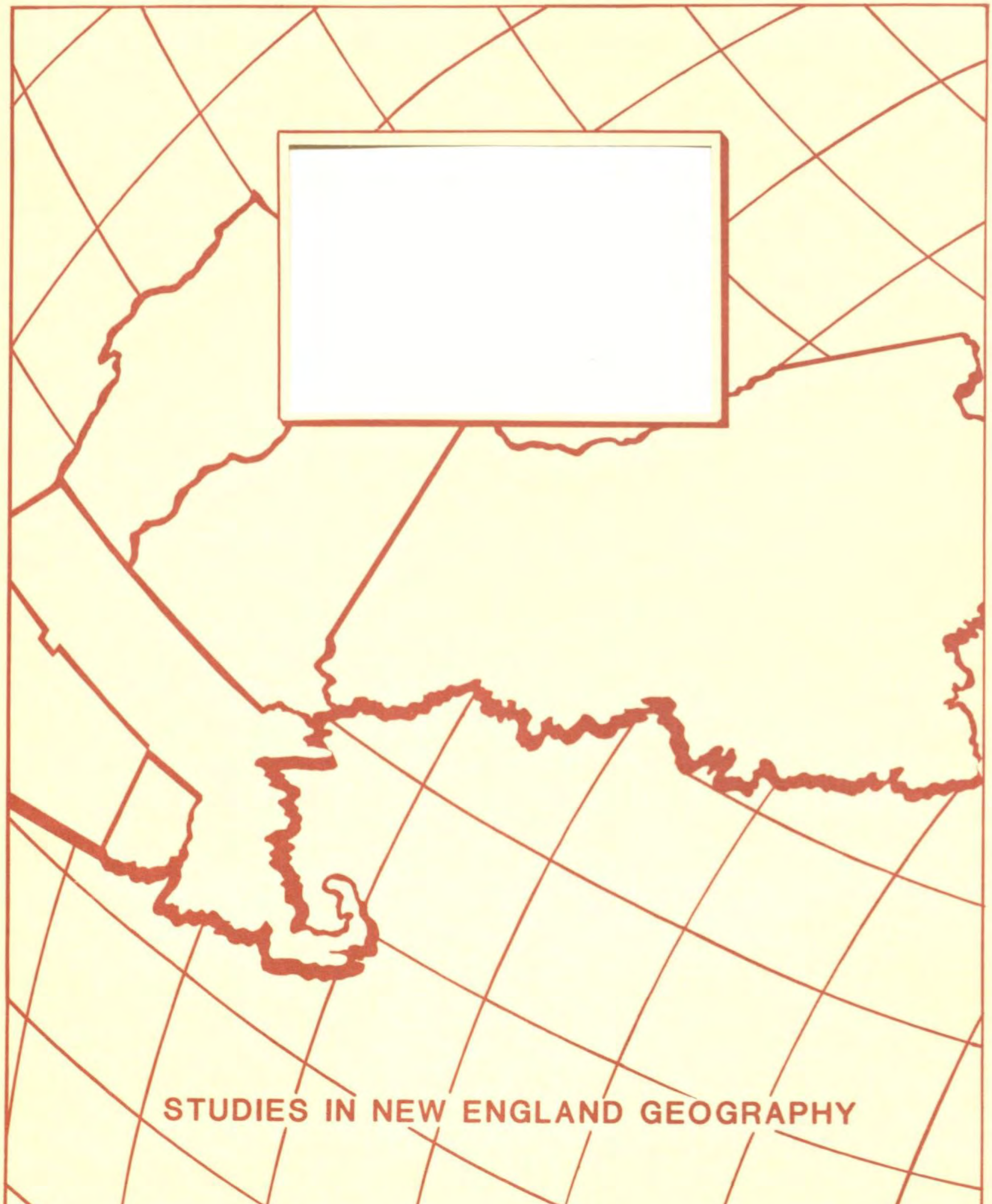

STUDIES IN NEW ENGLAND GEOGRAPHY

Keene State College

ECONOMIC DEVELOPMENT IN NEW HAMPSHIRE: PAST PERFORMANCE AND CONCERN FOR THE FUTURE

Thomas E. Duston
Keene State College

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A. L. Rydant, Editor
Geography Department
Keene State College
Keene, New Hampshire 03431
(603) 358-2508

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T. E. D.

INTRODUCTION

As part of the University System of New Hampshire's 25th Anniversary celebration several studies were commissioned, each focusing on a different aspect of the state's recent history. This paper is an expansion of the economics study and examines the twenty-five years from 1963-88.

