RICH STATES POOR STATES

ALEC-Laffer State Economic Competitiveness Index

By Arthur B. Laffer and Stephen Moore

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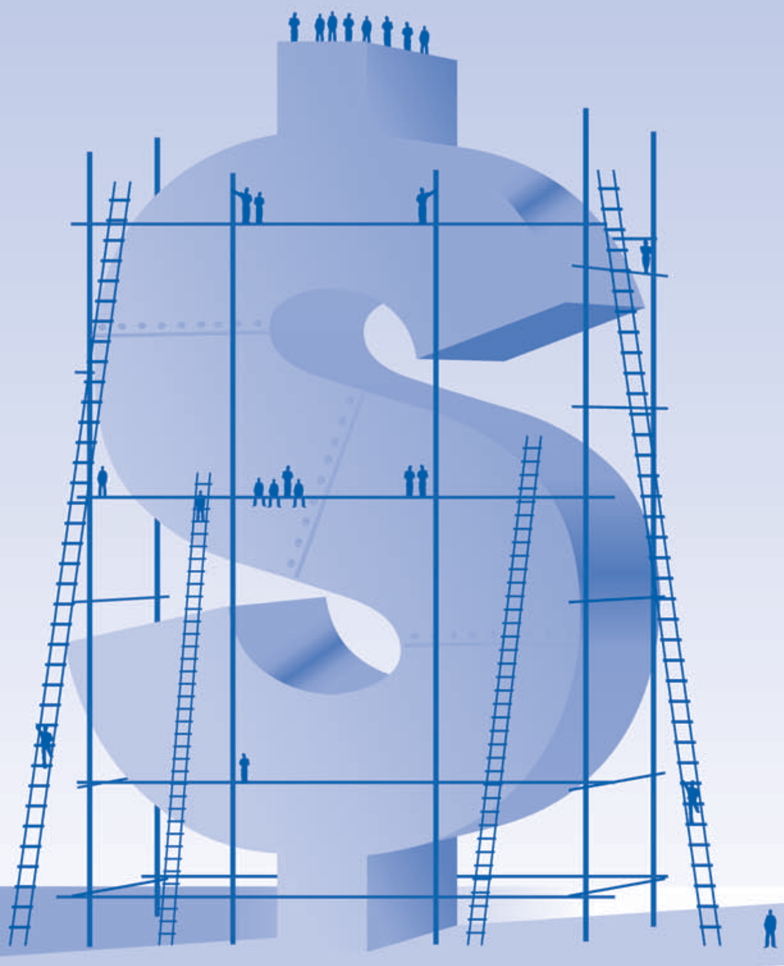

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About the Authors

Dr. Arthur B. Laffer
Arthur B. Laffer is the founder and chairman of Laffer Associates, an economic research and consulting firm. As a result of Dr. Laffer's economic insight and influence in starting a worldwide tax-cutting movement during the 1980s, many publications have named him "The Father of Supply Side Economics." He is a founding member of the Congressional Policy Advisory Board, which assisted in forming legislation for the 105th, 106th and 107th Congress. Dr. Laffer served as a member of President Reagan's Economic Policy Advisory Board for both of his two terms. In March 1999, he was noted by *Time Magazine* as one of "the Century's Greatest Minds" for his invention of the Laffer curve, which has been called one of "a few of the advances that powered this extraordinary century." He has received many awards for his economic research, including two Graham and Dodd Awards from the Financial Analyst Federation. He graduated from Yale with a Bachelor's degree in economics in 1963 and received both his MBA and Ph.D. in economics from Stanford University.

Stephen Moore
Stephen Moore joined *The Wall Street Journal* as a member of the editorial board and senior economics writer on May 31, 2005. He splits his time between Washington D.C. and New York, focusing on economic issues including budget, tax and monetary policy. Moore was previously the founder and former president of the Club for Growth, which raises money for political candidates who favor free-market economic policies. He left that position in 2004. Over the years, Moore has served as a senior economist on the Congressional Joint Economic Committee, as a budget expert for the Heritage Foundation, and as a senior economics fellow at the Cato Institute, where he published dozens of studies on federal and state tax and budget policy. He was a consultant to the National Economic Commission in 1987 and research director for President Reagan's Commission on Privatization.

