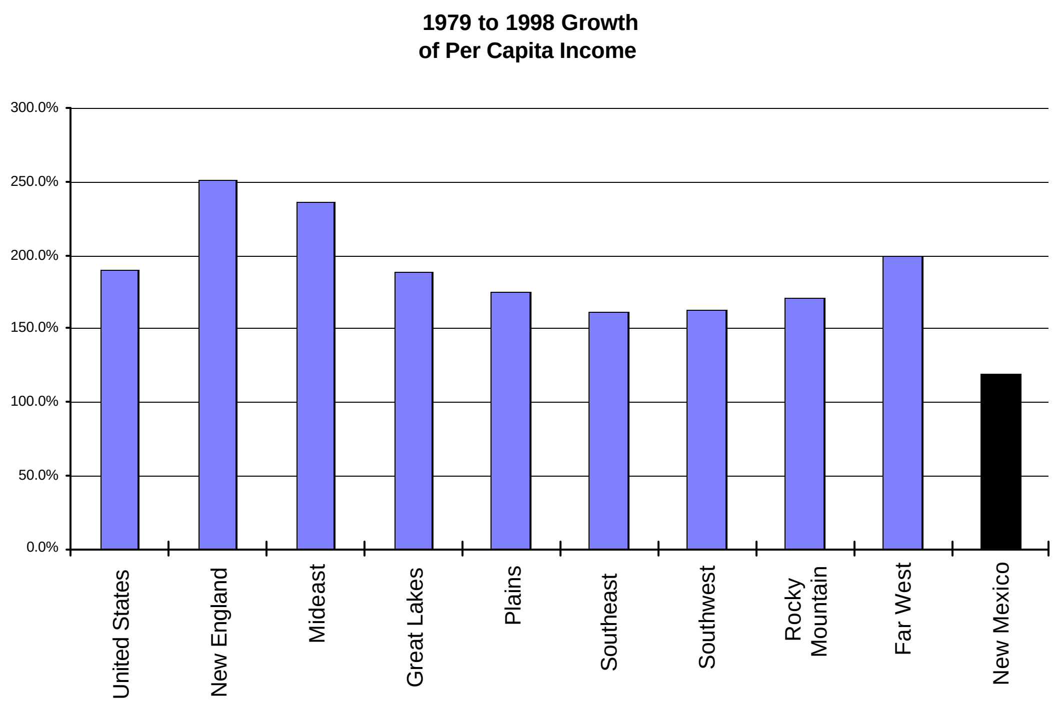

Figure 3: Nationwide Comparison of Per Capita Income Growth

[8] Mississippi and West Virginia have slower growth rates of per capita income than does New Mexico over this time period.

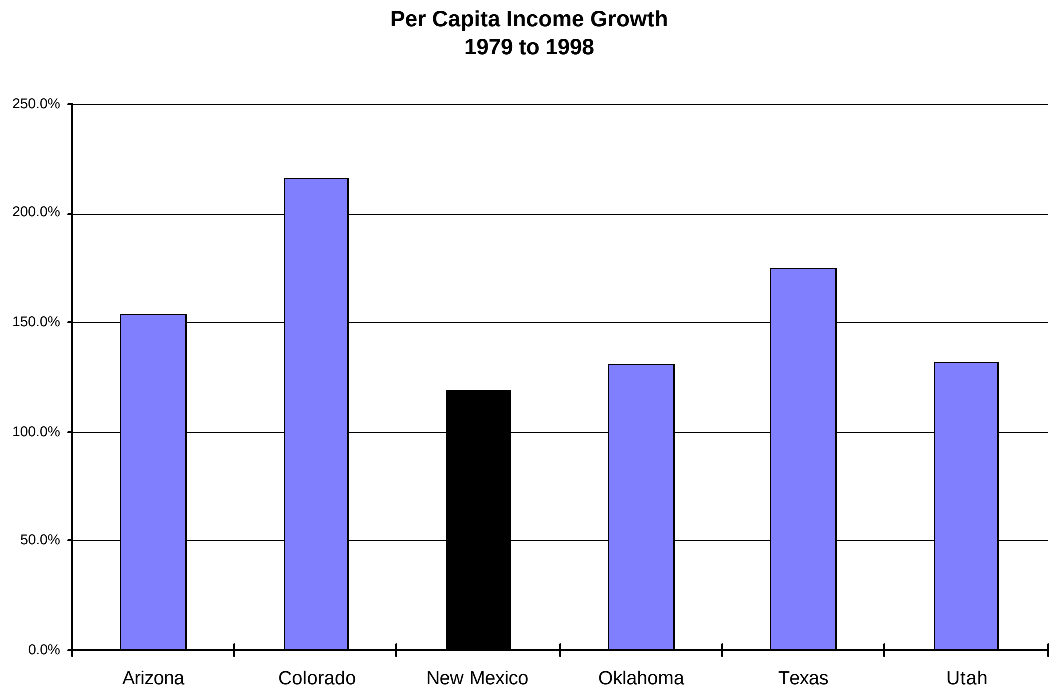

Figure 4: Regional Comparison of Per Capita Income Growth

There is yet another measure of income that is an appealing proxy for economic health. That measure is *median income.* The reason that median income is appealing is that it better reflects economic activity in the private sector. And it is the private sector that generates economic health.

The reason median income better reflects private sector economic activity is that it is robust to outliers at each end of the income distribution.[9] For per capita income measures discussed above, New Mexico is under the unknown influence of such outliers. At the high end of the income distribution we see a differentially large number of Ph.D.'s who are employed by government or quasi-government organizations. At the low end of the income distribution we see a differentially large number of poor native-Americans who (unfortunately) are largely subject to lesser economic freedom of Indian reservations. Because these outliers do not greatly influence median income, the median income measure is more likely (than per capita income) to capture what is going on among firms and consumers in private economic activity.

Data are readily available from the Census Bureau for *median income for 4-person families* from 1979 to 1999. Since the data are for 4-person families only, the reader is cautioned that they are not directly comparable to the per capita income results summarized above. Looking first at state rankings for 1999 in Table II below, we see that New Mexico is next to last among the 50 states, and it is worst in the region. New Mexico and regional states are highlighted in Table II for ease of comparison.

[9] The importance of using robust measures of central tendencies in the presence of outliers, specifically the median, is emphasized in Mosteller and Tukey (1977).

Worse yet, New Mexico is next to last when we look at the growth of this measure of median income over the last 20 years as can be seen in Table III below. Again, New Mexico and regional states are highlighted in Table III for ease of comparison. *When ranked against all states by this indicator, New Mexico's economic health is poor and getting poorer*.

Conclusion: We have looked at population movement and income indicators of the economic health of New Mexico. The ray of sunshine found is that net domestic migration to New Mexico is higher than the national average. That ray of sunshine was clouded somewhat when we looked at New Mexico compared to its region. Using that comparison New Mexico's economic health was judged to be fair to good.

Income indicators tell a more dismal story. New Mexico is in poor economic health whether we use recent per capita income comparisons, per capita income growth comparisons, median income comparisons or median income growth comparisons. New Mexico is one of the poorest states in the nation; it is the poorest in the region; and it is not catching up.

