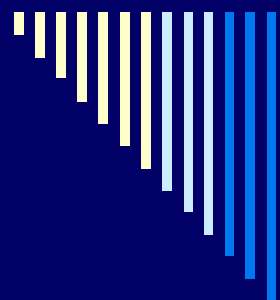


# Rich States, Poor States: a guide to economic prosperity

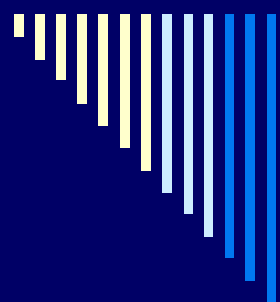
**Jonathan Williams**

Director, Tax and Fiscal Policy Task Force  
American Legislative Exchange Council



# About ALEC

- ❑ Founded in 1973
- ❑ Largest nonpartisan individual membership organization of state legislators
- ❑ *ALEC's mission is to advance and promote the Jeffersonian principles of free markets, individual liberty, limited Government, and federalism through our nonpartisan public-private sector partnership of state legislators, members of the private sector, the federal government, and the general public.*



# Presentation Goals

- Two Sides of the Fiscal Coin
- Economics 101: the essentials for growth and prosperity
- State Policy Highlights and Lowlights
- Stories by Numbers – The ALEC-Laffer Economic Competitiveness Index
- Conclusion

---



On one side of the fiscal coin...

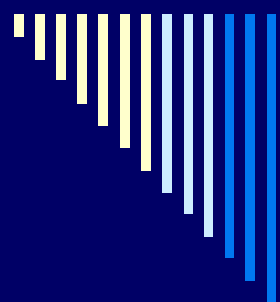




---

# Budget Shortfalls: How to Make Ends Meet

- Problem:
    - Budget Shortfalls from the Beginning
    - Spending Growth over the Past Decade
  - *Solution:* Priority-Based Budgeting
    - Ask 5 Key Questions while Budgeting
    - Success Story: Washington state
-



Q: What's the biggest threat to state finances?

**A: Unfunded Pension Liabilities**

- Problem:
  - Defined-Benefit Plan
  - Revenues  $\neq$  Employee Benefits
- Solution: Defined-Contribution Plan

---



On the other side of the coin...