Acknowledgements

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Foreword

Dear ALEC Member,

Across America, the American Legislative Exchange Council (ALEC) continues to lead the way in bringing conservative, free-market policies to state legislatures. This publication is just another example of the vital, resourceful role ALEC plays in the public policy arena.

Started in 1973, ALEC is the nation's largest individual membership organization of state legislators with more than 2,400 members. Hundreds of ALEC members are chairmen or ranking members of committees and caucuses, and more than 100 hold legislative leadership positions in their respective states. Many former ALEC members serve today as sitting governors and members of Congress.

ALEC's eight national Task Forces provide a unique vehicle for legislators to communicate across state lines, share experiences and ideas, and work in unison with the private sector to create effective public policies.

This book, *Rich States/Poor States: ALEC-Laffer State Economic Competitiveness Index*, was developed as a tool for state lawmakers to evaluate their state's economic performance and to take action in order to strengthen it.

In this time of choosing, ALEC is an indispensable resource to remind lawmakers the virtues of liberty and limited government. Over the years, ALEC has provided innovative ideas on tax and fiscal policy based on our Jeffersonian principles of free markets and individual liberty, which have proved to be successful in statehouses across the nation.

The *ALEC-Laffer State Economic Competitiveness Index* will be an extremely valuable resource for those searching for state policy prescriptions. I am confident the ideas in this publication can lead to greater economic growth, prosperity, and freedom for our states, and most importantly, our fellow citizens.

Sincerely,

Lori Roman

Lori Roman
ALEC Executive Director

Executive Summary

Rich States/Poor States: ALEC-Laffer State Economic Competitiveness Index

This new publication by the American Legislative Exchange Council, *Rich States/Poor States: ALEC-Laffer State Economic Competitiveness Index*, is an invaluable resource for state lawmakers and citizens to evaluate their state's fiscal and economic policies, while analyzing their results and ramifications.

Authors Arthur Laffer and Stephen Moore, two of the most well-respected free-market economists in America, provide an in-depth analysis of policies, which foster economic growth and prosperity in one state and economic malaise in another. This useful and insightful work is divided into three sections, in addition to the State Competitiveness Rankings.

Section I: State Winners and Losers, details the migration of thousands of Americans from areas with high tax burdens to places where they can experience greater economic freedom. States with a high propensity to tax and spend are finding their most wealthy and productive citizens moving across borders into areas that impose less of a financial burden. According to the authors, "they are voting with their feet for jobs and higher incomes—economic opportunities that are disappearing from some regions of the country while sprouting in others."

It is telling that a state as beautiful as California has the nation's second-largest domestic population outflow. Despite warm weather, sandy beaches and the Pacific Ocean, Californians are leaving in droves to escape the state's oppressive tax burden. These former citizens are generally the "highest achievers and those with the most wealth, capital, and entrepreneurial drive," leaving the state much less economically productive in their wake. Those arguing for higher taxes claim that taxation is necessary in order to redistribute wealth from the wealthy to the poor. However, according to Laffer and Moore, when the wealthy leave a state with high taxes, this reduces the tax base and leaves the state more hamstrung than before. Evidence of this is taking place all over the country, as Americans are leaving California and the New England states in record numbers, preferring Southern states such as Florida, Georgia, and Tennessee, as well as Western states such as Nevada, Idaho, and Wyoming.