Table II: Ranking of States by Median Income for 4-person families in FY 1999 (low to high)

Arkansas	$ 36,828	Vermont	$ 49,401
New Mexico	***$ 38,143***	Missouri	$ 50,015
Mississippi	$ 38,748	Nevada	$ 50,946
West Virginia	$ 41,293	**United States**	**$ 51,518**
Montana	$ 41,462	Ohio	$ 51,835
Louisiana	$ 41,851	New York	$ 52,799
Oklahoma	**$ 43,138**	Indiana	$ 52,962
Idaho	$ 44,133	Wisconsin	$ 52,986
Florida	$ 44,829	Washington	$ 53,153
Alabama	$ 44,897	Virginia	$ 53,394
Kentucky	$ 44,932	**Colorado**	**$ 53,632**
Arizona	**$ 45,032**	California	$ 53,807
South Dakota	$ 45,043	Pennsylvania	$ 53,814
Tennessee	$ 45,245	Rhode Island	$ 53,967
North Dakota	$ 45,480	Illinois	$ 55,372
Utah	**$ 45,775**	Michigan	$ 56,174
Oregon	$ 46,245	Minnesota	$ 56,200
Nebraska	$ 46,726	New Hampshire	$ 56,497
Texas	**$ 46,757**	Delaware	$ 56,662
Wyoming	$ 46,830	Maryland	$ 61,860
South Carolina	$ 46,973	Massachusetts	$ 62,385
Iowa	$ 48,167	New Jersey	$ 65,586
Maine	$ 48,632	Connecticut	$ 67,380
Georgia	$ 48,920		
Kansas	$ 49,034		
North Carolina	$ 49,272		

Table III: 20-year growth of median income for 4-person families (1979-1999)

New Mexico	**146%**	Ohio	196%
Wyoming	157%	Virginia	197%
Oregon	160%	**United States**	**198%**
Arizona	**163%**	Kentucky	200%
West Virginia	165%	Michigan	202%
Montana	167%	Tennessee	204%
Texas	**168%**	South Carolina	205%
Arkansas	169%	Indiana	206%
Louisiana	173%	New York	207%
Utah	**175%**	Nebraska	207%
Florida	175%	Missouri	209%
Idaho	176%	Georgia	210%
Oklahoma	**176%**	Minnesota	213%
Nevada	179%	Pennsylvania	216%
California	184%	Rhode Island	218%
Iowa	185%	Vermont	218%
Illinois	186%	Maryland	220%
Mississippi	188%	North Carolina	224%
Washington	190%	South Dakota	229%
Kansas	191%	New Jersey	230%
Alabama	193%	New Hampshire	234%
Colorado	**194%**	Delaware	236%
North Dakota	194%	Maine	237%
Wisconsin	196%	Massachusetts	250%
		Connecticut	259%

Effectiveness of Fiscal Policy

Fiscal policy is composed of tax policy, regulatory and judicial policies and spending on government services. Effectiveness of fiscal policy depends on harm done by tax policy and regulatory and judicial policies, and the benefits of government spending. The study will assess each in turn, with more attention being paid to tax policy.

Tax Policy Indicators

The purpose of this section is to introduce the reader to the harm caused by taxes and compare New Mexico to other states with respect to that harm.

Taxes Cause Economic Harm

Everyone knows that taxes cause harm. But beyond that most people have not given our tax system much thought. Let's take a brief look at the basics of taxation: In order to collect tax revenue the government must tax something. Each something taxed (be it income, property, goods or services) results in a wedge being driven between the cost of production and the price buyers are willing to pay. Because of the tax wedge, sellers and buyers will not trade as much as they would absent the tax. The voluntary exchange that is stifled because of the tax is the economic harm caused. We see the harm show up as reduced economic activity.

Even worse, this harm increases exponentially as tax rates increase, particularly when people have untaxed or lower-taxed alternatives from which to choose outside New Mexico. ***They can often mitigate the local effects of the tax wedge by taking advantage of those alternatives***. This is the case for New Mexico, as we shall see in more detail below. Obviously, the harm may be offset somewhat if differentially good government services are provided (e.g. infrastructure, crime control, education, enforcement of contracts) relative to other states. Differentially good government services would tend to lower business costs and increase economic activity. After all, good government services are why we are willing to undergo tax harm in the first place. Unfortunately, we do not get differentially good government services in New Mexico, at least as evidenced by the poor production of government schools documented below.

New Mexico's Differentially High Taxes Compared to Other States

States have tax policies that are quite different. And the bewildering array of things taxed, rates at which they are taxed, exemptions from tax and economic development tax incentives make interstate policy comparisons quite difficult. That difficulty usually permits politicians and big-government apologists to spout nonsense without consequence. Nevertheless, we can finesse our way around that difficulty to make reasonable interstate comparisons. Then we shall see that New Mexico's tax policy may be causing differential harm to its economy. Take a look at the evidence:

Figure 5 below compares 1998 total state and local taxes collected per $1,000 of income among states in our region and the national average. By measuring taxes as a percent of income, we get a good first-cut estimate of ability-to-pay tax: the lower the estimate, the greater the ability-to-pay. Notice that New Mexico's citizens are less able to pay their tax. State government in Santa Fe and local jurisdictions throughout the state confiscate a higher percentage of income than do competing state and local jurisdictions (over $10 more per thousand dollars of income on average).