The economy of the state of New Hampshire was somewhat unique during this period, growing at a rate not only above the national average, but in fact, being one of the highest in the country. It is of interest why this should be so, with a number of observers pointing to New Hampshire's success being due to its status as the only state without an income or sales tax. This of course will be considered in this paper.

The primary purpose here, however, is to identify and evaluate the <u>various sources</u> of New Hampshire's economic growth. A further objective is to speculate on whether these same sources will be available in the future and, if appropriate, evaluate state fiscal policies with regard to their likely impact on this future growth.

THE PAST TWENTY-FIVE YEARS IN THE NEW HAMPSHIRE ECONOMY

A review of the standard measures of economic performance will demonstrate that, with the exception of the oil crisis of the mid-1970s, New Hampshire has faired well economically during the last several decades. Tables 1 through 4 compare unemployment rates, per capita income, output per capita, and population increase to corresponding data for other New England states and the United States.

TABLE 1
Unemployment Rates for Selected New England States and The United States
1968*, 1975, 1980, 1986 (Percent)

Political Unit	1968	1975	1980	1986
United States	3.6	8.5	7.1	7.0
New Hampshire	1.8	9.1	4.7	2.8
Massachusetts	4.1	11.2	5.6	3.8
Connecticut	3.7	9.1	5.9	3.8
Vermont	3.6	9.4	6.4	4.7

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1970 (p. 217), 1977 (p. 396), 1989 (p. 396)

* State data prior to 1968 unavailable

TABLE 2
Personal Income Per Capita, National Ranking for New England States
1950, 1969, and 1986

Political Unit	1950	1969	1986
Maine	39	37	33
New Hampshire	33	25	8
Vermont	40	31	29
Massachusetts	11	8	4
Rhode Island	19	14	20
Connecticut	4	1	1

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1960 (p. 312), 1970 (p. 320), 1988 (p. 417)

TABLE 3
Increase in Output per Capita
for New England States and The United States, 1969 - 1983

Political Unit	Average Percent Increase, 1969 - 1983
United States	1.0
New England	1.9
Maine	1.4
New Hampshire	2.4
Vermont	1.0
Massachusetts	2.0
Rhode Island	1.6
Connecticut	2.2

SOURCE: Federal Reserve Bank of Boston (2, p. 4-5) [2]

TABLE 4
Population Increase
New England States and The United States, 1950 - 1986

Political Unit	1950 - 60 % Increase	1960 - 70 % Increase	1970 - 80 % Increase	1980 - 86 % Increase
United States	18.5	13.4	11.4	6.4
Maine	6.1	2.6	13.2	4.3
New Hampshire	13.8	21.6	24.8	11.5
Vermont	3.2	14.1	15.0	5.8
Massachusetts	9.8	10.5	0.8	1.7
Rhode Island	8.5	10.6	-0.3	2.9
Connecticut	26.3	19.6	2.5	2.6

SOURCE: STATISTICAL ABSTRACT OF THE UNITED STATES, 1988 (p. 19)

Although these tables do not present a complete historical record, they do provide an overall picture, one that strongly suggests a successful economy. Compare, for example, New Hampshire's unemployment rate with that of the United States (Table 1), chart the state's steadily improving ranking in per capita income (Table 2), observe its increased output per capita relative to that of the United States (Table 3), and note New Hampshire's strong population increase (Table 4). What conditions have caused this growth? Do similar conditions still exist? In what way has state government been involved in the past in influencing these trends, and how might it be involved in the future?

The following sections will attempt to answer these questions by addressing three issues: (1) the sources of economic growth in New Hampshire during the past 25 years and the particular role of each identified source, (2) the current state of the New Hampshire economy, including some observations about the future effects of the sources noted in Section I, and (3) the role of the state government in impacting the state's economic future.

I. SOURCES OF GROWTH

Economic theory suggests that the following factors are fairly typical sources of growth for a state:

Positive Regional Developments - New Hampshire is not Texas or California; it is a small state, and its development must be explained in a regional context.

Low Taxes - According to the media, business, and political commentators, New Hampshire's "success" can be attributed to its low overall state/local tax burden.

Low Labor Costs - Wages and salaries make up the largest share of the cost of doing business for most firms.

High Labor Availability - Strong growth in output over a period of years requires a steadily increasing labor force.

Desirable Living Conditions - Economists tend to mention "desirable living conditions," but they rarely try to incorporate this variable in their analyses. (The census data do not provide a quick and easy measure for it.)