Section I introduces the 16 factors included in the ALEC-Laffer State Economic Competitiveness Index. The variables are as follows:

- Highest marginal personal income tax rate
- Highest marginal corporate income tax rate
- Progressivity of the personal income tax system
- Property tax burden
- Sales tax burden
- Tax burden from all remaining taxes
- Estate tax/Inheritance tax (Yes or No)
- Recent Tax Policy Changes 2005-06
- Debt service as share of tax revenue
- Public employees per 10,000 residents
- Quality of state legal system
- State minimum wage
- Workers' Compensation costs
- Right-to-work state (Yes or No)
- Tax/Expenditure Limit
- Education Freedom Index

In **Section II: The State Roadmap to Prosperity,** the authors prove the economic theory that low taxes increase the incentive to work, and thus increase income, wealth, employment, investment, and in-migration. An in-depth look at the "Irish Miracle" proves this point. The decision in the 1990s to dismantle Ireland's welfare state — cutting taxes and privatizing a variety of government services — paid huge dividends as businesses and skilled workers flocked to the country. It became one of Europe's strongest economies within a decade. According to Laffer and Moore, "The Irish are the Celtic Tiger of Europe and low tax rates have played a critical role in this amazing economic rehabilitation."

Within Section II, the Laffer Curve further explains the adverse effects of high taxes. The principles behind the Laffer Curve state that there is a point where any increase in taxes actually reduces tax revenue. Delaware, for example, actually makes an excess profit, relative to its neighbors, on alcohol sales because of its extremely low beer taxes. This is yet another example of consumers "voting with their feet" and opting to spend their money in states that will tax them less. Finally, the authors conclude Section II with examinations of regulation, debt, minimum wage laws, the cost of the tort system, education, and fiscal discipline. Considerable attention is paid to the progressive income tax and the estate tax as well. Often advocated as a "fair" tax, Laffer and Moore write, a progressive income tax does little more than encourage taxpayers to leave the state, discourage businesses from entering, and increase unemployment while simultaneously lowering real income. The estate tax, or "death tax," they argue, "is an unfair double tax on income." Income is taxed at the time it is earned, and then again when it is passed on posthumously.

Section III: The State Spending Binge, expounds upon the lack of fiscal responsibility at the state level. There are two distinct problems with the fiscal cycle of the typical state government, according to the authors. First, when faced with a budget surplus, state politicians cannot spend it quickly enough. Second, when their overspending leads them into a deficit, they attempt to make up the difference by raising taxes substantially. They correctly point out that the "boom and bust" cycles experienced by state governments are much more pronounced than those of the larger, steadier federal government. Because of the tendency for state politicians to panic at the prospect of rapidly increasing deficits, they are more susceptible to the knee-jerk reaction of quickly raising taxes to compensate. Laffer and Moore encourage state legislators to "strive to get more for less, not less for more." In other words, it is much more efficient to lower taxes and let the influx of private enterprise activity make money for you, rather than trying to create artificial government income via high taxes.

Most important, according to the authors, is avoiding the temptation to overspend during periods of economic expansion. As history dictates, such periods of affluence are anything but dependable. On the flip side, in times of economic slowdown, it is imprudent to raise taxes. This will not result in predicted increased levels of tax revenue, but loss of businesses, citizens, and jobs. Laffer and Moore point out that during the most recent recession, it was actually the states that cut taxes to stimulate their economies that were hit the least by the slowdown.

The last section, **The ALEC-Laffer State Economic Competitiveness Index**, offers two rankings. The first, the Economic Performance Rank, is a backward-looking measure based on a state's performance among three important variables: Personal Income Per Capita, Absolute Domestic Migration, and Non-farm Payroll Employment—all highly influenced by state policy. This ranking details states' individual performances over the past 10 years. The second measure, the Economic Outlook Rank, is a forward-looking forecast based on a state's current standing in 16 state policy variables, including Top Marginal Personal and Corporate Income Tax Rates, Property and Sales Tax Burdens, and State Minimum Wage. This ranking will help you gauge your state's future based on those 16 factors.

In today's international marketplace this future outlook is critical. The competition for capital and labor is more intense than ever. However, companies looking to invest in the United States face some of the highest tax rates in the industrialized world. The ALEC-Laffer State Economic Competitiveness Index will be extremely valuable for states hoping to attract global investment and to lure domestic and local ventures.