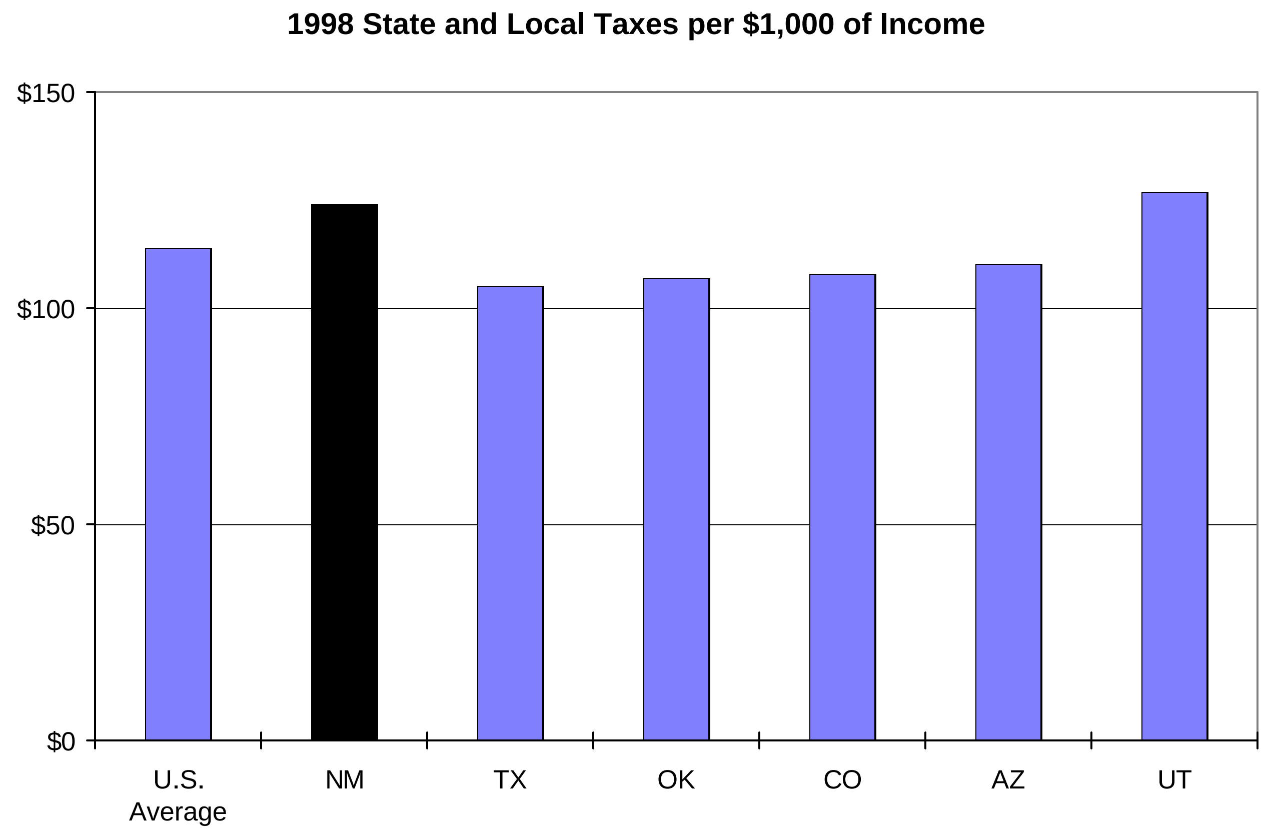

Figure 5: Comparison of state and local taxes collected per $1000 of income [10]

It is enlightening to break these totals down into their important component parts, so that we may see what is doing the most damage. The four major sources of tax revenue for state and local jurisdictions are sales and gross receipts taxes (GRT), individual income taxes, corporate income taxes and property taxes. Total taxes collected from these major sources are pictured in figure 6 below, again using the ability-to-pay approach (taxes collected per $1,000 of income from each source)[11].

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[10] Source: Moody (1999).

[11] Source: Bureau of Economic Analysis, 1995 data.

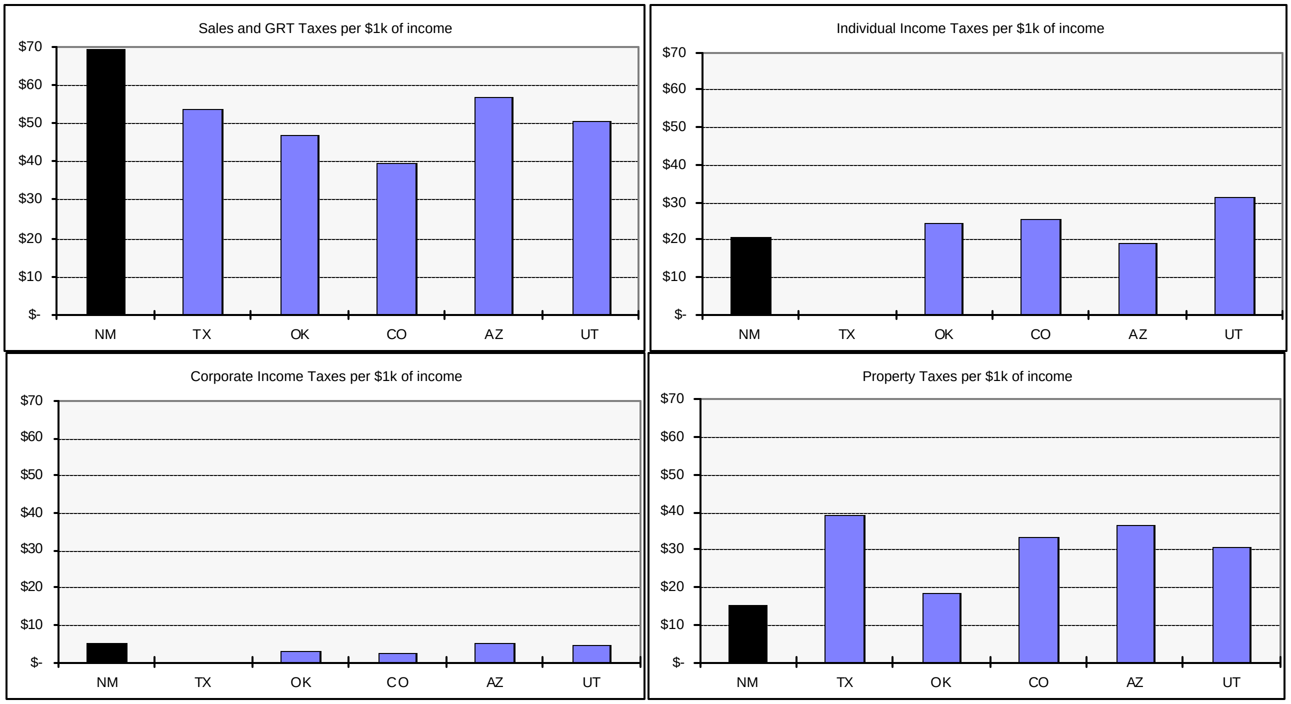

Figure 6: 1995 Interstate comparisons of important tax bases by revenue collected per $1000 of income

The components are pictured to scale, so that you may readily compare the relative importance of each. Notice the following from figure 6:

- Sales and GRT are by far the most important source of tax revenue, and New Mexico taxes much more heavily than competing states as a percentage of income (see upper left panel).
- New Mexico collects a little more than average from the individual income tax (see upper right panel).
- New Mexico collects above average from the corporate income tax. The corporate income tax is the least important revenue source among the four major sources displayed (see lower left panel).
- New Mexico collects far less than average from the property tax (see lower right panel). The property tax is a little more important as a revenue source in the region than is the individual income tax (mainly because Texas has no income tax).

The bottom line: *New Mexico's adverse position in ability-to-pay taxes from GRT, individual income and corporate income far outweighs its advantage from property taxes.*

Critics of this conclusion will correctly point out the omission of important effects of tax rates: people adjust at the margin, and the averages displayed above may be somewhat misleading. **Margins matter most**: higher tax rates reduce economic activity as individuals adjust to them. And the effects of that adjustment process may be seen by comparisons of revenue actually collected in the presence of higher tax rates[12]. If this seems confusing, figure 7 should help clarify by example for comparisons of sales and gross receipts taxes in the region. The GRT in New Mexico is in essence two taxes: a tax on services and a tax on goods. The top two panels of figure 7 picture alternative **tax rates** among states in the region for the sales and gross receipts tax for these two categories. New Mexico taxes services, and other states do not. So, the relevant tax rate shown in the upper left panel is 5% for New Mexico and **zero** for all others[13]. Dwell on this important point for a moment. *Businesses and consumers have alternatives in other states where services are not taxed! Do you not think that many will adjust away from New Mexico as a result?*