Regional Influences - The term "regional influences" does not refer to regional developments. Regional influences are factors that contribute to the growth of a "particular part" of a region; in this case, the particular part of the region (New England) is a state (New Hampshire).

Other Factors - There are other sources of growth. For example, the Grant-Thornton Business Climate Index suggests that low unionization and low average unemployment compensation are positive values [3], and New Hampshire does "well" according to these measures. However, the Corporation for Enterprise Development contends that the importance of such factors should be minimized [4].

Each of these parameters will be examined now in greater detail as a basis for our examination of the current state of affairs in New Hampshire.

POSITIVE REGIONAL DEVELOPMENTS

New England, as a region, has recently enjoyed a period of considerable economic success. A number of measures can be used to demonstrate this progress. For example, how does the personal income of New England residents compare to personal income in the rest of the country? Table 2 demonstrates that New Hampshire's improvement in per capita income has indeed been impressive, rising from 33rd to 8th position since 1950; however, five of the six states in the region also showed a steady and significant improvement in ranking between 1969 and 1986. The average ranking for the New England states improved measurably from 24 in 1950 to 16 in 1986.

Although New Hampshire has had the lowest unemployment rate in the country in recent years, neighboring Massachusetts and Vermont have also had low rates. Massachusetts continues (to early 1989) to have the lowest unemployment rate among industrialized states, and given its diverse population, this is certainly an impressive performance. And it should also be noted that New Hampshire lost the low unemployment crown to Vermont during the third quarter of 1988. In other words, New Hampshire has grown and developed, but it has done so in the midst of a region that has also prospered.

LOW TAXES

"New Hampshire has been the bow of the ship of the nation, establishing with tremendous credibility the fact that if you maintain a low tax burden on your people, you maintain a productive and prosperous people" [5, p. 12]. So said New Hampshire Governor Judd Gregg in 1988 who is probably also speaking for the large majority of citizens in the state when he says that the source of New Hampshire's success is its low "tax burden." There is no question that non-federal taxes are relatively low in New Hampshire. The most recent year for which reliable data are available is 1985, and in that year the state ranked 41st in the country in per capita state and local taxes [1]. The real question, whether the level of state and local taxes is related to the degree of a state's economic success, has been evaluated by the Corporation for Enterprise Development (a business think-tank) in its recently published study "The Role of Taxation in State Business Climate" [6]. The report is a summary of most of the major studies on the subject of taxes and business climate. The Corporation determined that "the weight of evidence lends support to the conclusion that state and local taxes are not a major influence on state economic growth" [6, p.47].

As a simple empirical test of the low tax thesis, one can look at other low-tax states to see if they also have been successful. The data needed to test this proposition are presented in Table 5, which compares state rank on tax burden to state rank on per capita income. Does a low tax burden lead to economic success (high per capita income)? In fact, just the opposite appears true. With the exception of New Hampshire, all of the states with low tax "burdens" perform very poorly. Even including the two "outlyers," New Hampshire and Wyoming, the average success rank of the "high tax" states is 12, and the average success rank of the "low tax" states is 42! Although New Hampshire has performed well, it seems clear from these data that it has done so not <u>because</u> of low taxes but <u>in spite of</u> low taxes.

By examining only the tax side of government, one ignores those items upon which government spends its tax revenues (health care, education, airports, and so forth) and how these expenditures can have a positive influence on a state's development (as they seem to have had in the high-tax, high-ranked states).

TABLE 5

Tax Burden versus Per Capita Income

National Ranking of Selected States, 1986

"High-Tax" States	Tax Burden Rank (1 = highest)	Per Capita Income Rank* (1 = highest)	
Alaska	1	3	
Wyoming	2	34	
New York	3	5	
Connecticut	4	1	Mean = 12
Massachusetts	5	4	
New Jersey	6	2	
Hawaii	7	16	
Maryland	8	7	
Wisconsin	9	23	
California	10	6	
Minnesota	11	15	
"Low-Tax" States			
North Carolina	40	36	
New Hampshire	41	8	
Missouri	42	24	
South Dakota	43	39	
South Carolina	44	43	Mean = 42
Kentucky	45	44	
Tennessee	46	38	
Idaho	47	45	
Alabama	48	42	
Arkansas	49	47	
Mississippi	50	50	

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1988 (p. xxiv), 1989 (p. 274)

* Even after correcting for the effect of the tax differential on income, the typical state in the group of "high-tax" states had a per capita income that was at least several thousand dollars more than the typical state in the group of "low-tax" states.