The historical evidence is clear: States that keep spending and taxes low exhibit the best economic results, while states that follow the tax-and-spend path lag far behind. Colorado, for example, was able to restrain government spending and tax burdens through the Taxpayers' Bill of Rights, creating one of the strongest economies in the nation.

On the other hand, some states show little concern for spending restraint, whether during times of prosperity or poverty—in some cases spending their way into financial ruin. The case of recalled governor Gray Davis of California serves as an important example. By coupling high taxes with rampant government spending, California had a budget crisis of historic proportions. At the time, Carl DeMaio of The Performance Institute argued for the "need to stimulate the economy without further burdening taxpayers or driving more businesses out of state." It is clear that California did not follow that advice and still doesn't. Unless our current lawmakers choose the path of fiscal restraint, the mistake could soon be repeated.

Today, many states stand at a crossroads, and it will soon become apparent if lawmakers choose to use history as a guide for their actions. Some prefer to fight against prosperity by increasing marginal tax rates and bemoaning corporate profits. But they neglect one simple economic fact: No state has ever taxed its way into prosperity.

As the class warriors continue their battle against "big business" and corporate profits, they serve as an extremely convenient distraction for revenue-hungry governments. The truth is, when we tax businesses, the burden falls right

back on individual taxpayers. Economists from all political stripes agree, businesses don't pay taxes, people do.
This is not about Republican versus Democrat, or left versus right. It is simply a choice between economic vitality and economic malaise. To become competitive in the global business environment of the 21st century, states must have free-market, pro-growth tax systems in place, rather than increasing the ever-burdensome role of government on citizens.

May this publication help lawmakers act responsibly by encouraging capital formation and allowing the dreams and entrepreneurial spirit of their fellow man to flourish.

Jonathan P. Williams
Tax and Fiscal Policy
Task Force Director

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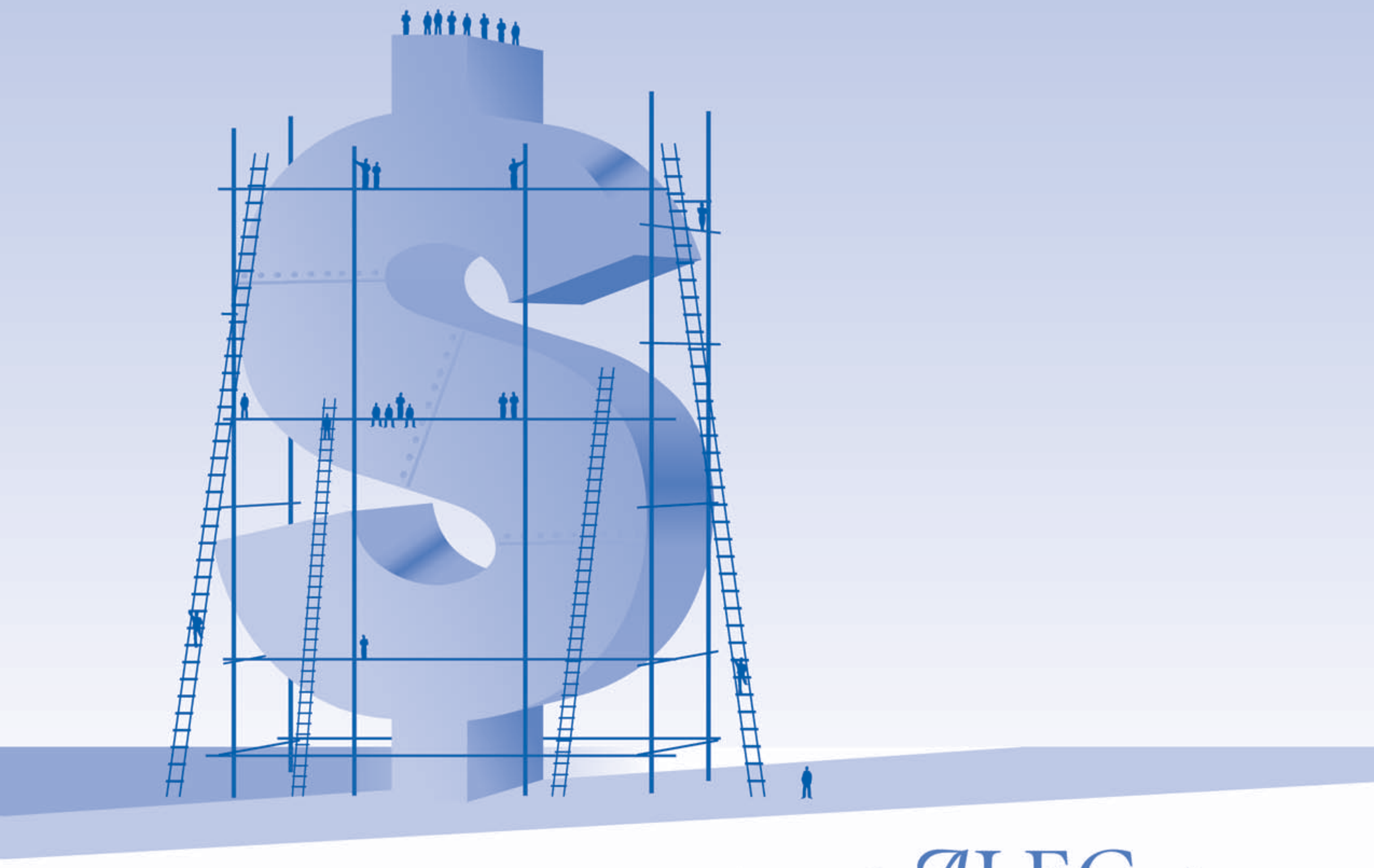
STATE WINNERS AND LOSERS