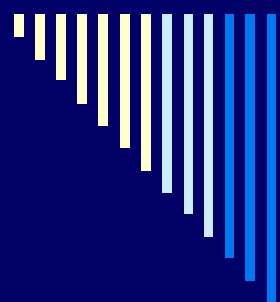




---

# ALEC Principles of Taxation

- Simplicity
  - Transparency
  - Neutrality
  - Predictability
  - Pro-Growth
-



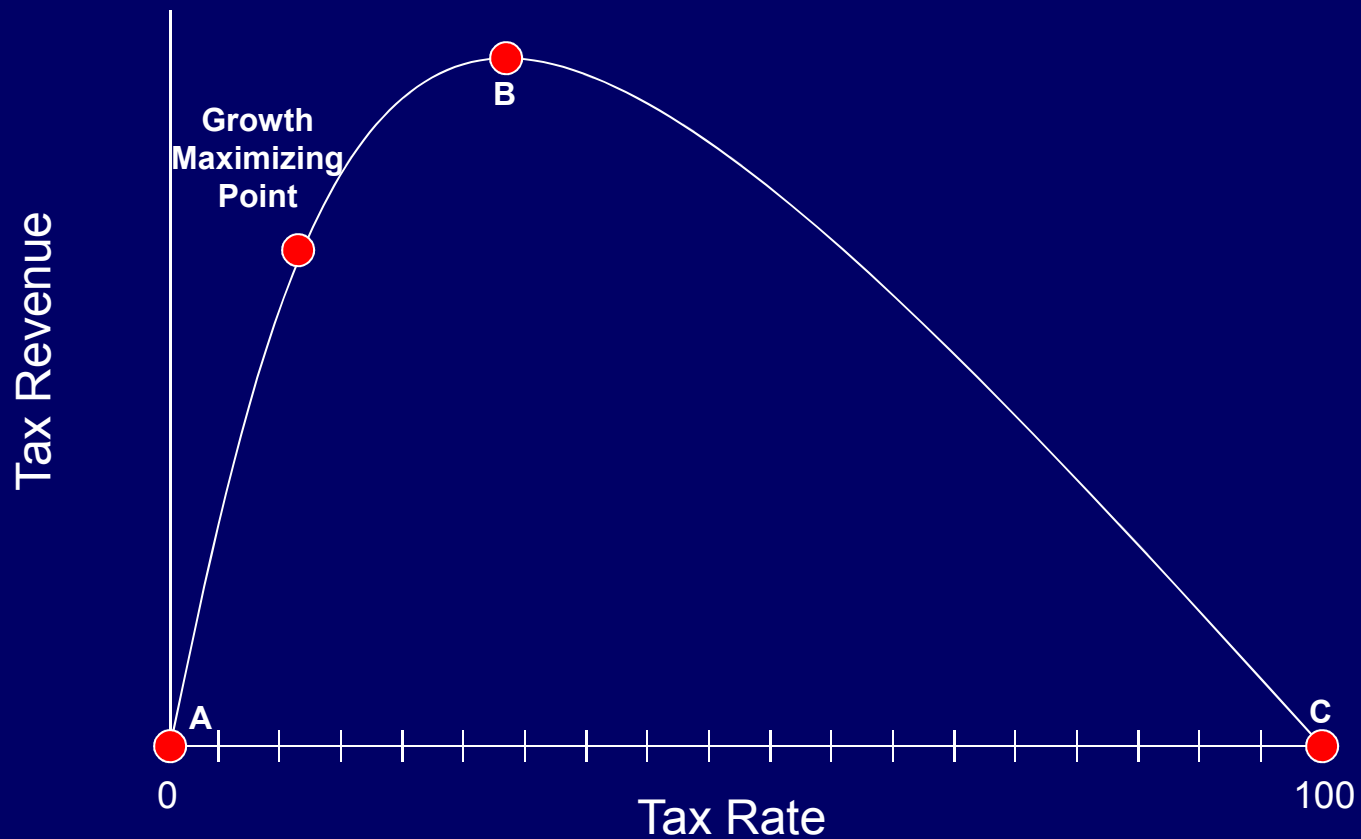
---

# Prosperity 101:

## *Four Steps to Economic Growth*

1. Keep Tax Rates Low
  2. Guard Against Inflation
  3. Balance the Budget
  4. More Spending is NOT the Answer
-

# The Laffer Curve





## Hawaii

*Lost population 6 out  
of the last 10 years*