New Hampshire's growth path is not unrelated to its tax structure. For example, the significant migration of population into the state since 1960 (see Table 7), which is an important source of educated labor, might reflect the appeal of low taxes. Also, the retail sales sector is positively influenced in a state that has no sales tax. However, despite this influence of the tax structure, there is little evidence to suggest that the New Hampshire experience establishes, in Mr. Gregg's words, "with tremendous credibility the fact that if you maintain a low tax burden on your people, you maintain a productive and prosperous people" [5, p. 12].

LOW LABOR COSTS

The New England economy continued its long-term decline in the traditional industries of textiles and leather products in the immediate post-WWII period. One result was an underemployed but factory-skilled labor force. Among other things, the low demand for labor led to manufacturing wages in New Hampshire that were only 70 percent of the national average [1]. Low wages were a leading cause of the economic resurgence, both in New Hampshire and in New England, during the past three decades.

New Hampshire's low wage advantage in manufacturing, however, has been reduced somewhat in recent years, such that its average hourly wage is now only about 10 percent below the national average [1]. It can be argued, of course, that manufacturing wages are not a good indicator of labor costs, because manufacturing employees have declined considerably as a percentage of the total labor force, i.e., from 44 percent in 1958 to only 24 percent in 1986 (Table 6). In fact, only one of every four workers in New Hampshire was in manufacturing in 1986, and therefore, the impact of manufacturing wages on the overall labor market probably has diminished. (Note, however, that although the share of the labor force in manufacturing has fallen considerably, increasing productivity has allowed this sector to maintain its share of output.)

On the other hand, the cost of living is relatively high in New Hampshire. Manchester, the state's primary urban area, ranks 5th in the nation in the most-expensive-city-per-state comparison [1]. This suggests a low real wage and hence an attractive place for firms to locate and expand. It is interesting to speculate on why manufacturing wages remain low in the face of a brisk demand for labor (see Table 1) and a high cost of living. The following discussion of population in-migration suggests a plausible answer, that is, a constantly increasing supply of labor.

It is often suggested that these "in-migration" figures represent people who retire and move north, and that these people do not contribute to the labor force. The age distribution of the population in New Hampshire over the years in question was analyzed to test this notion and to see whether the percent in the over-65 group has increased in New Hampshire. In fact, that particular grouping has stayed constant at 11 percent of the population, while the national percentage of those over 65 has increased from 10 percent in 1950 to an estimated 14 percent in 1990 (Table 8). The population in the lower ages was also examined to determine whether New Hampshire's in-migration numbers reflect mainly families with children. New Hampshire seems to be following the national trend -- in 1958 the U.S. percentage under 17 was 36 and New Hampshire's was 34; in 1990 the United States is projected to have 26 percent of the population in this age group, and New Hampshire's projection is 25 percent. These data indicate that the large majority of people who migrated to New Hampshire in the past thirty years are not children and young adults (the percentage of the population in the 0 - 17 age group has, in fact, fallen), and clearly they are not over 65 (that group has not risen commensurate with the national average). The majority of new residents in New Hampshire are in their middle years, the years of greatest productivity. They are more likely to be highly educated, as they probably come from states with a very highly educated populace (Massachusetts and Connecticut), and they obviously have been an important ingredient in New Hampshire's success; that is, they have provided an educated labor force and, by their numbers, have kept wages relatively low.

HIGH LABOR AVAILABILITY

New Hampshire's economic prosperity has been fueled by a significant increase in its labor force. From 1960 to 1986 the labor force in New Hampshire grew by about 70 percent. The question is, from where did all these workers come? The "natural increase" in population over this period accounted for only about 40 percent of the increase; the remaining 60 percent was a result of in-migration, probably from Massachusetts, with Connecticut a distant second. Supporting data is evident in Table 7 which shows migration and natural increase in New Hampshire, Massachusetts, and Connecticut from 1950-86.

TABLE 6
Manufacturing Employment as a Percent of the Labor Force for Selected New England States and The United States

Political Unit	1958	1969	1986
United States	30.6	28.7	19.1
New Hampshire	44.3	38.0	24.1
Vermont	33.5	30.3	21.4
Massachusetts	36.8	30.5	20.8
Connecticut	44.8	39.7	24.7

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1960 (p. 213), 1970 (p. 219), 1988 (p. 386)

TABLE 7
Migration and Population Change in Selected New England States, 1950 - 1986

