

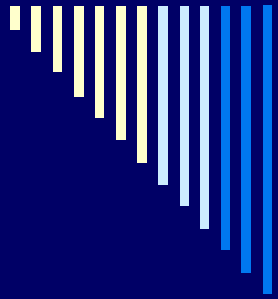
Rich States, Poor States: a guide to economic prosperity

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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
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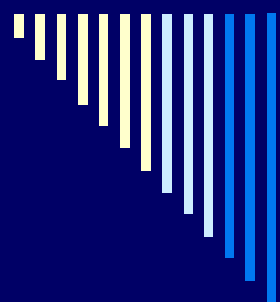
On one side of the fiscal coinů





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



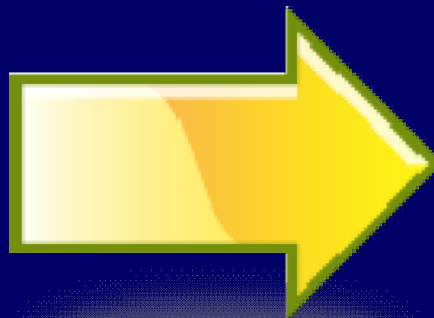
Applying Basic Math to the Unfunded Liabilities Problem

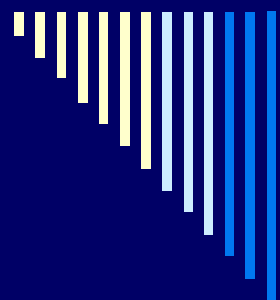
START:

\$100 Investment

Economic Downturn:

Lose 30% of Investment





Applying Basic Math to the Unfunded Liabilities Problem

New Investment

Balance:

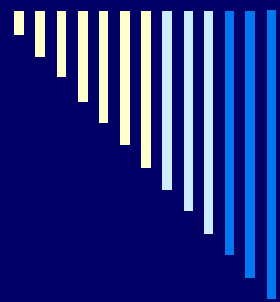
\$70

=

\$30

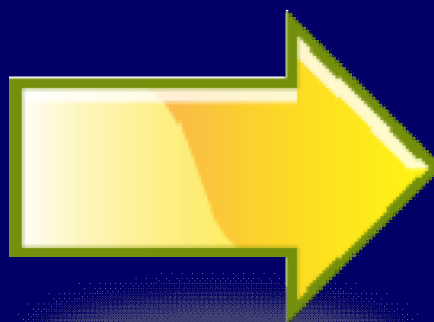
LOSS





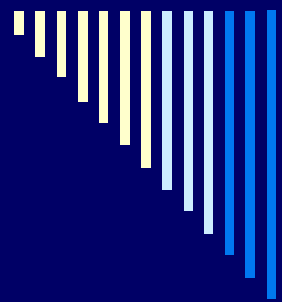
Applying Basic Math to the Unfunded Liabilities Problem

**New Investment
Balance:**
\$70



Recover Loss:
Gain 30% on Investment





Applying Basic Math to the Unfunded Liabilities Problem

New Investment

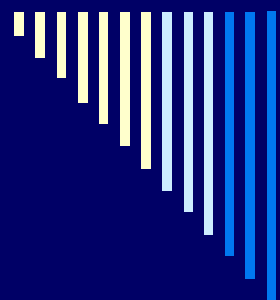
Balance:

\$91

=

**\$21
Gain**





Applying Basic Math to the Unfunded Liabilities Problem

$$\begin{array}{r} \$30 \\ \text{Loss} \end{array} + \begin{array}{r} \$21 \\ \text{Gain} \end{array} = \begin{array}{r} \$9 \text{ NET} \\ \text{LOSS} \end{array}$$