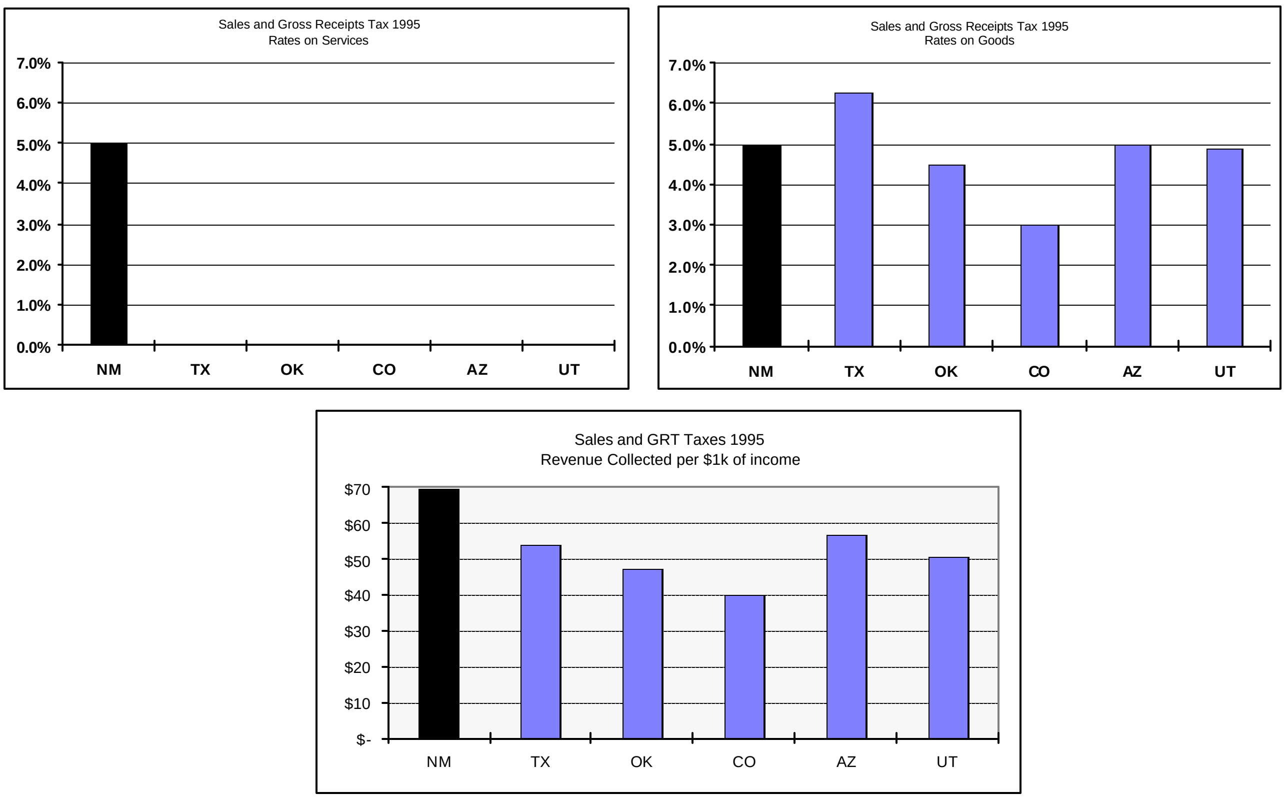

Figure 7: Regional comparison of tax rates and revenue collected for gross receipts and sales taxes: 1995

New Mexico and the other states tax goods, so the relevant tax rate shown in the upper right panel is 5% for New Mexico and ranges from **3 to 6.2%** for the others. New Mexico taxes goods at a rate a little above average for the region. Texas is often cited as having a very high sales tax rate compared to

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[12] Sales and GRT across states differ by categories of goods that are exempt. I have made no effort to sort out these minutiae. Also, I have not attempted to account for local jurisdictions' add-ons to the statewide rates shown. Even so, this comparison is much closer to making an apples-to-apples approach than you will usually see in reports of legislative activity from Santa Fe.

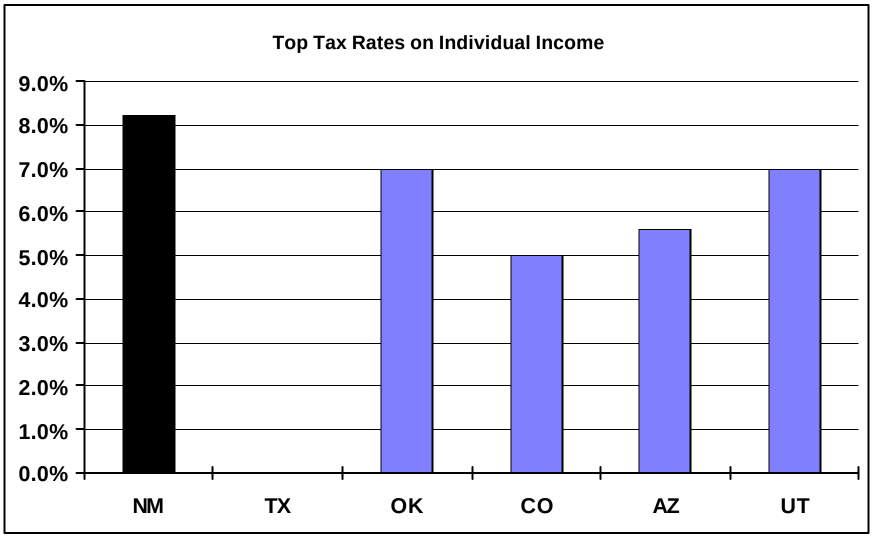
[13] Some other states are beginning to tax a few services, and there may be a trend toward eventual universal taxation of services.

New Mexico. Notice that is not really true: Texas may exceed New Mexico for the state-wide-tax on goods (6.2% to 5%), but New Mexico far exceeds Texas for the tax on services (5% to **zero**).

Now look at the lower panel in figure 7 to see the revenue results of these taxes on services and goods. New Mexico collects about 38% more revenue as a percentage of income, *even though its taxation of services increases the tax base by some 80% compared to other states.* The amount of revenue generated is nowhere near in proportion to the larger tax base in New Mexico. We see evidence (based on revenue actually collected) of big adjustments *away* from New Mexico. These adjustments result from New Mexico's grossly higher tax rate on services and slightly higher tax rate on goods. Trade is stifled in New Mexico as a result of the GRT, and that is the source of the economic harm as defined above.

Now take a look at the **individual income tax**. The upper panel in figure 8 displays top tax rates on individual income among states in the region. Notice who is highest: New Mexico. Does New Mexico collect more revenue as a result of having the highest tax rate? No. Look at the lower panel to compare revenue collections as a percent of income[14]. Among states that have an income tax (Texas does not), only Arizona collects less revenue than New Mexico. This is further evidence that margins matter: Dwell on this important point for a moment. *Employers and employees have alternatives in other states where income is taxed less! Do you not think that many will adjust away from New Mexico as a result?* Trade is stifled in New Mexico between employers and employees as a result of the individual income tax, and that is the source of the economic harm as defined above.

[14] The number and placement of lower tax brackets that I have not captured here will affect revenue estimates. These effects may be important, but it is the highest rate that goes farthest in stifling economic activity.



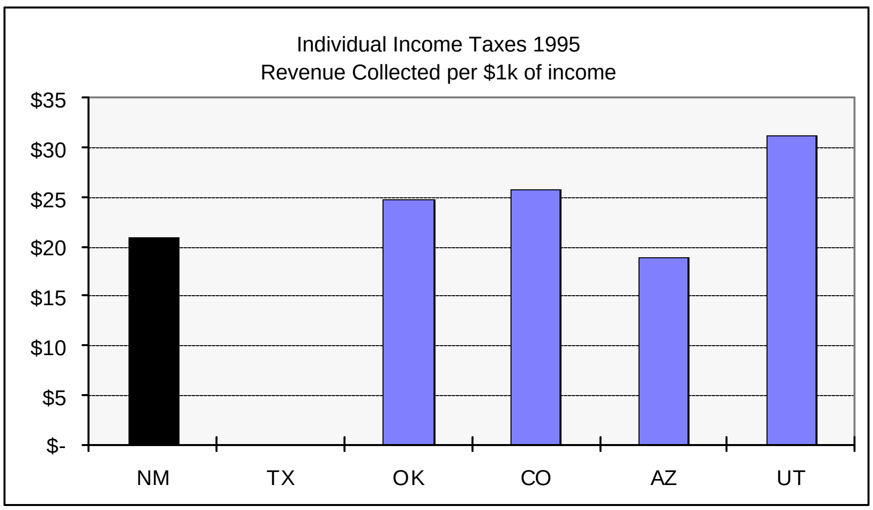


Figure 8: Regional comparison of income tax margins and revenue collected: 1995

Summary of New Mexico's Tax Policy

I have provided a primer on the harmful effects of taxes in New Mexico relative to our neighbors and posited that dismal performance may be the consequence of the differentially high constraints on economic freedom compared to neighboring states. Differentially harmful effects are generated by tax rates that are higher on particular bases than our neighbors. Specifically, our tax on services (5% versus **zero** in neighboring states) and our differentially high tax on individual income (top rate 8.2% versus 5% to 7% in neighboring states) has caused New Mexico substantial harm. We see evidence of the harm in our anemic economic health (discussed above) and in comparative revenue generated by these taxes.

