NEWSLINK

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Welfare, time limits and tax credits

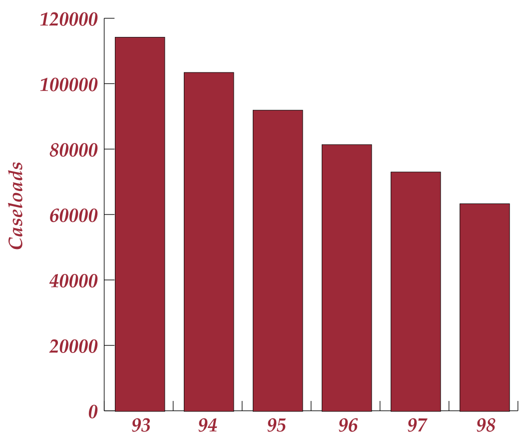
This December, the Commonwealth of Massachusetts will begin terminating cash assistance for nearly 6,000 families under its Transitional Aid to Families with Dependent Children (TAFDC) program. Under this program, nonexempt, able-bodied welfare recipients lose their cash benefits after receiving those benefits for two years. The same program requires able-bodied recipients to work at least 20 hours per week.

When the TAFDC clock began ticking two years ago, the state's Department of Transitional Assistance (DTA) predicted that 41,039 families would be affected. Because of an expanding economy, rising wages, workfare rules and a tight labor market, that number has decreased to 5,885.

Such results were made possible, in part, by increased spending on child care and on employment services by the Commonwealth. Spending on day care for welfare reform more than doubled between fiscal years 1992 and 1998. But, as expected, the decline in caseloads has resulted in reduced TAFDC spending.

One criticism of TAFDC centers on the hardships faced by families being forced off the rolls in December. According to this criticism, the state should postpone the deadline or broaden the eligibility for obtaining exemptions.

Massachusetts TAFDC caseloads declining



Another criticism centers on the workfare requirement. Critics have argued for permitting welfare recipients to substitute job training and education for work.

Supporters of the law argue that the program is a success as originally designed and that any relaxation now would slow the transition of welfare recipients into the workplace. We believe, however, that both critics and supporters are missing an opportunity to blend responsibility and compassion.

The challenge for policymakers in Massachusetts isn't just to determine when to cut off benefits or whether education is an appropriate substitute for work as a prod to ending dependency. The challenge is to design a welfare system that gives both taxpayers and welfare recipients increased control over the allocation of welfare moneys.

A key element in Massachusetts is already in place: the nonprofit sector. Data suggest that voters trust private charities more than they trust government to deliver services. A BHI poll this year showed that 59% of all taxpayers surveyed would increase their giving to help the poor if government were to cut back on welfare spending.

However, Massachusetts lacks tax incentives that could encourage donations to private organizations that help the poor. There is no state income tax deduction or credit for charitable contributions. This limits the funds on which charities can draw for the purpose of helping the poor.

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IN THIS ISSUE

Will MA `Sizzle or Fizzle' in '99?

How will the crisis in Asia affect Massachusetts' economy? Will the state's economy remain strong? Or are we in for a slowdown? Where are Massachusetts' sectors headed, particularly finance and high tech?

A panel of experts will consider these and other economic issues at a Beacon Hill Institute breakfast forum on Wednesday, December 9, 1998 from 7:30 a.m. to 9:00 a.m. at the Newton Marriott Hotel. Panelists will include BankBoston economist Richard DeKaser, Bruce Holbein of the Massachusetts Software Council and Frederick Laskey, the Commonwealth's Secretary of Administration and Finance.

"We want to help our audience prepare for the coming year," said BHI's Executive Director David Tuerck. (For Tuerck's own predictions for the coming year, see page 2.)

For more details, see page 5. To register, call BHI at (617) 573-8750.

From the Executive Director

The writer James Branch Cabell once wrote, "the optimist proclaims that we live in the best of all possible worlds, and the pessimist fears that this is true."

For the last seven years, the optimist has ruled. The United States has basked in an economic glow. The American job machine has churned out more than 13 million new jobs since 1991. In Massachusetts, more people are working than ever before. Our unemployment rate for September was only 3% compared to 4.6% for the nation. Today, Massachusetts workers are well represented over an array of high earning growth industries. Ten years ago, the state was dependent on defense and minicomputers.