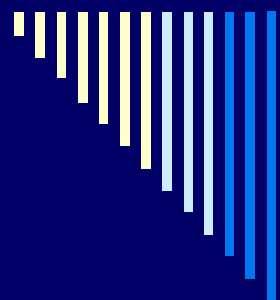
On the other side of the coinů





ALEC Principles of Taxation

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

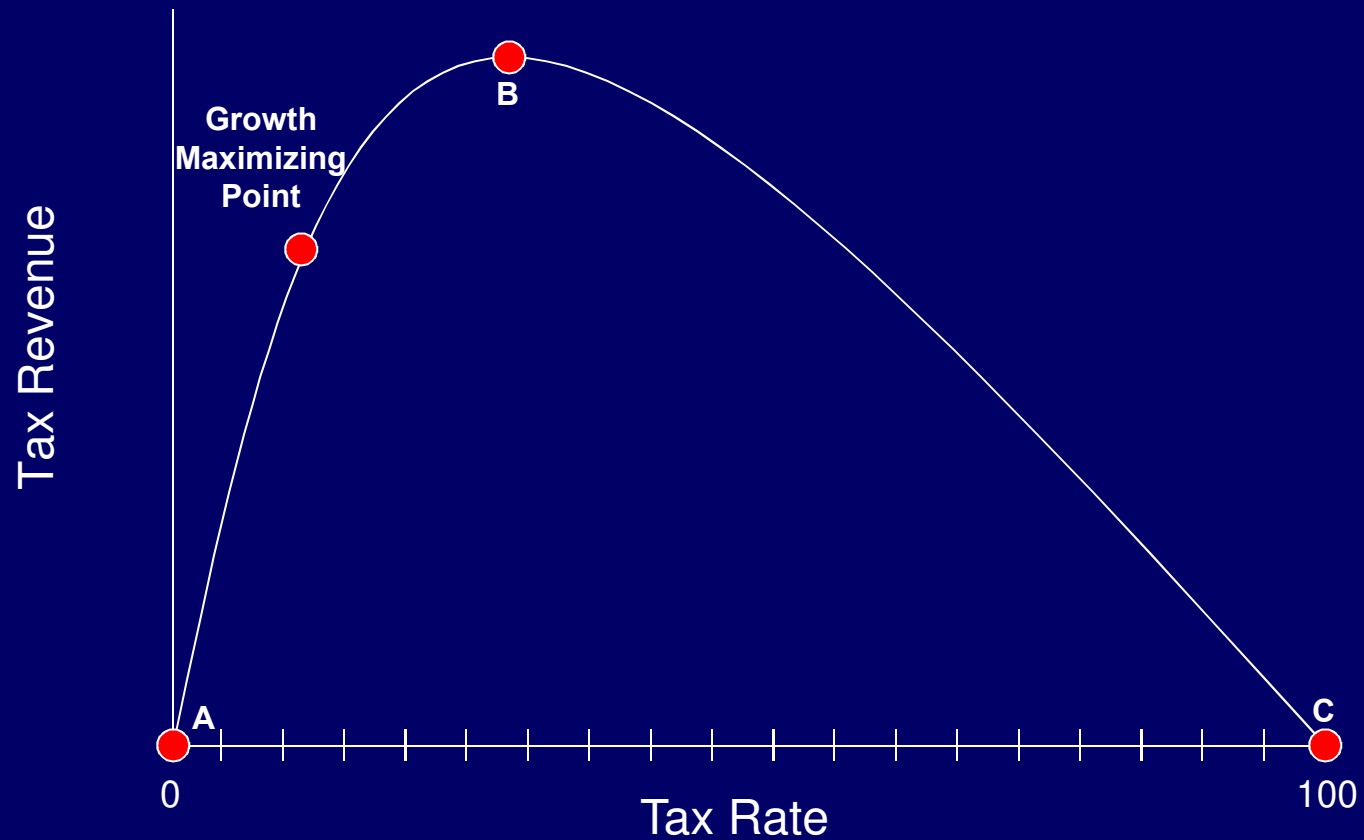


Prosperity 101:

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

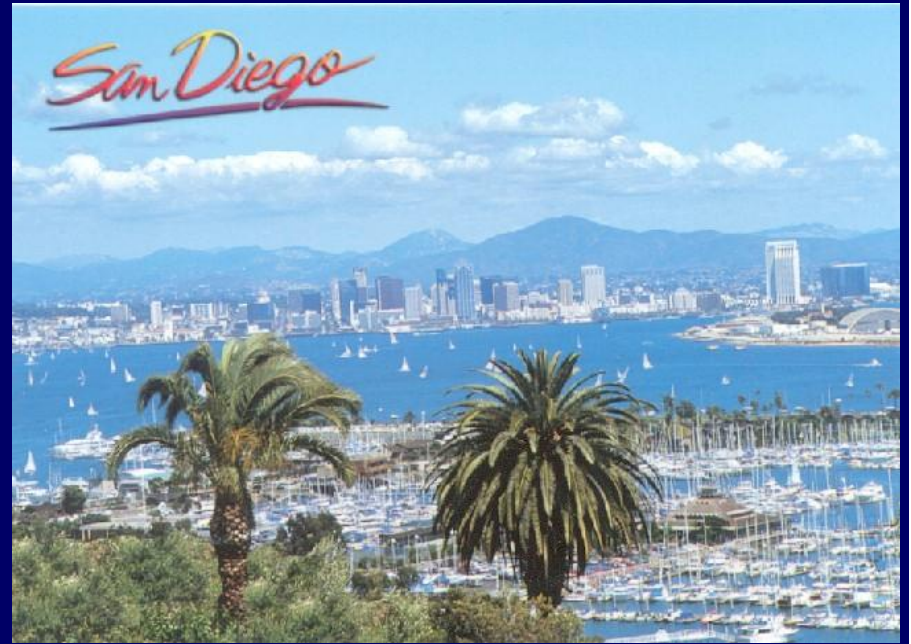




Hawaii

*Lost population 6 out
of the last 10 years*

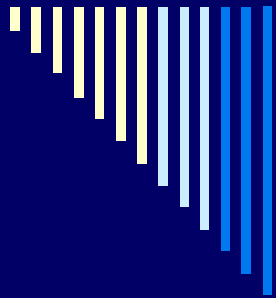
Maui's Avg. Temperature:
84°



California

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