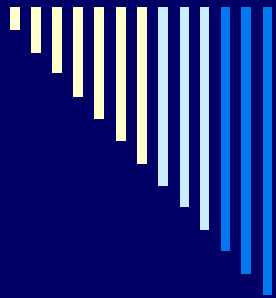
Maui's Avg. Temperature:  
84°



## California

*Net loss of 1,466,917 people  
over the last decade*

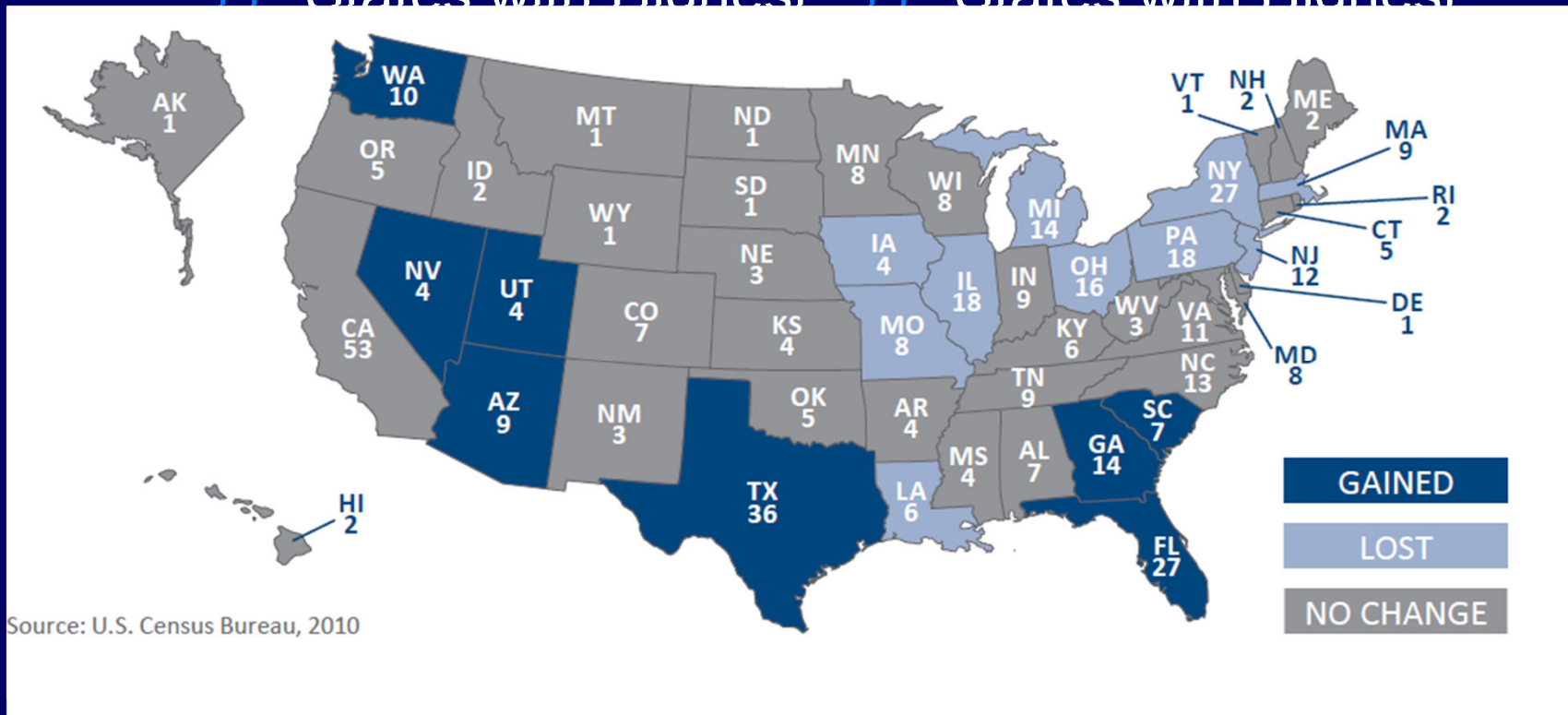
San Diego's Avg. Temperature:  
71°



# Taxpayers Vote with their Feet

(states with highest in- and out- migration and their ALEC-Laffer Economic Outlook Ranking)

States with the Largest Net Loss of Representatives in the 2010 Census  
States with Highest States with Highest States with Highest