Today, the federal government has balanced the budget and generated a small surplus. The states are also showing surpluses. Massachusetts is sitting on a $1.2 billion rainy day fund.

The job machine has eased the way toward national welfare reform, making it possible for former welfare recipients to become wage earners. At the other end of the economic scale, more Americans than ever before are earning more than $100,000 a year, giving rise to what has been called the new "mass upper class."

> *We may not be living in the best of all possible worlds, but the world in which we do live offers the opportunity, if not the guarantee, of further robust growth.*

Interest rates have been exceptionally favorable. This has allowed millions of Americans to realize the American dream by buying their first home or renewing the American Dream by refinancing their mortgages.

Is the dancing bear back?

But this fall, we've begun to wonder if the pessimistic dancing bear is back again.

Since August, a volatile stock market has made investors jittery. Asia's floundering economy and uncertainty about Russia have contributed to a growing apprehension. Some expect the global economic crisis to spread through Latin America. Because America cannot isolate itself from the problems besetting a global economy, we are told to expect slower growth rates.

The Asian shock has taken its toll. Plunging global demand has softened prices for everything from food to oil. At home, the real estate market is cooling. Massachusetts' September homes sales were down almost 14% from August and housing prices were down 7%. Corporate profits for major Massachusetts firms are down about 1% from a year ago. The state's mutual fund industry, the core of our financial services renaissance, is bracing for layoffs.

Economically, Massachusetts is closer to Asia now than ever before. Ten years ago our merchandise exports to Asia accounted for 6% of the total. Today they account for about 8%. Though exports to Taiwan, South Korea and Singapore have fallen, those to Japan, the state's largest Asian trading partner, grew by 4% between 1997 and 1998.

A worse-case scenario

High unemployment rates and high state deficits characterized the 1989-91 recession. Could the Asian threat and its apparent link to the stock market bring about a similar decline?

Probably not. This is because the state economy is better prepared to weather an economic slump today than it was ten years ago. Last year's state tax revenues grew by more than 8%. The state ran a surplus of more than $1 billion. The economy is sufficiently robust and sufficiently diversified that even a "worse-case scenario" would have little impact on unemployment rates and on the state budget.

For the sake of argument, however, let's assume a worse-case scenario: A worsening Asian crisis causes the Dow Jones Industrials average to fall to 6,000, where it was in 1996. Let's imagine the employment roles and budget under a 1996 scenario.

Under this scenario, employment in Asia-sensitive export sectors and in financial services would fall by 10,997 jobs. The resulting increase in the unemployment rate would be a barely-noticeable .34%.

What would a 1996 scenario mean to the state spending? An uptick in the unemployment rate of .34% would necessitate about another $63 million in unemployment benefits and social services. The Federal Reserve Bank of Boston says that a recession could cause tax revenue growth to fall to 2.8%. Under these assumptions, the state could meet all of its current spending requirements and still balance the state government budget.

From this analysis, it appears that the state is not in store for a return to a recession of the kind on which it teetered ten years ago. We may not be living in the best of all possible worlds, but the world in which we do live offers the opportunity, if not the guarantee, of further robust growth. As the Dow moves back toward 9000, we can begin to again consider tax reduction as a catalyst for further economic acceleration.

David G. Tuerck

BHI Research Associate Aniko Laszlo assisted in the preparation of this article.

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

PUBLISHER
DAVID G. TUERCK
EXECUTIVE DIRECTOR

PRODUCTION
ELLEN F. FOLEY
DIRECTOR OF COMMUNICATIONS

EDITOR
FRANK CONTE
PUBLICATIONS EDITOR

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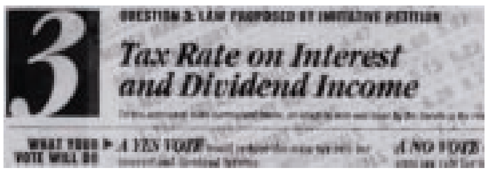
With Question 3, voters create jobs, capital

On November 3, Massachusetts voters gave a resounding thumbs up to Question 3 on the state's election ballot. Passage of the referendum question on the Massachusetts ballot by a margin of four-to-one sets the stage for an economic bonus for the state – as much as $500 million in business spending on factories, warehouses, computers and other equipment.