Regulatory and Judicial Policy Indicators

Regulatory and judicial policies are more difficult to assess than tax policies. Regulatory infringement on economic freedom is by written rule and bureaucratic discretion rather than specific, enforceable tax rates on tax bases. The extent of judicial enforcement of property rights emerges in court decisions regarding ownership challenges. Judicial infringement on economic freedom results from a state's litigiousness. This study will not undertake independent evaluation of the harm done by New Mexico's regulatory and judicial regimes, saving that for future effort. Fortunately Clemson University's project on economic freedom among the states (the Clemson Study) has made excellent assessments from which this study can draw.[15]

The idea behind the Clemson Study's regulatory assessment is to evaluate the barriers to entry and competition. The assessment includes regulation of schools, labor, trucking, workers' compensation, insurance, public utilities, and others.[16]

The results for regulation are displayed in Table IV from lowest to highest estimated regulatory burden. New Mexico is ranked 36th by the Clemson study (rankings are from best to worst). By this indicator, New Mexico can be considered fair when compared to all states, but poor when compared to states in the region (only Texas has a slightly higher index).

The idea behind the Clemson Study's judicial assessment is to evaluate the balancing of litigation necessary to address legitimate grievances without causing too much harm from frivolous lawsuits. The assessment includes indicators of reform, dollar amounts of litigation (e.g. auto accidents, malpractice by orthopedic surgeons), and others[17]

The results for judiciary are displayed in Table V from lowest to highest estimated judicial burden. New Mexico is ranked 37th by the Clemson study (rankings are from best to worst). By this indicator, New Mexico can be considered fair when compared to all states, but poor when compared to states in the region (New Mexico has the highest index of litigiousness in the region).

Conclusion: the Clemson Study New Mexico rates fair to poor by its assessment of regulation and litigation. It is 36th and 37th respectively among the lower 48 states (where low numbers indicate lower burden).

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[15] Byers, McCormick and Yandle (1999), pp. 7, 8.

[16] Byers, McCormick and Yandle (1999), pp. A22-27.

[17] Byers, McCormick and Yandle (1999), pp. A20-21.

Table IV: Indices of Regulatory Burden

(lower index indicates lower burden)

South Dakota	5.05	Georgia	5.92
Colorado	**5.13**	**Oklahoma**	**6.02**
Arizona	**5.17**	Pennsylvania	6.11
Idaho	5.19	Connecticut	6.12
Mississippi	5.47	Vermont	6.12
Alabama	5.51	Kentucky	6.17
North Dakota	5.59	Illinois	6.30
Delaware	5.60	Minnesota	6.35
South Carolina	5.66	Nevada	6.35
New Hampshire	5.67	West Virginia	6.35
Montana	5.70	Louisiana	6.40
Wisconsin	5.70	**New Mexico**	**6.40**
Kansas	5.72	Ohio	6.41
North Carolina	5.72	Florida	6.43
Tennessee	5.72	New Jersey	6.48
Virginia	5.76	Rhode Island	6.57
Wyoming	5.77	Maryland	6.65
Arkansas	5.83	Iowa	6.68
Utah	**5.84**	**Texas**	**6.69**
Nebraska	5.85	Washington	6.73
Missouri	5.88	New York	6.85
Michigan	5.89	Massachusetts	6.87
Indiana	5.91	California	7.01
		Maine	7.36
		Oregon	7.38

Table V: Indices of Litigiousness
(Lower index indicates lower burden)

Colorado	**3.09**	California	5.73
Kansas	3.27	**Texas**	**5.73**
Missouri	3.27	Connecticut	5.82
North Dakota	3.36	South Carolina	6.00
Florida	3.45	Vermont	6.00
Oregon	3.45	Nebraska	6.05
Ohio	3.64	Louisiana	6.45
Utah	**3.73**	**Oklahoma**	**6.45**
Idaho	3.91	Virginia	6.45
Iowa	4.00	Washington	6.45
New Hampshire	4.00	Maryland	6.64
Montana	4.09	**New Mexico**	**6.64**
New Jersey	4.09	Nevada	6.73
Georgia	4.14	Tennessee	6.91
Minnesota	4.45	Maine	7.09
Kentucky	4.64	Wyoming	7.09
Mississippi	4.64	Delaware	7.18
Arizona	**4.91**	West Virginia	7.18
Illinois	4.91	Arkansas	7.36
New York	5.09	Rhode Island	7.55
South Dakota	5.09	Massachusetts	7.64
Alabama	5.27	North Carolina	7.64
Michigan	5.36	Wisconsin	7.64
Indiana	5.64	Pennsylvania	7.91

Government Output Indicators

So far this study has concentrated on the harms caused by constraints on economic freedom: taxes, regulation and judiciary. But it has not looked into the benefits of such constraints. After all, New Mexico would not agree to such constraints if there were no benefits. Inasmuch as state and local government is able to deliver differentially better services than other jurisdictions, differentially higher prosperity results. So, the question becomes: what are the benefits provided by state and local government and can they be quantified? In particular, how do they compare to other state and local governments?

As mentioned above, this study sets aside the regulatory and judicial sectors, relying solely for now on the Clemson Study's interstate assessment of regulatory and judicial balances of costs and benefits.

As far as government spending goes, benefit measures of output are often difficult to quantify. Government usually does not produce a well-defined product. How well does the state build and maintain infrastructure, protect property rights, improve the environment, license motor vehicle operators, enhance economic development and so on? The measurement problem is complicated by incentives of those administering the government apparatus to puff up output claims, especially when they are not well defined. If you would like an amusing example, check out the New Mexico Department of Economic Development web site. According to it New Mexico's economic health is exemplary. Of course, if output is apparently lacking, even to the usually uninformed public, those administering the government usually blame the deficiency on lack of resources (e.g. motor vehicle division and government schools).

One Indicator: Elementary and Secondary Education

One function of state and local government that at least is subject to a reasonable degree of output measurement is elementary and secondary education: measurement of how much students are learning. The National Assessment of Education Progress (NAEP) has measured abilities of students in 4th and 8th grade math, 8th grade science and 4th grade reading. 42 states have participated sufficiently in the NAEP assessment for at least one of the measurement categories. 41 states participated in at least two of the categories.

The scores are combined into an overall estimate of output in the following way: The estimated mean and standard deviation are determined for each category across participating states. Scores for each category are then normalized into standard deviations from-the-mean form. Then the scores are added with equal weight given to each category in which a state participated. For example, New Mexico participated in all 4 categories. Its measurements in standard deviations from the mean for each category and resultant score are as indicated below: The composite of output is obtained by weighting each of the four categories by one-fourth and summing over them.