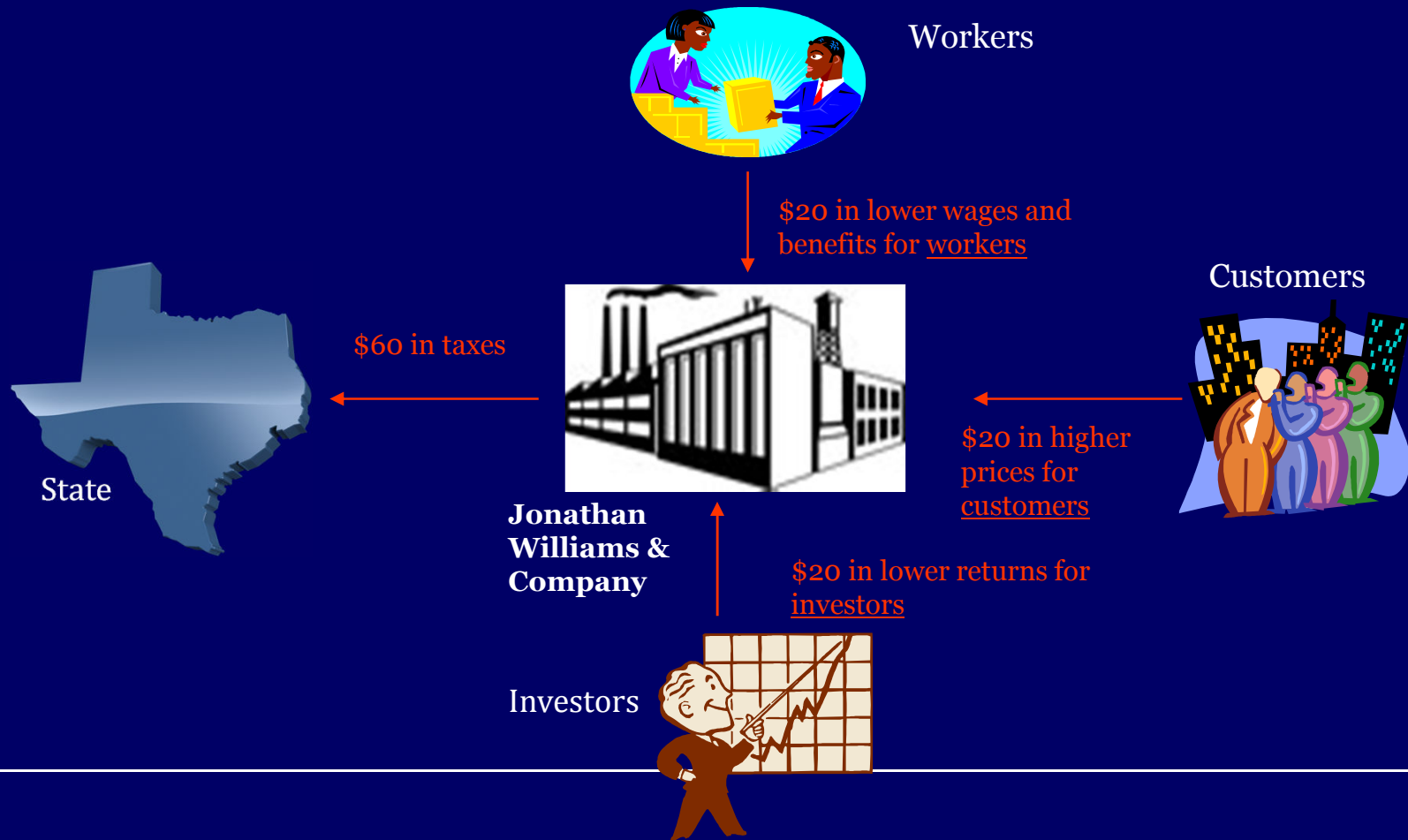


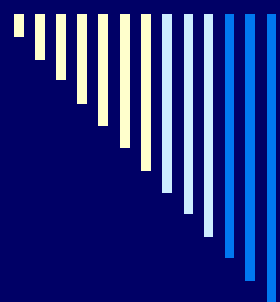
Source: U.S. Census Bureau, 2010

# The Problem with Progressivity



# Businesses Don't Pay Taxes — People Do

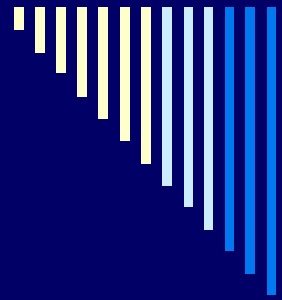




# State Policy

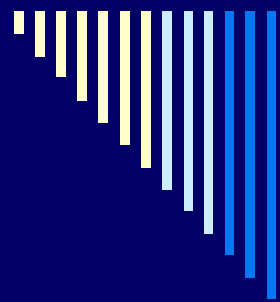
## Highlights *and* Lowlights

- Pro-Growth Tax Measures in the States
  - MI Business Tax Elimination
  - UT Pension Reform
  - AR Capital Gains Tax Elimination
  - ND Tax Cut Debate
  - IN Corporate Income Tax Reduction
- IL income tax hikes
- CA's mistakes
  - Energy Tax
  - State Budget



## Pro-Growth Policies in Texas Bring Big Results (read: JOBS)

- From June 2009 to June 2011, TX  
Added **Half** of the Nation's 524,000 Jobs
- Doctors Applying to Practice in TX  
increases **60%** due to Tort Reform
- Right-to-Work State
- Population Growth **21%** over the Past  
Decade (*more than double U.S. avg.*)