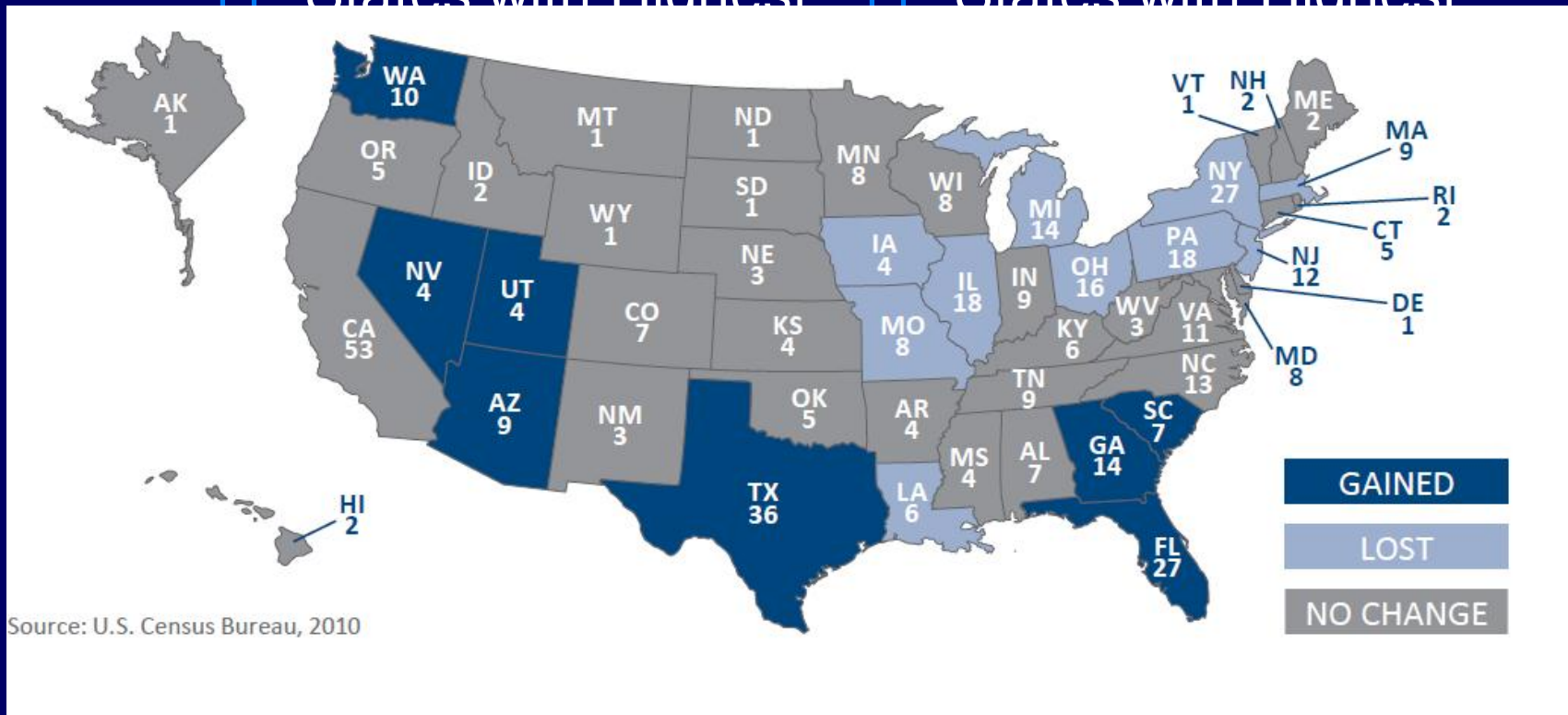
San Diego's Avg. Temperature:
71°



Taxpayers Vote with their Feet

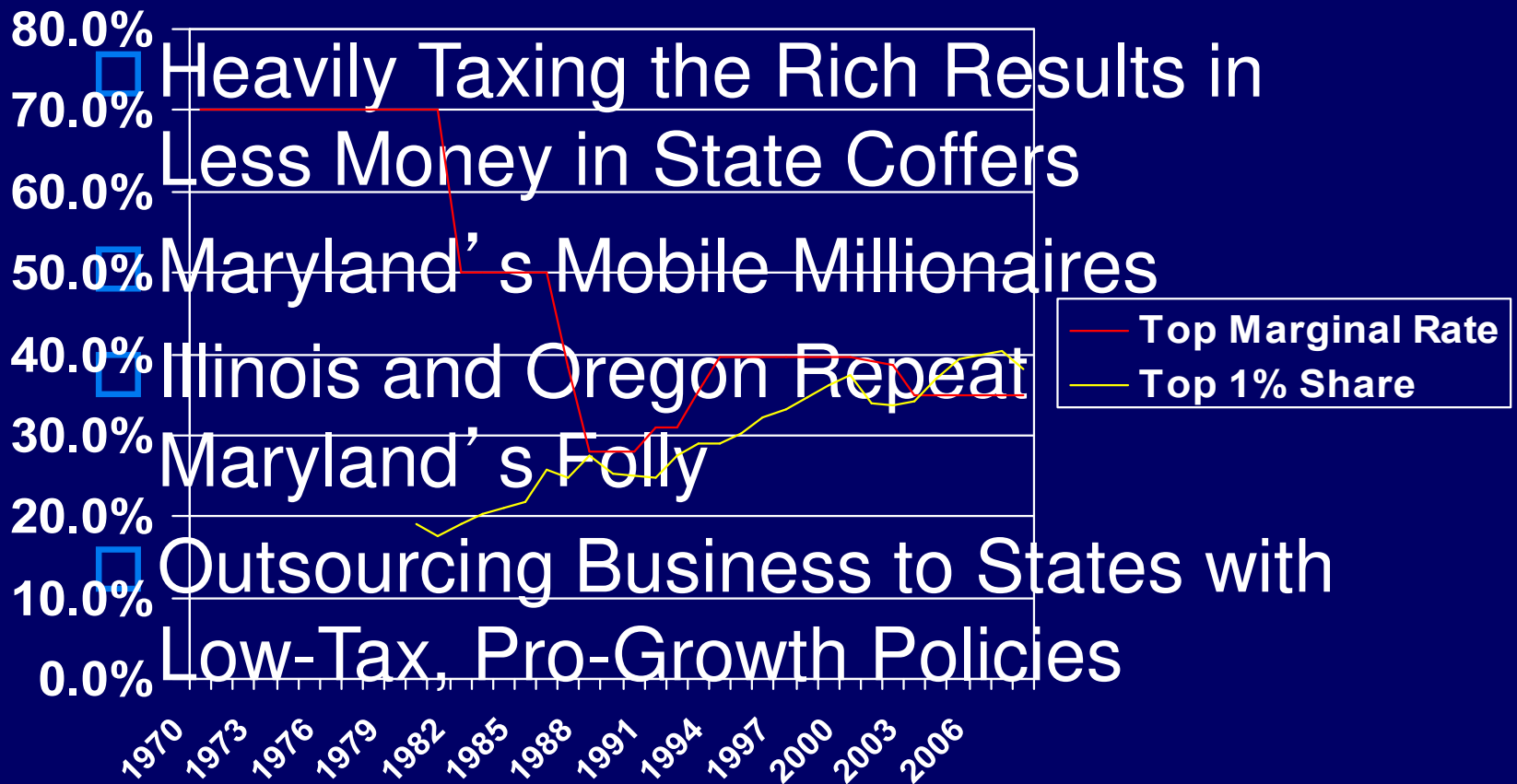
(states with highest in- and out- migration and their ALEC-Laffer Economic Outlook Ranking)