The state is now required to tax dividend and interest income ("unearned income") at the same rate that it taxes earned income. Until this year, Massachusetts taxed dividend and interest income at 12%, the highest rate in the nation, while taxing earned income at 5.95%. The state cut the tax on dividends and interest income to 5.95% earlier this year. Question 3 ensures that earned and unearned income will be taxed at the same rate in the future.

It is common knowledge that people with investment income benefit from cutting the tax on dividends and interest. What is less known is that the state economy benefits as well.

For the last four years, Massachusetts has run surpluses sometimes exceeding a billion dollars. This bodes well for future tax cuts. One proposal would cut the tax on earned income to 5%. Cutting the tax on dividends and interest income to 5% would add $500 million to the Massachusetts capital stock.


QUESTION 3: LAW PROPOSED BY INITIATIVE PETITION

3 Tax Rate on Interest and Dividend Income

WHAT YOUR VOTE WILL DO ▸ A YES VOTE ... A NO VOTE

By reducing the tax on earned income, the state would suffer a slight revenue loss. State and local government would suffer a combined loss of $52 million (about .3% of the state budget), while taxpayers would enjoy a gain of $52 million in after-tax income.

The $500 million bonus will take place as Massachusetts taxpayers find that they can keep more of the income they receive from their investments in Massachusetts corporations. Lower taxes on dividends and interest mean a higher after-tax reward for investing in Massachusetts corporations.

Media Mentions

David Tuerck was quoted in the *Wall Street Journal (N.E. Edition)*, "Boston plans an initiative for housing," (11-11-98)

BHI's analysis of single-sales factor tax cuts was cited by *Boston Globe* columnist Joan Vennochi, "In Raytheon we trust?" (10-9-98) and in the *Worcester Business Journal*, "Raytheon tax break questioned in wake of job cuts," (10-26-98 to 11-8-98).

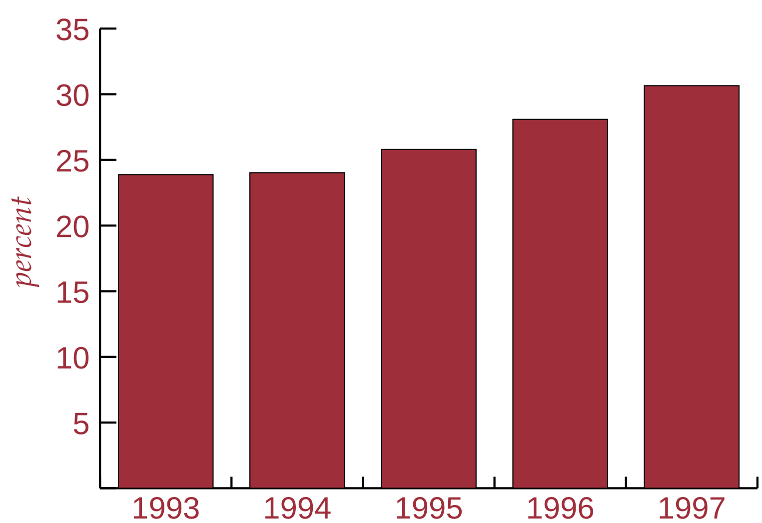
David Tuerck was quoted in the *Boston Globe*, "Analysts divided on who prevailed," (10-27-98).

BHI factored prominently in a *Boston Herald* article, "Candidates' campaigns are cozy with think tanks," (10-23-98).

David Tuerck appeared on New England Cable News discussing income inequity, (9-24-98).

Other coverage included references in the *West Roxbury Transcript*, (9-30-98) and the *Medford Daily Mercury* (9-8-98).

Exports to Asia as a percentage of all Massachusetts exports



Source: Department of Commerce, Office of Trade and Economic Analysis

Will MA catch the Asian flu?

The fraction of Massachusetts exports going to Asia rose from 23.8% to 30.6% over the period 1993-1997. This reflects the boom in the Asian economies that took place over the same period. Now that the Asian boom has turned into a bust, the state might seem more vulnerable than before the recession. But the state economy is also more diversified than before and the national economy remains strong. The question is whether the Asian crisis will worsen or resolve itself before Massachusetts catches the flu.

Rate of little return: Social Security as we know it

With the federal budget now in "surplus," policymakers are focusing on what may be the hottest public policy issue of the day: How to provide for the nation's growing retirement population while increasing national saving and investment.