American Legislative Exchange Council

Introduction

> "The most valuable natural resource in the 21st century is brains. Smart people tend to be mobile. Watch where they go. Because where they go, robust economic activity will follow."
> *Rich Karlgaard, publisher. Forbes Magazine*

The geographical center of gravity of economic and political power in America is shifting right before our very eyes—and more dramatically than perhaps at any time in a century. Americans are uprooting themselves and moving to places where there is economic vitality, opportunity, and a high quality of life. They are going, in short, to where the action is. And over the past 25 years, tens of millions of Americans (and immigrants) have voted with their feet against anti-growth policies that reduce economic freedom and opportunity in states mostly located in the Northeast and Midwest.

Every single day more than 1,000 U.S. residents pack up their suitcases and their Allied Van Line trucks and move away from low-growth states to high-growth states.[1] They are voting with their feet for jobs and higher incomes—economic opportunities that are disappearing from some regions of the country while sprouting in others. See Figure 1.

The big winners in this interstate competition for jobs and growth have generally been the Southern states (Dixie) and those in the Southwest region of the country, such as Nevada, Idaho, and Arizona. The big losers have been the traditional rustbelt regions of the Northeast and Midwest. The demoralizing symptoms of economic despair in the declining states like New York, Michigan, Pennsylvania, Illinois, and New Jersey include lost population, falling housing values, a shrinking tax base, business out-migration, capital flight, high unemployment rates, and less money for schools, roads, and aging infrastructure.

What is also very new is that California has, for the first time, joined the ranks of the "has been" states. Despite all of its natural geographical advantages—ports of entry to the Pacific region, balmy weather, relaxing beaches, idyllic mountains, and as the Beach Boys sang about, those gorgeous "California Girls"—years of redistributionist economic policies (liberalism run amok in Sacramento) have resulted in more U.S. residents now leaving California than arriving.