Category	8th grade science	4th grade math	8th grade math	4th grade reading	Composite of output
Score (in standard deviations from the mean)	-0.68	-1.17	-0.83	-0.87	-0.89

Output measures are obtained in the same fashion for all participating states, and the results are displayed in Table VI. Notice that New Mexico is near the bottom by this output measure, exceeding only Alabama, California, Louisiana, and Mississippi. Notice also that New Mexico produces less education than any of the states in the region. Figure 9 below displays the regional differences graphically.

Table VI: Consolidated Test Scores in Standard Deviations from the mean[18]

Alabama	-1.02	Nebraska	0.82
Arizona	**-0.50**	Nevada	-0.70
Arkansas	-0.71	New Hampshire..............	
California	-1.33	New Jersey	0.61
Colorado	**0.38**	**New Mexico ....**	**-0.89**
Connecticut	0.92	New York	-0.07
Delaware	-0.69	North Carolina	-0.03
Florida	-0.76	North Dakota	1.25
Georgia	-0.77	Ohio	
Idaho		Oklahoma	
Illinois		Oregon	0.34
Indiana.....................	0.63	Pennsylvania	0.23
Iowa	1.05	Rhode Island	-0.19
Kansas		South Carolina	-1.11
Kentucky	-0.31	South Dakota	
Louisiana	-1.73	Tennessee	-0.60
Maine	1.39	**Texas ....**	**0.05**
Maryland	-0.17	**Utah ....**	**0.58**
Massachusetts	0.87	Vermont	0.43
Michigan	0.43	Virginia	0.00
Minnesota	0.99	Washington	0.22
Mississippi	-1.63	West Virginia............	-0.16
Missouri..................	0.30	Wisconsin	0.97
Montana	0.79	Wyoming	0.58

[18] Source: National Assessment of Education Progress. The equally weighted scores are added for 8th grade science, 8th grade math, 4th grade math and 4th grade reading. Where there is no entry (e.g. Kansas) the state either did not participate or only participated in one category. States that participated in two or three categories of measurement are included with appropriate adjustments made in weighting.

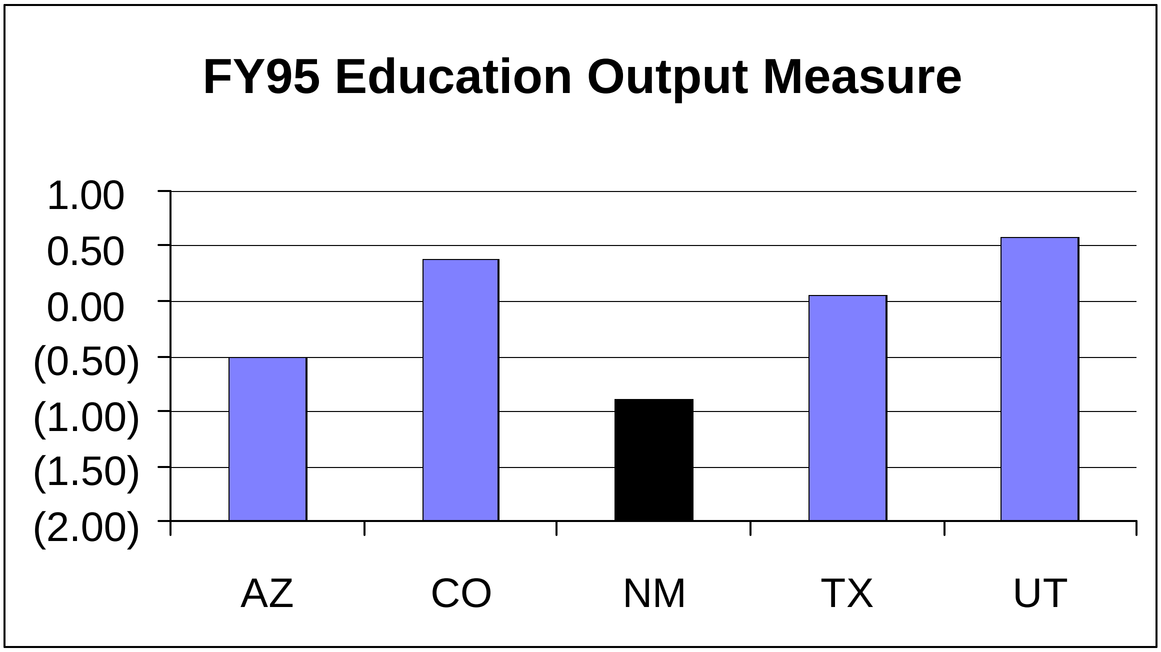

Figure 9: Regional Comparison of Primary and Secondary Education Output

Table VII: Indicators of consumer choice (local control percent) and resources expended (Expenditures Per Pupil) for elementary and secondary education in the lower 48.

	Local Control Percent 94-95	Expenditures Per pupil 94-95
United States	**43.8%**	**$ 5,988**
Alabama	21.6%	$ 4,405
Arizona	**44.2%**	**$ 4,778**
Arkansas	27.8%	$ 4,459
California	35.1%	$ 4,992
Colorado	**48.6%**	**$ 5,443**
Connecticut	53.6%	$ 8,817
Delaware	26.8%	$ 7,030
Florida	39.6%	$ 5,718
Georgia	40.0%	$ 5,193
Idaho	29.3%	$ 4,210
Illinois	63.3%	$ 6,136
Indiana	38.9%	$ 5,826
Iowa	41.0%	$ 5,483
Kansas	34.8%	$ 5,817
Kentucky	24.1%	$ 5,217
Louisiana	33.4%	$ 4,761
Maine	45.4%	$ 6,428
Maryland	54.9%	$ 7,245
Massachusetts	56.0%	$ 7,287
Michigan.....................	24.6%	$ 6,994
Minnesota	39.4%	$ 6,000
Mississippi	25.3%	$ 4,080
Missouri	50.7%	$ 5,383
Montana	36.3%	$ 5,692
Nebraska	55.8%	$ 5,935

	Local Control Percent 94-95	Expenditures per pupil 94-95
Nevada	61.1%	$ 5,160
New Hampshire.......	87.3%	$ 5,859
New Jersey	56.0%	$ 9,774
New Mexico	**11.6%**	**$ 4,586**
New York	53.6%	$ 9,623
North Carolina	24.6%	$ 5,077
North Dakota	40.2%	$ 4,775
Ohio	49.3%	$ 6,162
Oklahoma	**25.8%**	**$ 4,845**
Oregon	43.8%	$ 6,436
Pennsylvania	52.3%	$ 7,109
Rhode Island	52.9%	$ 7,469
South Carolina	40.6%	$ 4,797
South Dakota	60.5%	$ 4,775
Tennessee	36.9%	$ 4,388
Texas	**49.4%**	**$ 5,222**
Utah	**33.3%**	**$ 3,656**
Vermont	63.2%	$ 6,750
Virginia	59.1%	$ 5,327
Washington	22.3%	$ 5,906
West Virginia	26.8%	$ 6,107
Wisconsin	52.5%	$ 6,930
Wyoming	43.5%	$ 6,160
Wisconsin	52.5%	$ 6,930
Wyoming	43.5%	$ 6,160