Elected officials see Social Security as the "third rail of American politics." Economists see a demographic time bomb ready to tear through future federal budgets. Nearly everyone agrees Social Security needs to be reformed. How that happens is another matter.

President Clinton has indicated that he would direct most of the surplus to "saving Social Security first," although he hasn't yet explained how he would recast the program. On the other side of the aisle, many economists and policymakers would privatize – to various degrees – the program, while maintaining at least the same level of benefits now drawn by retirees.

Unlike most pension plans, current revenues earmarked for Social Security go to support current retirees. As baby boomers begin to retire around 2013 or so, fewer workers will be available to pay the necessary Social Security taxes to support retirees under this "pay-as-you-go" system.

In 1950, for example, 16 workers supported one retiree. By 2014, in part because people are living longer, that ratio will be 2.7 workers to one retiree. To fund such a dramatic increase without changing benefits, the current 12.4% Social Security taxes would have to be increased to anywhere between 18% and 24%.

Not even the most ardent defenders of the status quo believe that raising Social Security taxes is the solution. Past remedies such as increasing the payroll tax, cutting benefits and raising the retirement age might not, in themselves or in combination, be adequate to resolve the problem. Adding to the problem is the lack of an intergenerational consensus. That is to say, how can "saving Social Security" restore the faith of Generation Xers who, according to public opinion polls, don't believe the system "will be there for them."

> *Raising taxes to save or reform Social Security is a bad deal for working people today.*

Economist and Federal Reserve Board Governor Edward M. Gramlich underscores the new thinking driving the debate. This fall, at a Boston Citizens' Seminar at the State Street Bank, Gramlich identified three approaches to reform: (1) develop a plan that would preserve the safety net, (2) develop a plan that would rely on the market, or (3) devise a hybrid that would combine both plans. Gramlich favors this third way.

Gramlich would fine-tune the present system by "kindly and gently" cutting benefits for future retirees, gradually raising the retirement age to 70 and increasing contributions for higher wage earners. But Gramlich and others acknowledge that these adjustments would do little to satisfy one major goal of reform: improving the nation's saving rate. For this Gramlich offers what he calls "a middle of the road" approach: individual add-on accounts that would supplement Social Security. These mandatory accounts would encourage people who are not currently saving to set aside money in accounts similar to publicly managed 401(k) plans.

Not everyone likes this idea. Economist Peter Ferrara of Americans for Tax Reform says any tax increase or benefits cut would foreclose real opportunities for individuals to accrue benefits that outperform Social Security's "internal rate

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Because of information overload, learning about Social Security reform can be daunting. For a quick study, here are our recommendations.

Books

Promises to Keep: Saving Social Security's Dream by Marshall N. Carter and William G. Shipman. Regnery Publishing 1996. A worthy primer on the Social Security crisis, this book was reviewed in the Winter 1997 issue of *NewsLink.*

A New Deal for Social Security by Peter J. Ferrara and Michael Tanner. Cato Institute, 1998. Ferrara and Tanner, resolute privatizers, propose allowing individuals to divert their Social Security taxes to individually-owned, privately-invested accounts, similar to IRAs or 401(k) plans.

Social Security Reform: Conference Proceedings: Links to Savings, Investment and Growth, Steven A. Sass and Robert K. Triest, editors. Federal Reserve Bank of Boston, June 1997. Technical but accessible discussion from across the spectrum. Includes comments by Gramlich, Diamond and others.

Articles

"Survey: Social Insurance." *The Economist.* October 24, 1998. Superb analysis of social insurance issues from across the globe.

"Social Security Transition: Maximizing Economic Benefits," Stephen J. Entin, Institute for Research on the Economics of Taxation delivered to the ABA Economic Advisory Committee meeting. Available through IRET, 202-463-1400. Technical analysis on how to fund benefits to current retirees in a privatized scenario.

"Sound Investment: The stock market can still save Social Security. But only if Uncle Sam does the investing," Peter Diamond, *The New Republic*, November 9, 1998. Argues that reform should be based on a current federal retirement plan.

Web sites

Cato Institute's Social Security Calculator, (www.socialsecurity.org/calc/calculator.html).By using this calculator, compare your Social Security benefits to a portfolio of stocks, bonds and other investments over time. A useful tool for the layman.