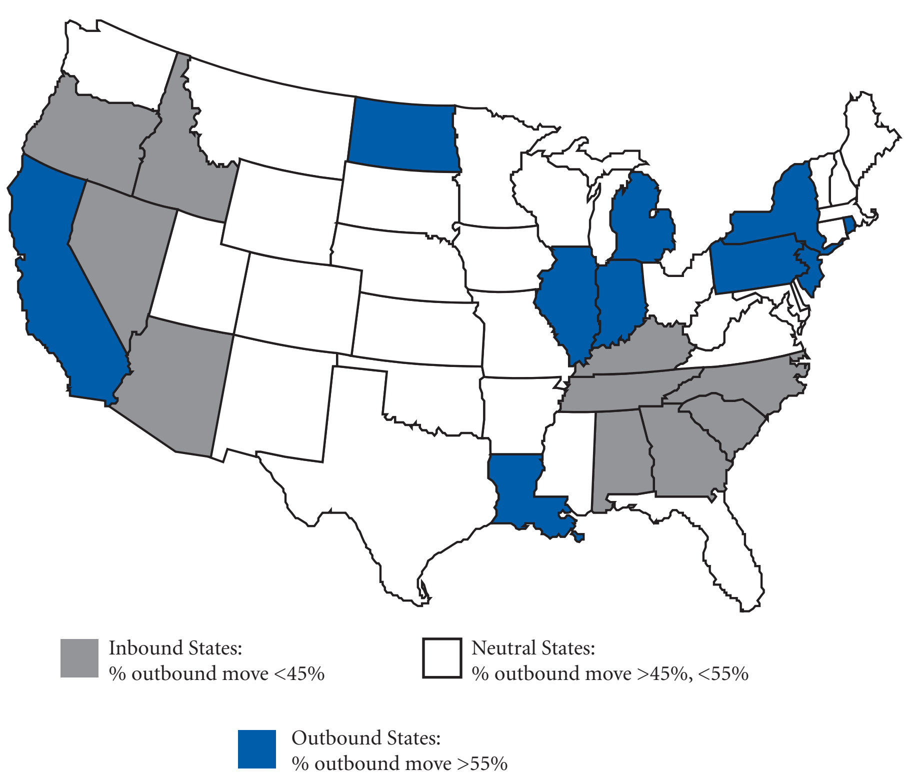
The decline of California is probably the best evidence we can present as to the impact of bad state policies on the economic pulse of a state. Table 1 (next page) shows that in 2005, California had the second largest domestic population outflow of any state in the nation.

Defenders of the high-tax and high-spending conditions that precipitate this fall into the economic cellar argue that big government policies and taxes on the wealthy are necessary

Top 10 "Winners"			Top 10 "Losers"		
	State	% of Moves Outbound		State	% of Moves Outbound
1	Oregon	36.4%	50	North Dakota	67.8%
2	Idaho	38.1%	49	Michigan	63.9%
3	Delaware	38.6%	48	New Jersey	60.4%
4	North Carolina	38.7%	47	Indiana	59.9%
5	Nevada	39.9%	46	New York	59.8%
6	Arizona	39.9%	45	Illinois	58.4%
7	South Carolina	41.0%	44	Louisiana	57.9%
8	Alabama	41.1%	43	Rhode Island	57.0%
9	Tennessee	42.0%	42	Pennsylvania	56.0%
10	Kentucky	44.7%	41	California	55.7%

Note: Alaska and Hawaii not part of the study. Source: "2005 Migration Study," United Van Lines

Figure 1: 2005 Migration Trends Based on United Van Lines Data



to protect the poor and the disadvantaged. Yet when flight occurs away from an area, it is always the highest achievers and those with the most wealth, capital, and entrepreneurial drive who tend to "get out of Dodge" first, leaving the middle class, and then eventually only the poor and disadvantaged, behind. Inevitably that means fewer taxpayers and heavier tax burdens for those who remain.