# The Nine States with the Highest and Lowest Marginal Personal Income (PIT) Tax Rates

## Highest PIT

Avg. Top Rate: 9.79%

*(DE, ME, MD, VT, NJ,  
CA, HI, OR, NY)*

## No PIT

*(AK, FL, NV, NH, SD,  
TN, TX, WA, WY)*

44.91%

**Gross State Product Growth**

61.23%

6.48%

**Population Growth**

13.75%

62.43%

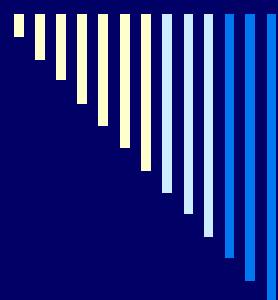
**Total State Tax Receipt Growth**

123.66%

0.47%

**Job Growth**

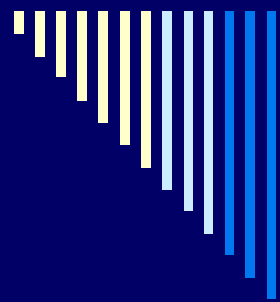
7.78%



# Before and After: The Damaging Effects of State Income Tax

<b>State</b>	<b>Prior to Income Tax</b>	<b>2009</b>
Connecticut	1.74%	1.57%
New Jersey	3.50%	3.41%
Ohio	5.32%	3.32%
Rhode Island	0.43%	0.34%
Pennsylvania	5.64%	3.91%
Maine	0.38%	0.36%
Illinois	6.37%	4.43%
Nebraska	0.68%	0.60%
Michigan	5.12%	2.57%
Indiana	2.59%	1.84%
West Virginia	NA	0.44%

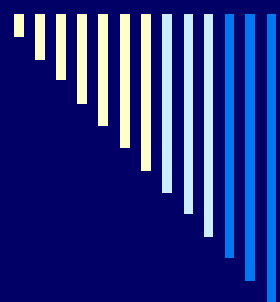
Source: U.S. Bureau of Economic Analysis



---

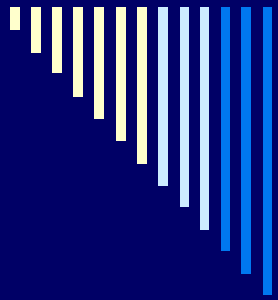
## The Best of the Best: 10 Highest Ranked States

1. Utah
  2. South Dakota
  3. Virginia
  4. Wyoming
  5. Idaho
  6. Colorado
  7. North Dakota
  8. Tennessee
  9. Missouri
  10. Florida
-



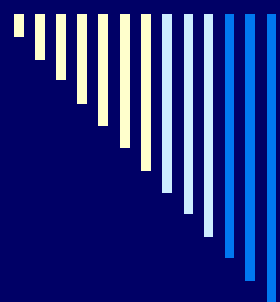
## The Worst of the Worst: 10 Lowest Ranked States

- |                |                  |
|----------------|------------------|
| 50. New York   | 45. New Jersey   |
| 49. Vermont    | 44. Illinois     |
| 48. Maine      | 43. Oregon       |
| 47. California | 42. Rhode Island |
| 46. Hawaii     | 41. Pennsylvania |



# The Best *versus* the Worst

<b>Top 10 States</b>	<b>Economic Growth Indicator</b>	<b>Bottom 10 States</b>
58.5%	Gross State Product	41.6%
54.5%	Personal Income Growth	39.9%
44.3%	Personal Income Per Capita Growth	41.2%
12.1%	Population Growth	4.5%
3.0%	Net Domestic in-Migration as % of Population	-2.4%
6.5%	Non-Farm Payroll Employment Growth	-0.9%
7.9%	2010 Unemployment Rate	9.2%



# New Mexico

*Economic Outlook Rank: 39*

□ Highlights:

- No Death Tax (best)
- Low Property Tax Burden (5)

□ Lowlights:

- Not a Right-to-Work state (worst)
- No Tax and Spending Limits (worst)
- High Sales Tax Burden (46)
- High % of Public Employment (45)



# Jonathan P. Williams

Director, Tax and Fiscal Policy Task Force

Phone: (202) 742 - 8533

Email: [JWilliams@alec.org](mailto:JWilliams@alec.org)

Twitter: [ALEC\\_Tax](https://twitter.com/ALEC_Tax)

*Rich States, Poor States* is available for free PDF download on ALEC's website: [www.alec.org](http://www.alec.org)