Event	New Hampshire	Massachusetts	Connecticut
1950-59 Migration	-1,000	-242,000	+119,000
1950-59 Natural Increase	+50,000	+451,000	+237,000
1960-69 Migration	+44,000	-113,000	+184,000
1960-69 Natural Increase	+52,000	+403,000	+241,000
1970-79 Migration	+117,000	-263,000	-121,000
1970-79 Natural Increase	+66,000	+311,000	+196,000
1980-86 Migration	+67,000	-45,000	-6,000
1980-86 Natural Increase	+39,000	+140,000	+87,000

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1961 (p. 11), 1971 (p. 11), 1980 (p. 13), 1988 (p. 21)

REGIONAL INFLUENCES

Some of the links between the New Hampshire economy and other economies in the region, particularly Massachusetts, have already been mentioned. New Hampshire provides manufactured goods for, among other places, the Boston region; Boston, the rest of Massachusetts, and states to the south provide customers for New Hampshire retail outlets; New Hampshire provides recreational services, and the other areas have provided a significant portion of the labor force that has fueled New Hampshire's recent growth.

There are other connections also. In 1984 the New Hampshire Department of Resources and Economic Development (DRED) studied New Hampshire's most successful New Hampshire-based companies. One of the major findings of this study was that 60 percent of the larger companies (those with more than 200 employees) used Boston as their primary source of finance capital for growth [8, p.viii]. Again, it is important to note that these were fast-growing, New Hampshire-based companies, not subsidiaries of out-of-state firms. Another interesting regional connection involves the number of people who live in New Hampshire but work in Massachusetts. Discussions with the chief statistician of the Massachusetts Department of Revenue revealed that as of 1985, about 50,000 New Hampshire residents filed tax returns in Massachusetts. This represents more than 10 percent of the total number of employed people in New Hampshire. Both their per capita income and their zero unemployment rate are counted in New Hampshire.

Why has New Hampshire been successful while the other states with low tax ranking (Table 5) have not been as successful? Perhaps the many links that occur among the states in the region (particularly those with Massachusetts) offer the best explanation.

TABLE 8
Percentage in <18 and >65 Age Groups
for Selected New England States and The United States, 1958 and 1990

	U.S.	New Hampshire	Massachusetts	Connecticut
<18 for 1958	36	34	33	33
>65 for 1958	10	11	11	9
<18 for 1990 (est.)	26	24	22	23
>65 for 1990 (est.)	14	11	14	14

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1960 (p. 25), 1988 (p. 22)

DESIRABLE LIVING CONDITIONS

In New Hampshire, Crosscurrents in Its Development, Heffernan and Stecker identify the primary assets New Hampshire had available for its post-war expansion -- its proximity to eastern population centers, its reliable work force, its rural character, and its natural beauty [7]. In a study of the finance needs of New Hampshire-based growth companies, the New Hampshire Department of Growth and Development discovered that "living environment" was the most important reason why firms located in New Hampshire [8, p.viii]. In its state development report card, the Corporation for Enterprise Development listed New Hampshire as 6th in the nation in tourism spending per capita [9].

New Hampshire's physical attributes, variously described as natural beauty, rural character, recreational amenities, and so forth, present a real and significant drawing card to new firms, new citizens, and tourists. All of these have contributed greatly to New Hampshire's recent success, and the importance of "desirable living conditions," although difficult to measure, cannot be ignored.

TABLE 9

Percent of Labor Force in Different Sectors
for Selected New England States and The United States
1958, 1969, 1979, 1986

	Political Unit	Manufacturing Sector	Wholesale and Retail Sales	Services Sector	Gov't. Sector	Other Sectors
1958	United States	30.6	22.1	12.7	15.6	19.0
	New Hampshire	44.3	17.5	11.8	11.9	14.5
	Vermont	33.5	18.9	15.0	14.9	17.7
	Massachusetts	36.8	20.7	14.0	13.0	15.5
	Connecticut	44.8	17.4	11.3	10.2	16.3
1969	United States	28.7	20.9	15.8	17.4	17.2
	New Hampshire	38.0	19.0	15.9	13.6	13.5
	Vermont	30.3	18.6	18.6	16.6	15.9
	Massachusetts	30.5	21.2	20.2	13.2	14.9
	Connecticut	39.7	18.2	14.6	12.4	15.1
1979	United States	23.0	22.0	19.0	17.0	19.0
	New Hampshire	30.0	22.0	18.0	15.0	15.0
	Vermont	25.0	20.0	21.0	18.0	16.0
	Massachusetts	25.0	21.0	22.0	16.0	16.0
	Connecticut	31.0	21.0	19.0	12.0	17.0
1986	United States	19.1	23.7	23.2	16.8	17.2
	New Hampshire	24.1	24.7	22.1	12.7	16.4
	Vermont	21.4	22.6	24.4	16.2	15.4
	Massachusetts	20.8	23.6	27.5	13.0	15.1
	Connecticut	24.7	22.3	23.2	12.2	17.6