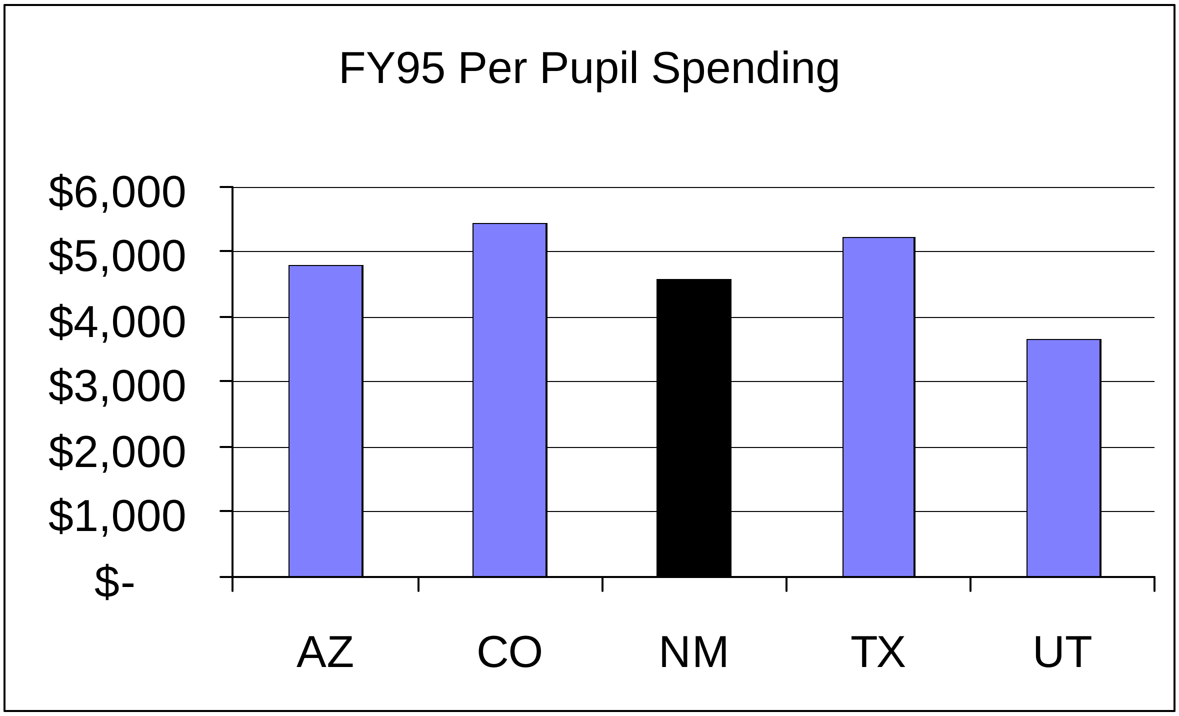

Figure 10: Regional Comparison of Per Pupil Spending

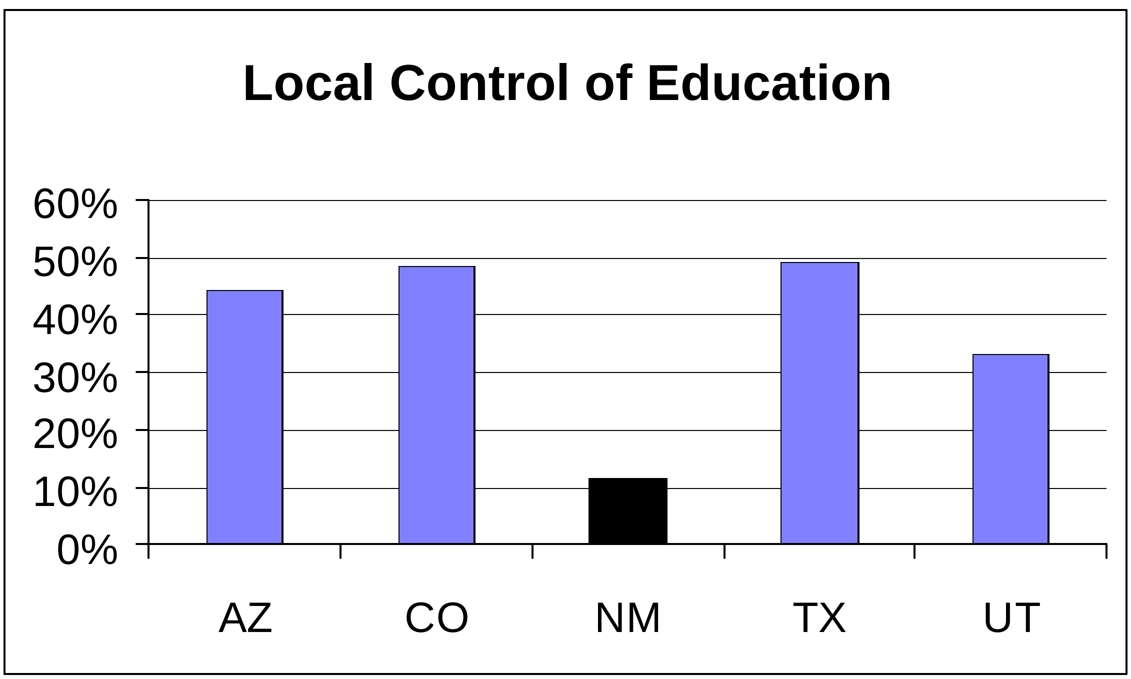

Figure 11: Regional Comparison of Local Control as measured by source of funds

Conclusion: By this measure of primary and secondary education output *New Mexico ranks poor*. And inasmuch as this particular function of government is representative of all functions, New Mexico's produces poor government services.

This conclusion must be somewhat tentative because of four problems of estimation: First, primary and secondary education is only one of many government functions. What is true for one may not be true for all. Second, New Mexico's expenditure of resources tends to be somewhat less than other states (see Table VII above and figure 10). Since New Mexico does not spend as much on education, output would be expected to be less than other states everything else being equal. But not everything else is equal: in 1997 New Mexico *tied for last* (with Arizona) among the lower 48 states for percentage of education expenditure actually spent on instruction (source NAEP). Third, the weighting scheme (equal weights assigned to each category) used to estimate composite output is somewhat arbitrary. Who is to say, for example, that 8^{th} grade science is equal or should be equal in importance to 4^{th} grade reading? Fourth (and probably the most serious of these problems), the use of statewide output averages may mask important intrastate differentials in output.

These problems notwithstanding, the estimates of education output in table VI as indicators of overall government performance are probably pretty good. The incentive problems hampering education output in differentially coercive states apply to other government functions as well. There is reason to think they would be highly correlated. And if that is the case, then education output becomes a good proxy for government output.

Empirical Evidence of Economic Freedom's Link to Prosperity

The goal of this section is to test empirically the link between prosperity/well being and economic freedom. Ideally, we would have data for economic freedom and data for prosperity and we would conduct an econometric test of the link. Practically, however, the problem is much more difficult. As we have seen above, prosperity/well-being and economic freedom are not easy to measure.

The link seems quite clear (without the aid of econometrics) when we see the distinct contrasts between culturally similar entities such as North Korea and South Korea, the former East Germany and West Germany, Hong Kong and Guangzhou (Canton). In each case it is clear that the entity with substantially greater economic freedom (South Korea, West Germany, Hong Kong) has much greater prosperity/well-being than its culturally similar counterpart (see Hanke and Walters 1997 for comprehensive summary of evidence). By most any measure also, New Mexico has more economic freedom and consequent prosperity/well-being than does Mexico.