Appointed States with the Largest Net Loss of Representatives based on the 2010 Census

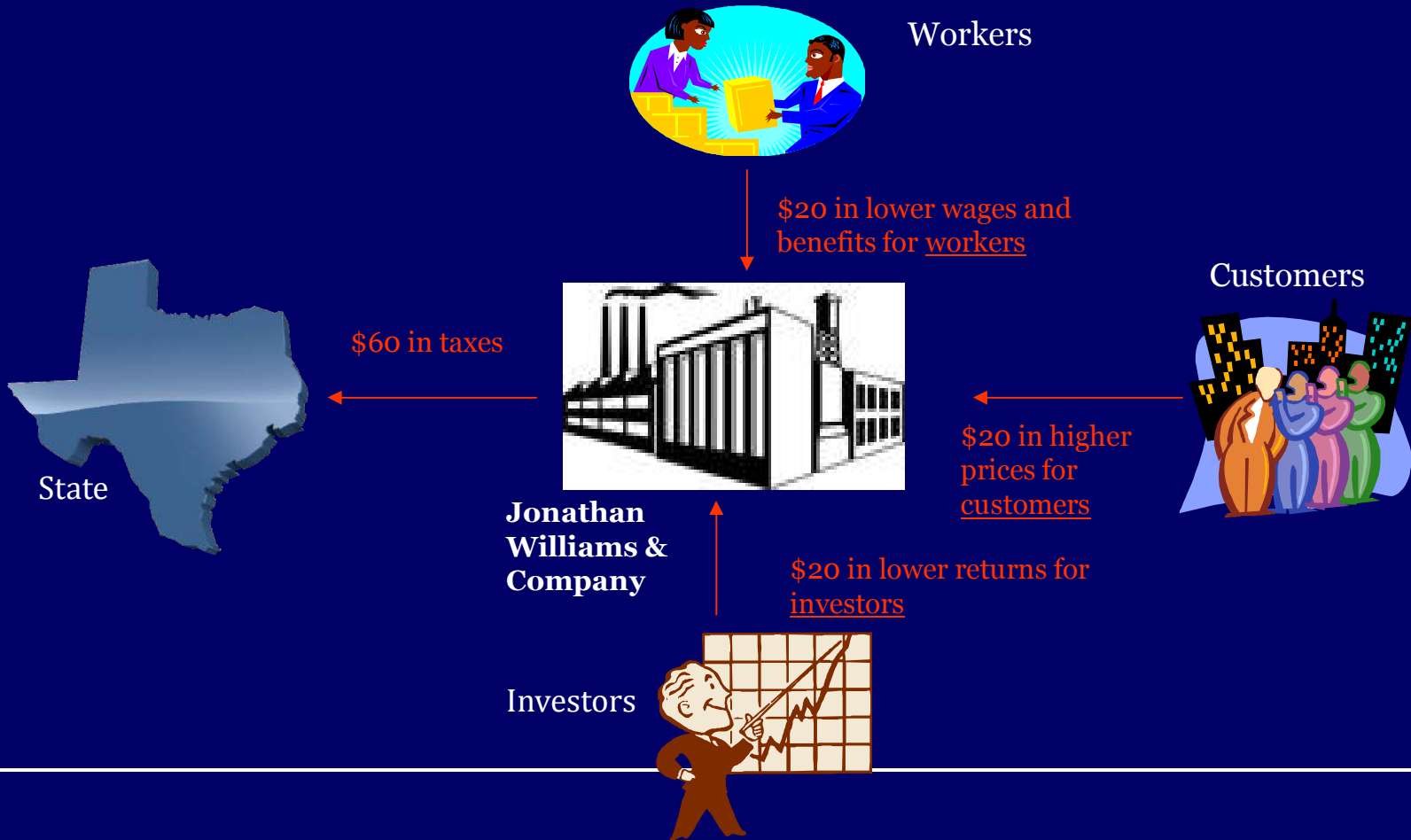


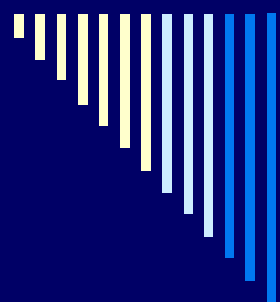
Source: U.S. Census Bureau, 2010

The Problem with Progressivity



Businesses Don't Pay Taxes ' People Do

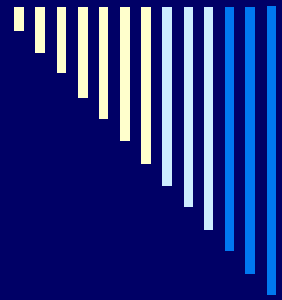




State Policy

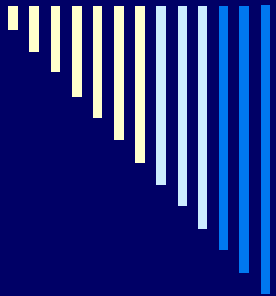
Highlights *and* Lowlights

- 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

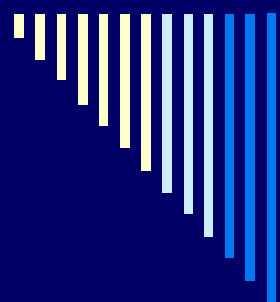
Avg. Top Rate: 9.79%

(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%



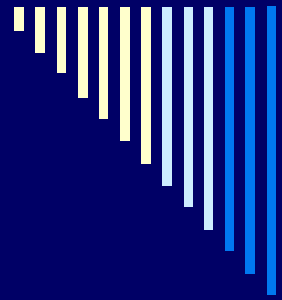
Before and After:

The Damaging Effects of State Income Tax

Gross State Product Relative to U.S.

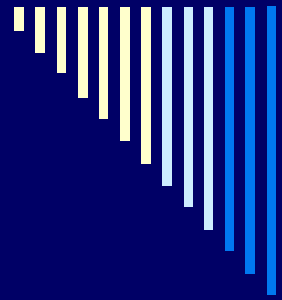
State	Prior to Income Tax	2009
Connecticut	1.74%	1.57%
New Jersey	3.50%	3.41%
Ohio	5.32%	3.32%
Rhode Island	0.43%	0.34%
Pennsylvania	5.64%	3.91%