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1960 (p. 213), 1970 (p. 219), 1980 (p. 412), 1988 (p. 386)

II. NEW HAMPSHIRE: THE CURRENT STATE OF AFFAIRS

THE CHANGING MIX OF EMPLOYMENT

MANUFACTURING VERSUS SERVICES AND SALES

What changes have occurred in the employment picture over the past several decades, and what is the current employment mix? Is New Hampshire similar to other states in the region and to the United States? Table 9 shows the percent of the labor force in each of the major employment sectors for four New England states and the United States from 1958 to 1986. Of interest is the fact that both the New England region in general, and New Hampshire in particular, continue to have a larger share of their labor force in manufacturing than does the nation overall, although the value is declining. In New Hampshire, for example, 44.3 percent of the labor force was in manufacturing in 1958, compared to a national average of almost 31 percent; by 1986 this had fallen to 24.1 percent in New Hampshire while the national average fell to 19.1 percent. There is no question that manufacturing continues to be a major source of growth in New Hampshire, producing 38 percent of the state's output in 1969 and 36 percent in 1983 [1; 2]. The increase in productivity, however, in the manufacturing sector was such that it almost offset the continually declining portion of the labor force in that sector. As a point of interest, New Hampshire's three major manufacturing sub-sectors in 1986 were non-electrical machinery, electrical machinery and paper products. The only change since 1972 was that paper replaced leather for third place. In Massachusetts in 1986, the three most significant sub-sectors were the same as in New Hampshire, except "instruments" replaced paper in third place. In Connecticut the most significant manufactured product, not surprisingly, is transportation equipment [1].

WHOLESALE AND RETAIL SALES

Most national employment growth has occurred in two sectors of the economy -- service and sales. Table 10 breaks sales down into retail and wholesale and compares New Hampshire's experience with that of surrounding states and the United States (see also Table 9). As can be seen from the data, New Hampshire's retail sales continue to be a much larger portion of total sales when compared with the national average or the other most successful states in the region. This ought to concern New Hampshire policy makers, because retail sales are generally low-wage, more peripheral-type activities, whereas in wholesale trade, labor is much more productive, and it is usually characteristic of a regional center-type state economy.

TABLE 10
The Ratio of Wholesale to Retail Sales
for The United States, New Hampshire, Massachusetts and Connecticut
1958 - 82*

Political Unit	1958	1963	1967	1977	1982
United States	1.41	1.54	1.48	1.74	1.92
New Hampshire	0.60	0.60	0.58	0.59	0.79
Massachusetts	1.35	1.46	1.44	1.64	1.76
Connecticut	0.83	0.93	0.93	1.85	2.11

SOURCES: STATISTICAL ABSTRACT OF THE UNITED STATES, 1960 (p. 212), 1964 (p. 224), 1968 (p. 220), 1977 (p. 413), 1984 (p. 426)

* More recent employment data broken down by sub-category in the service sector is incomplete.

A DECLINING "QUALITY OF LIFE"

In 1960 the population of New Hampshire was 607,000; in 1990 it is estimated to be about 1.1 million [1]. This doubling in just three decades and its resulting new highways, housing developments, and retail outlets, the growth-enhancing role of what Heffernan and Stecker called New Hampshire's "rural character" will continue to diminish. Increasing traffic congestion in North Conway, Franconia Notch, and among commuters in the southern tier will only get worse. Eventually the traffic congestion will become self-defeating, as it will seriously impede two of the cornerstones of the New Hampshire economy, retailing and tourism.

Like most other states, New Hampshire is confronted with substantial quantities of solid waste and limited disposal options. This problem is compounded in New Hampshire because it is importing 25 percent of its solid waste [10]. It is tied for 2nd place with New Jersey for the most Superfund sites per capita and, according to the EPA, it ranks 50th in the country in adequate sewage disposal facilities [9].

WHERE IS THE LABOR FORCE FOR THE 1990s?

New Hampshire's economy is at a crucial point. Will it maintain its traditional manufacturing base with a high-tech adaptation, or will it continue to slide following the familiar regional shift toward the retail sales/services sectors? In either case major labor supply problems exist. According to U.S. Census data [1] New Hampshire already has one of the lowest unemployment rates in the country, one of the greatest overall labor force participation rates, one of the highest costs of living, and the greatest per capita property taxes. Is there a source of workers for the relatively low-wage retail sales and service industries? Most secondary workers are already employed, and potential new workers cannot afford the housing/property tax burden without wages far in excess of what is paid in the retail sales/services sector.