Such stark contrasts are not present when it comes to demonstrating the link between economic freedom and prosperity/well-being across states in the United States. Margins of difference in taxes, regulation, litigation and welfare spending are much smaller state-to-state. Moreover, the bewildering array of differing tax rates and bases, regulations and their enforcement, litigation practices, and welfare spending criteria substantially reduce the "degrees of freedom" available to the economist in search of the empirical link. Furthermore, actual output of governmentally provided services, adjusted for population, differs across states. Nevertheless, the Clemson Study has made a valiant first effort to sort through and assess the combined impact of matrices containing the many variables affecting economic freedom. That assessment produces an overall index of economic freedom for each state. New Mexico ranks 28th out of 50 states by this overall index (rankings are by most to least economic freedom). In other words, by the Clemson Study's measure, New Mexico is in that half of states that have the least economic freedom.

This study takes a different approach to empirical estimation of how prosperity/well-being is linked to economic freedom. That approach was initially motivated by the Clemson Study's assessment of New Mexico's fiscal index (the ranking of tax harms across states). The Clemson Study concluded that New Mexico was 22nd out of 50. In other words, New Mexico was in that half of the states with the most economic freedom when it comes to tax harms. That conclusion differs from this study's conclusion that New Mexico is substantially worse than that. (See the section above entitled "New Mexico's Differentially High Taxes Compared to Other States.") One reason is that the Clemson Study's "method of principle components" may be introducing estimation bias. Such bias could be caused by spurious correlation between some of the many constraints on economic freedom and measures of prosperity.

My proposed solution to the problem is known as the "instrumental variable approach." Since overall economic freedom is difficult to quantify, is there another variable that we would think is strongly correlated with (and therefore a proxy for) economic freedom? If so, we can use that correlated variable to assess econometrically how our proxies for prosperity are influenced by the instrumental variable for economic freedom.

Unfortunately, we do not know of a good instrumental variable for economic freedom; but fortunately we can suggest a good one for its converse: economic coercion. Increased economic coercion reduces economic freedom, and if our theory is correct, we should find evidence linking high coercion to low prosperity and vice versa.

Gross state product (gsp) is a good measure of resources forgone in each sector of the economy. Private sector resources are forgone as a cost of providing resources to state and local governments. The idea is to find an instrumental variable that gives a clear picture of the relative resources forgone, state-by-state, by the private sector to provide for the government sector. The more resources forgone by the private sector, the greater are the constraints on economic freedom. The instrumental variable chosen for economic coercion is the proportion of total state and local government gross state product per year to the quantity state and local government gross state product per year plus private gross state product per year. And data are available for state and local government gsp and private sector gsp as well as federal government gsp.

Using these data for the instrumental variable for economic coercion as the independent variable, we need measures of prosperity. The rationale for measures of prosperity/well-being used here is developed above in "indicators of economic performance." The goal of the regressions is to see how these measures of prosperity/well-being are affected by economic coercion. Specifically, they test econometrically the measures of prosperity/well-being as a function of the measure of economic coercion that existed in 1977 and its growth rate over the next 20 years. The model is also tested for the influence of the federal government on prosperity/well-being.

The results overwhelmingly validate the anecdotal assessments contained above: The findings can be summarized by what might have been for New Mexico: *If New Mexico now had state and local governments that were only slightly more coercive than the lower 48 average, then the median income for 4-person families is predicted be $8,303 higher and per capita income $5,476 higher than they are today*[19].

Not surprisingly, the level of economic coercion in 1977 (the starting point for the analysis) also mattered; and had the expected negative influence on prosperity/well-being. Net domestic migration from 1985 to 1999 was also influenced as expected by the growth of economic coercion: more economic coercion meant less domestic migration[20]. The 1977 starting point for measurement of economic coercion did not seem to matter for domestic migration.[21]

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[19] Both were statistically significant at the one percent level of significance. This result assumes that New Mexico would be 20 percent less coercive than it is now.

[20] It was statistically significant at the 2.5 percent level of significance.

[21] Coefficient was of the wrong sign and was not statistically significant. The starting point did not match the dependent variable (1977 versus 1885), so this result is not surprising.

The regressions also test for the possible effect of federal government activity on state prosperity/well-being. No effect is found. The regressions lose explanatory power when the effect of the federal government is included[22]. There is no evidence that federal government presence aids economic health.

So that the reader may see the instrumental variable for economic coercion results they are presented in Table VIII in the order highest to lowest for economic coercion in 1997. The entry for New Mexico means that roughly 11.8 percent of its economy is state and local government excluding the federal government.

Table VIII: State Rankings of Economic Coercion in 1997

	97 Economic Coercion		97 Economic Coercion
New Mexico	0.117718	Maryland	0.091514
South Carolina	0.112033	Kentucky	0.090473
Montana	0.108985	Wisconsin	0.089627
West Virginia	0.108165	Virginia	0.088669
Nebraska	0.107775	New Jersey	0.088379
Mississippi	0.106917	Rhode Island	0.087795
Oklahoma	0.105942	Minnesota	0.087493
Alabama	0.104126	California	0.086396
Kansas	0.102342	Louisiana	0.086198
North Dakota	0.100539	**Colorado**	0.086187
Washington	0.100236	Tennessee	0.085308
Utah	0.099881	Ohio	0.084418
Idaho	0.098927	**Texas**	0.083975
Maine	0.097246	Georgia	0.083802
Vermont	0.097195	South Dakota	0.083303
Iowa	0.09612	Missouri	0.081499
Michigan	0.094728	Indiana	0.081141
Arizona	0.093069	Pennsylvania	0.078854
New York	0.092738	Illinois	0.077777
Wyoming	0.092542	Nevada	0.076002
Arkansas	0.092321	Massachusetts	0.07516
Oregon	0.091843	New Hampshire	0.069046
Florida	0.091821	Connecticut	0.068677
North Carolina	0.091745	Delaware	0.066684

Conclusion

By most measures New Mexico's government is more coercive (economic freedom is lower) than its counterparts in other states in the lower 48 and the region. Also, its economic health is not as good as those states. Anecdotal evidence linking the differentially poor economic health of New Mexico to its

[22] Adjusted R^2 falls when the federal effect is included.

differentially higher economic coercion is presented. Finally, strong econometric evidence of the link between economic health and economic coercion is summarized.

These results suggest that New Mexico's economic health would improve markedly if its economic freedom increased markedly. This obviously begs the questions of exactly how to increase economic freedom: Which taxes to lower? Which regulations to eliminate or modify? Which constitutional rules to change? The list goes on, and it will be the subject of future inquiry by Rio Grande Foundation.

About the Author

Professor Harold C. "Harry" Messenheimer: Dr. Messenheimer received his MA from Virginia Tech in 1980 and his Ph.D. from George Mason University in 1989. He is president of Southwest Political Economy (an economics consulting firm in the Albuquerque, New Mexico area) and Executive Director and Senior Fellow at the Rio Grande Foundation (a free market think-tank for New Mexico). He is also research associate at the Center for Study of Public Choice, George Mason University. He has taught at the University of Richmond and George Mason University, specializing in microeconomics, macroeconomics, econometrics, economics of taxes and production of public policy. From 1991 through 1993 he served as economic advisor to Commissioner William P. Albrecht (acting Chairman) at the Commodity Futures Trading Commission. Dr. Messenheimer has written on applications of economics to collective decisions.

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