Maine	0.38%	0.36%
Illinois	6.37%	4.43%
Nebraska	0.68%	0.60%
Michigan	5.12%	2.57%
Indiana	2.59%	1.84%
West Virginia	NA	0.44%

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

49. Vermont

48. Maine

47. California

46. Hawaii

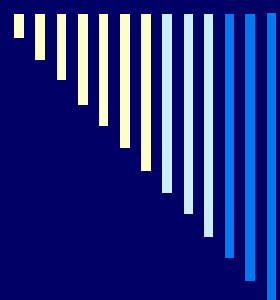
45. New Jersey

44. Illinois

43. Oregon

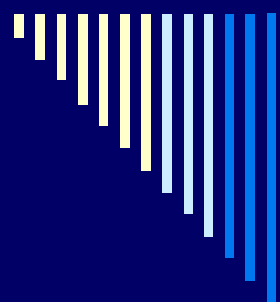
42. Rhode Island

41. Pennsylvania



The Best *versus* the Worst

Top 10 States	Economic Growth Indicator	Bottom 10 States
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%



Arizona

Economic Outlook Rank: 12

□ Highlights:

- Right-to-Work State (best)
- No Death Tax (best)
- Low Public Employees to Population (2)
- Low Remaining Tax Burden (5)

□ Lowlights:

- High Sales Tax Burden (45)
 - Progressive Personal Income Tax (34)
 - Relatively High State Debt (32)
-



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