Most of the same employment data are relevant when considering the possibility that the manufacturing sector will maintain its traditional importance. Individuals who gain the most "tax-wise" by moving to New Hampshire from (say) Massachusetts are those who are already in the upper income brackets. Most of these individuals hold high-paying jobs in Massachusetts and will continue to work there. In other words, the diminution of the New Hampshire tax advantage for young, educated people will tend to "dry up" the immigration of potentially highly productive young workers who move to New Hampshire to initiate a career. They could do as well by staying in Massachusetts or Connecticut because of the higher wages in those states and New Hampshire's now higher property tax; the two tend to balance out and, thereby, eliminate any financial incentive for relocation. Moreover, the New Hampshire educational system, as currently funded, is unlikely to be able to respond adequately to growth pressures. New Hampshire has a relatively low high school completion rate (in 1986 it ranked 22nd in the United States, among the lowest for non-minority states [9]), and has the smallest percent (in New England) of high school graduates going on to higher education [1]. State policy makers in New Hampshire have never assigned a high priority to public education -- in 1987, 44 states had higher average teacher salaries in elementary and secondary education, and 48 states had a greater per student state payment for higher education [1].

THE SEABROOK STRAIGHTJACKET

In the face of opposition by a large majority of both citizens and the scientific community, and an almost total rejection of nuclear power by the institutions of the free market, the New Hampshire political establishment has for the first time expressed ambivalence about "Seabrook Station." New Hampshire's long-standing commitment to one giant energy source, regardless of its final resolution, has precluded any significant comprehensive energy planning for at least the last ten years. With start-up the utility rates needed to cover construction costs of the plant are likely to be a major drag on the New Hampshire economy. Manufacturing cost increases from this inflationary burst could very well lead to a repeat of the "energy recession" of the mid-1970s [11].

THE NEW HAMPSHIRE TAX STRUCTURE

New Hampshire has a somewhat unique state tax structure, having neither a general sales tax nor a broad-based income tax. Table 11 lists the primary sources of tax revenue for the New Hampshire state government.

TABLE 11
New Hampshire Tax Revenue Sources (1988, million $s)

Tax	Value
Business Profits	$138.4
Meals and Rooms	76.4
Real Estate Transfer	35.7
Tobacco	31.8
Interest and Dividends*	30.0
Inheritance	20.4
Telephone and Railroad Company	9.7
Savings Bank	8.8
Miscellaneous	7.6
Property Appraisals	0.3
Totals	359.1

SOURCE: New Hampshire Department of Revenue Administration, 1989

* Only the interest from banks outside New Hampshire and Vermont is subject to the interest portion of the Interest and Dividends Tax.

Two aspects of this tax structure have profound implications for future growth and development:

(1) Without a broad-based tax, state revenues are both low and unbalanced. In the United States, the average revenue per capita from state taxes is $946. In New Hampshire the figure is $471, ranking it 50th [1]. On the question of balance, defined by the Corporation for Resource Development as "...all taxes taken together help insulate revenues from recession and economic shocks" [9, p.74], New Hampshire was recently ranked 50th in the country [9, p.88].

(2) Communities must bear most of the burden for local services such as education and waste disposal. Since significant income differences exist from town to town, and because the state has little money for "equalizing," a large variation is present in the provision of these public services. Quoting again from The 1988 Development Report Card for the States, New Hampshire is ranked 50th in "...policies to promote equal fiscal capacity among local governments (that are) essential to a sound business climate" [9, p.75].

The basis for the tax structure in New Hampshire is "the pledge," a traditional ceremony whereby any aspiring politician must stand up and pledge "no broad-based taxes." As long as this is the key to election, the financial burden of crucial public services will continue to fall on local communities in New Hampshire and will, therefore, continue to be offered inequitably.