Social Security Online (www.ssa.gov) General Information; (www.ssa.gov/policy/adcouncil_intro.html) 1994-1996 Advisory Council on Social Security.

The Pew Charitable Trust's "Americans Discuss Social Security." (www.americansdiscuss.org). Carries general policy information and polling data about public attitudes on reform.

Social Security

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that taxes are already so high on Social Security that it's become a bad deal for working people today."

Ferrara and other free-market thinkers believe the United States should follow the lead of Chile, which in 1981 set up individual accounts for its citizens. "Because of the private retirement system in Chile," says Ferrara, "The average Chilean worker today already has more savings than the American worker even though the average American worker earns seven times as much as the average Chilean worker."

He adds, "The only solution to the long-term bankruptcy problem is to allow people a private option." This would be of particular help to low-income and younger workers. It would also promote social equity by making them owners of the means of production and, by one count, add trillions to the nation's real economy.

Stephen J. Entin, Executive Director of the Institute for Research on the Economics of Taxation, points out that private IRAs represent a better deal for savers than does Social Security.

"The more you cut the system the better off you are because it's running a negative return or at least a return much lower than the private sector investments that we have as an alternative," Entin says.

But like Gramlich, Entin is concerned about private investment. As long as government continues to spend at current levels, it will continue to absorb saving at existing levels, whether or not people channel their saving to government through Social Security or through Individual Retirement Accounts. The real challenge is to cut federal spending, thus freeing up saving to flow away from government and into private investment.

"You can increase national saving if you can restrain the government from borrowing or taxing the money back," explains Entin. The reason is that "with real national saving going into real private investment, productivity goes up and wages go up and people are better off while they are working as well as when they are retired. With more output we can take care of the elderly without having to take output away from the younger generation. The elderly will live on savings that produce higher output. They are taking their share of the added production. They are not dipping into their kids' real income."

Identifying what he calls "political risks" associated with individual accounts, MIT's Peter Diamond thinks individual accounts don't solve the transition problem. Any dollar that goes into an individual account is a dollar that doesn't go into the trust fund. Thus, the financial problems of the unfunded obligation are exactly the same with individual accounts as without individual accounts.

He advises that emphasis on Social Security's rate of return is misplaced. One reason for the small return is "the fact that earlier beneficiaries of the system enjoyed higher rates." Had this been otherwise, the rate of poverty for the aged would have been dramatically increased and would have increased other federal spending on old age income support. "To compare the rate of return on a portfolio with the rate of return on your taxes is to compare apples and oranges," says Diamond. He also says that regulation of any privatized system would impose an enormous burden on government, requiring it to oversee millions of individual accounts.

This, however, presupposes a naivete on the part of savers that may be unjustified. "To hide behind the argument that investing in equities is 'too risky' is something from a bygone era," says John Gallahue, Jr., Executive Director of the MBTA Retirement Fund. "Those of us who have been in the pension industry have seen the benefits of investing in the equity markets."

Gallahue believes future retirees are wiser than experts think. "I can show you a lot of bus drivers that can give me a lesson on the stock market on a daily basis."

Tax credits

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It is not surprising, therefore, to learn that Massachusetts taxpayers are notoriously stingy. This October, the *Chronicle of Philanthropy* ranked Massachusetts 43rd among states in terms of per-capita giving. One reason for this dismal showing may be the lack of any state tax incentives to give to charity. Another may be that people in Massachusetts think that government will care for the poor.

The significance of this state of affairs lies in the arguable superiority of private charities over government in ending poverty. James Q. Wilson, the distinguished UCLA political scientist, points out that "private organizations do better than most government agencies at insisting on outcomes."

Sufficiently generous state tax incentives would permit nonprofit organizations eventually to assume most of the functions of state welfare departments. We have argued for tax credits that would permit taxpayers to reduce their state tax bills by all or part of their contributions to charities that help the poor.

Private charities, thus fueled by increased donations, would have the resources to help the poor. They would have the freedom to demand such accountability from recipients as they deemed appropriate. Donors could determine which nonprofit organizations were more effective in ending poverty. And the poor themselves would have a choice of charities to which they could go for assistance.