III. A GROWTH AGENDA FOR THE FUTURE: HUMAN RESOURCE DEVELOPMENT, CONCERN FOR THE ENVIRONMENT, AND TAX REFORM

What are the future prospects for growth and development in New Hampshire? With the migration rate into New Hampshire falling, and with the continuing rise in property taxes tending to increase the share of the "immigrants" who earn higher income and work in Massachusetts, the problem of developing an educated professional/technical/managerial labor pool for the 1990s will become acute. The burden for this will fall heavily on the public education system; under its current constraints it is unlikely to be able to even address, much less accomplish, such a task. It is politically convenient to dismiss concerns about public education -- one hears references to the high average SAT scores in New Hampshire and to the fact that New Hampshire residents want to have local control of education. There are, however, serious problems with both propositions. According to the U.S. Census Bureau, New Hampshire has the highest high school drop-out rate of any of the "rural" states in the country [1]; this, of course, means that only the better students are left to take the SAT. With regard to local control, consider the point made during the most recent election -- only the <u>cost</u> of education is borne locally; what is taught, how it is taught, and what kinds of people do the teaching, is dictated, but not funded, by the state. The University System of New Hampshire receives less than 1/3 of its operating funds from the state, and high school graduates face an in-state college tuition rate that is close to the highest in the country. It is not surprising that a low proportion of high school graduates go on to public higher education. It appears that the situation with regard to education-related human resource availability in the 1990s may be described as follows: Without a top-to-bottom financial restructuring, the public school system in New Hampshire, with its large cadre of dedicated teachers, will not be able to fill the labor market gap caused by the diminished in-migration of young professional/technical/managerial people. No one can argue realistically that retail sales and tourism are the means for providing high-quality jobs for a state's citizens.

With respect to the six sources of growth for New Hampshire that were described in Section I, several observations are pertinent here. First, the continuing availability of low labor costs, attractive living environment, and an expanding pool of skilled labor is in doubt. Second, recent evidence suggests that the fourth (low taxes) is not as important as previously thought, and finally, the last two (regional economic growth and other regional influences) cannot be controlled by New Hampshire. Still, remedies are available. If the stranglehold of the current New Hampshire state tax structure were removed, and some of the resulting additional resources were channeled into both human development and the "living environment," New Hampshire could significantly affect and increase the supply of educated labor and slow down the deterioration of its environment.

It appears that economic development in New Hampshire may require a <u>new pledge</u> to work for human resource development, an improved living environment, and a fair tax structure. To successfully institute an income and/or sales tax in New Hampshire will be an enormous political task, because the tax will run counter to one of New Hampshire's most sacred political traditions, the <u>old pledge</u>. On economic grounds, however, it appears that the New Hampshire of the year 2000 needs significant educational and environmental funding. A concept of fairness should dictate a redistribution of the tax burden from lower- and fixed-income people and poor towns to the mid- and higher-income households that are significantly under-taxed. Perhaps the political climate will be less than totally hostile. It seems that the level of unhappiness with the property tax "burden" is at an all-time high, yet there is an "establishment," old pledge Republican (Judd Gregg) currently in the State House. It will take political courage, the time is right, and Governor Gregg seems to be politically positioned to do the job.

POSTSCRIPT

The thrust of this paper addressed issues and circumstances prior to the State's economic downturn in 1989. As is evident from Table 12 New Hampshire turned in the worst regional economic performance. With a 0.5 percent reduction in the total number of jobs available, the state also came up with the worst performance in the country on this crucial measure of economic

TABLE 12
Job Growth
for New England States and The United States, 1989

Political Unit	Growth Percentage
Connecticut	+ .3%
Maine	+3.1%
Massachusetts	- .3%
New Hampshire	- .5%
Rhode Island	+ .3%
Vermont	+2.0%
New England average	+ .2%
United States average	+2.8%

SOURCE: The Boston Globe, 1990, p. 47.

health. Among other things, this is highly suggestive to the point made earlier that economic success in New Hampshire is highly dependent on economic success in New England. "We're part of the region, and New Hampshire doesn't escape its problems," says Stephen Rice, head of the New Hampshire Department of Resources and Economic Development [13, p. 47]. In fact, given its particularly poor showing, the state economy may be more sensitive than the others listed in Table 12 to a regional downturn.

It was proposed earlier that immigration of skilled labor from Massachusetts would begin to fall off as the New Hampshire "low tax" and "rural appeal" advantages disappeared. The significant reduction in construction jobs in New Hampshire in 1989 may be a precursor of this development. Real estate bargains in Massachusetts, because of its own downturn, may promise a long period of weakness in the New Hampshire construction industry and a deficiency of skilled labor when the manufacturing sector rebounds.

The 1989 data, and the interpretations suggested above, provide further support to the proposals made earlier. In addition to the simple fairness of a reformed tax structure, additional funds must be generated to support the public education sector and to improve the environment if New Hampshire wishes to develop internally and retain the skilled labor force required for this decade and beyond.

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