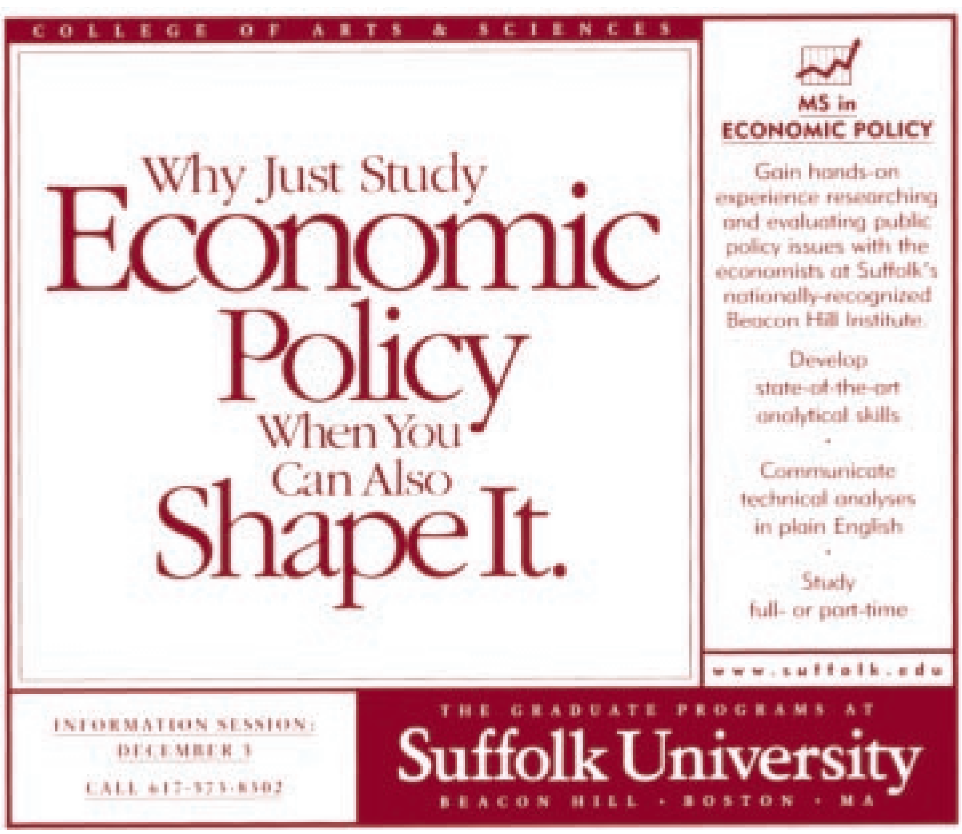
Why charitable tax credits?

Consider the problems faced by the poor in trying to find employment. A low-income single parent with school children has to worry not only about day care but also about what to do when food stamps run out or when the oil burner becomes empty. Moreover, since most of the new jobs are being created outside of the city, transportation is a major problem. Getting to work and trying to secure the job skills necessary for better employment is difficult.

Private charities are well suited to address problems such as these. A private charity could offer transportation, the use of a car or even car repair assistance to a client needing transportation. Private charities can tailor their methods and their services to the needs and resources of their individual clients.

Whether government can continue to assume care for the poor with its one-size-fits-all approach will be tested in the coming months when the fate of the nearly 6,000 families will be determined. If these families do not find work, the Massachusetts poverty rate, already on the upswing, will get worse.

Rather than debating the merits of Chapter 5, the Commonwealth's welfare reform law, Massachusetts should offer tax incentives that would allow citizens to "test-drive" their altruism on the nearly 6,000 households who will need to turn elsewhere than government for help.



BHI to offer policy experience to grad students

Coming in January, graduate economics students at Suffolk University will have the chance to gain on-the-job experience by serving as research assistants at the Beacon Hill Institute.

The Department of Economics will inaugurate its new Master of Science in Economic Policy (MSEP) degree program. The program provides the foundation for careers in government, public policy research or government relations. It provides the skills needed for government budgeting, tax-revenue forecasting, the regulation of public utilities, and the litigation of antitrust issues. Students develop skills useful for managing a government agency, providing in-house or consulting advice on public policy issues, representing clients in government hearings and preparing reports on public policy issues.

The degree requires completion of seven required courses, three elective courses and either a six-credit internship or the completion of a thesis. Limited financial aid is available to full-time students in the form of partial tuition scholarships and research assistantships.

BHI is located within the Department of Economics. For information, contact BHI at (617) 573-8750 or the Graduate Admission Office at (617) 573-8302.

Solow make workfare

Work and Welfare, by Robert M. Solow, Gertrude Himmelfarb, Anthony Lewis, Glenn C. Loury, and John E. Roemer. Edited by Amy Gutman, Princeton University Press, 1998, 100 pages. **Reviewed by Frank Conte**

Two years after its passage, the Personal Responsibility and Work Opportunity Act is credited with achieving what President Clinton has called "the biggest drop in welfare rolls in history." Underscoring the landmark legislation that ended a federal entitlement and turned power over to the states, the President also said, "The fundamental issue is that we've reduced the welfare rolls by 3.8 million."

The numbers are certainly impressive – prompting governors in state capitals from Boston to Sacramento to declare victory. As the initial time limits go into effect, most states are in solid shape, thanks partly to a sound economy and partly to the new ability to ease people off welfare and into work.

Nonetheless, welfare reform has its critics. Some oppose it on ideological grounds, while others argue that the early success of welfare reform will evaporate with the first recession. Still others worry about compassion fatigue, the "mean-spiritedness" of workfare, the persistent poverty of the urban underclass, the emphasis on single mothers, the lack of job training, and the rigidity of time limits. In addition, they fault the inability of state welfare officials to track former recipients effectively.

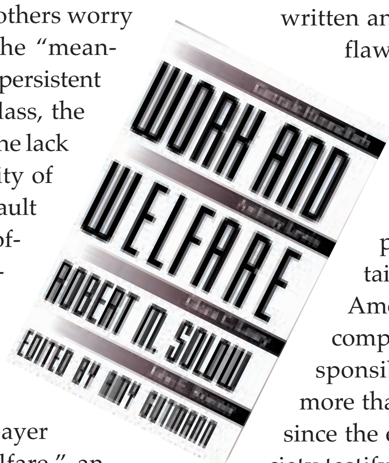
Given the temper of the times, critics acknowledge that welfare has been a bad deal for both taxpayer and recipients. "I hate welfare," announced Peter Edelman, in his March 1997 *Atlantic Monthly* piece that predicted "serious injury to America children, who should not have had to suffer from our national backlash."

According to public opinion, workfare is a success, ratifying the end of the age of the entitlement. But public opinion, lower caseloads and tough love are not enough, say the critics. There is something fundamentally wrong in our expectations about welfare and workfare, and we will rue the day when welfare reform will lead us into an existential blindness on the human condition.

Like Edelman, Nobel Laureate Robert M. Solow of the Massachusetts Institute of Technology has a deep disdain for the welfare reform act. "I cannot bear to write down the fatuous title that Congress gave [the welfare reform act]," he writes in *Work and Welfare*, a slim but heady compilation of two recently delivered Tanner Lectures.

Amy Gutmann, the Tanner Lecture series editor, brought four scholars together with Solow: neoconservative historian Gertrude Himmelfarb, *New York Times* columnist and legal scholar Anthony Lewis and economists Glenn Loury and John Roemer.

Like Edelman, Solow refuses to believe that welfare reform, as currently packaged, can work. Solow believes that recipients should work for benefits but not as required under existing workfare rules. "Fair workfare," as he calls it, would be more generous, more accommodating, more genuine in terms of democratic spirit, and gratifying for both taxpayer and recipient, who are mutually dependent.



With *Work and Welfare*, Solow has written an intriguing but fabulously flawed book about ethics and economics. There may be those who find themselves reluctant to disagree with a Nobel laureate on matters of public policy. But this book is certainly open to much criticism. Americans have long balanced compassion and demands for responsibility. And the results of more than $5.4 trillion in spending since the early days of the Great Society testify to government failure.

Operating from the premise that a fully functioning labor market will not provide jobs for people with low skills, Solow says that we cannot expect welfare recipients to find jobs that pay a living wage. Such jobs are just not there.

Roemer's model tends to support Solow's. Welfare recipients make tradeoffs when considering a move to the job market. Indeed, they face high marginal costs such as child care and transportation. A low-wage worker will take a job only if his or her after-tax wage earnings exceed the welfare benefit. Moreover, flooding the market with low-wage workers will eventually dampen the wages of other low-income workers.

However, any discussion of welfare reform, workfare and employment goes hand in hand with a discussion of the culture of poverty. Welfare erodes moral virtue, as Himmelfarb notes. The Victorians carefully differentiated between the deserving poor and the undeserving poor, a habit of thinking we should perhaps revisit, according to Himmelfarb.

Loury points out that the culture of poverty has created an underclass unfit to work. Holding the poor to some modicum of responsibility is not class warfare. But not to Solow, who says simply that "it will do no good to tell the same people that they should become fit for work when there are no jobs to be had."

Solow dismisses the distinction frequently made between ordinary disabilities and "socio-economic disabilities." While the public recognizes ordinary disabilities as legitimate, "apparently, socio-economic disabilities do not count." But Solow's thinking is an affront to common sense. The private generosity of Americans in helping the poor is legend; few nations come close. Americans sensibly believe that, with some help, most people can overcome "socio-economic disabilities."

Most troubling is Solow's dismissal of private-sector charities as an instrument for helping the poor. If policymakers should be directed toward "conserving altruism," they might, as we have often argued, consider offering tax incentives for contributing to private charities that help the poor.

But Solow would, apparently, have none of that. "If the answer is that [the poor] were to be left to private charity, then I have to say that I much prefer some collective provision … Servility and gratitude toward one's betters is not my idea of propriety in a democracy."

It is ironic that Solow's idea of propriety is to sustain a welfare state that has imprisoned generations of the poor in a trap far worse than any Victorian poorhouse he could imagine.

In Point of Fact

And now, the 'mass upper class' First, the U.S. economy created a stable working class. Then, after World War II came the mass middle class. Now comes what some observers are calling the world's first "mass upper class." These are Americans who are comfortable, but not rich. They earn at least $100,000 a year - and they spend on waterfront vacations, expensive sport-utility vehicles and houses bigger than their parents had. Notwithstanding downdrafts on Wall Street and chill deflationary winds from Asia, America's mass upper class is probably here to stay - a permanent stratum of the economic bedrock that has continued to grow in size and influence.
Nando Times, October 1998.

Lower taxes are just a cell phone call away.
Swedish telecom giant Telefon AB L.M. Ericsson said it signed a letter of interest to acquire an office building in London, raising the likelihood that it will move its headquarters away from Sweden. The Swedish government says it refuses to lower tax rates to accommodate large companies' recruitment problems and says that Ericsson should raise salaries instead. In recent years, Ericsson has threatened loudly and repeatedly to move its headquarters away from Sweden because the country's high income taxes make it hard to recruit foreign talent. Several other Swedish companies have already outsourced part of their operations to countries with more favorable tax rates.
Almar Latour, ***Wall Street Journal,*** August 24, 1998.

Taxes do matter at the margin and over the border.
Canadian business leaders were told recently that the tax system is robbing them of more than incentives, profits and competitive advantages: It's robbing them of the brains of their operations. Peter Harris, chair of the Canadian Chamber of Commerce tax committee, told the chamber that Canada is losing ground against countries like the United States, where lower taxes lure businesses and people to locate. "The highest marginal individual tax rate in Canada, which is about 52% -53%, is reached when a person hits $59,000 taxable income," said Harris. He said lower tax rates in the United States mean more people have more money to spend. That is one of the reasons Canada is losing a growing number of what he called "its best and brightest."
Montreal Gazette, September 5, 1998.

The Internet big bang! How big? Very big!
John Chambers, Cisco Systems Inc.'s chief executive, whose company is the leading maker of Internet equipment, estimates that between $1 trillion to $2 trillion worth of goods and services will be sold on the Net by 2002. Although sales between businesses will dominate electronic commerce in the near term, Chambers says that by 2002 consumer-oriented business will represent 50% of the Internet economy.
Eric Auchard, **Reuters/Wired,** October 1998.

More Americans joining ranks of wealthy, IRS says.
The number of taxpayers who reported an adjusted gross income of $200,000 or more reached nearly 1.3 million in 1995, the most recent year available, according to IRS figures released recently. That was an increase of 14% from the year before. In all, returns from the wealthiest segment of the population amounted to only about 1.1% of total tax returns that year, but they paid $182.5 billion in federal taxes.
Curt Anderson, **Associated Press,** October 1, 1998.

Beacon Hill Institute
Suffolk University
8 Ashburton Place
Boston, MA 02108-2770