It's an analogous situation to the old party game "Pass the Bomb," where a plastic "bomb" gets passed from one person's lap to another until it buzzes and the person holding it loses. But this game is real: The bomb is high taxes, and the people always left holding it when it detonates are the poor—the very people who are supposed to benefit from redistributionist policies. This can create a crushing, vicious cycle of economic and fiscal decline. Look at Camden, New Jersey, Youngstown, Ohio, or Detroit, Michigan, today versus 40 years ago when they were relatively prosperous, middle-income cities.

There's an old saying that high taxes don't redistribute income, they redistribute people. That is precisely what we have found in the research that went into writing this book. When California faced a Mount Everest sized $14 billion deficit in 2003, one of the major causes for the red ink was the stampede of millionaire households from the state. Out of the 25,000 or so seven-figure-income families, more than 5,000 left in the early 2000s, and the loss of their tax payments accounted for about half the budget hole.

America's Economic Black Hole: The Northeast

At a time when most of America has grown more traditionally conservative, more dismissive of big government command-and-control policy prescriptions, and more economically prosperous, the heavily-unionized, economically-exhausted, industrial Northeast has edged ever further to the left. "In the rest of the country, liberal is a dirty word; in the Northeast it isn't," notes Darrell West, a political science professor at Brown University.[2]

The result: an ever widening ideological Grand Canyon between what are truly now two Americas. Let's start by defining the geographical boundaries of this other America.

Michael Barone, editor of the indispensable *Almanac of American Politics,* calls this peculiar region the "New England-Metro-liner Corridor."[3] The disease starts in Washington D.C., a city with no manufacturing and no industry (outside of influence-peddling) in which one of every three households receives a government paycheck or a welfare payment; and yet its per capita income has surged to among the highest of any metro-area in the United States. Washingtonians extract wealth, they don't create it.

If you were to drive north from Washington you would travel directly through each of the Northeast corridor states. Welcome to Blue State America.

You would first hit affluent Montgomery County, Maryland (sixth richest county in the U.S.[4]) with its herds of upscale federal employees and Beltway Bandits. Then in succession you will pass through America's modern-day rustbelt: Eastern Pennsylvania, New Jersey, and New York. The shared experience of these states is oppressive tax rates, mindless and meddlesome regulation, obese social welfare programs, slumping real estate markets, and a steady stampede of outward migration. *Wall Street Journal* political writer John Fund best summarized the climate of New York: "I've had friends who fled from here to Eastern Europe in search of freedom."[5] And this is the politically conservative section of the Northeast. The rest of this other America encompasses the New England states of Connecticut, Maine, Massachusetts, Rhode Island, and Vermont. These states are systematically anti-free enterprise and culturally left-wing. One of the most popular politicians in the region may very well be Bernie Sanders, the Harvard professor turned Mayor of Burlington turned congressman and now Vermont senator—and an avowed socialist. Enough said.

However, there is a tiny foothold of low taxes and free markets in this sea of statism: New Hampshire.

(We would add that Delaware is also more free-market oriented than its Northeastern neighbors. Its growth rates in recent years underscore its more business-friendly policies.)

Mr. Fund refers to the Live Free or Die state as "the Orange County of the East Coast."[6] With no state income tax or sales tax, and the second lowest per capita tax burden in the nation, New Hampshire has enjoyed the fastest growth rate in all New England. New Hampshire is an aberration; its growth in a sea of big government neighbors is a monument to the power of free markets and low taxes. It's not the cold weather that is causing the Northeast to atrophy. (We worry however, that increasingly New Hampshire is catching the Northeast diseases as more and more Massachusetts refugees move there, shifting the politics of the state to the left.)

The politics of the region are solidly Democratic, but "there is one conservative issue that plays well in the Northeast these days and that is taxes," explains political strategist Jeff Bell, the Republican Senate candidate in New Jersey in 1978. Northeastern voters are suffering from severe tax fatigue. For good reason. Six of the 10 states dubbed as tax hells by *Money Magazine* are in the Northeast: Maryland, Massachusetts, Maine, Rhode Island, Washington D.C., and New York. A typical family of four living in Maryland, for example, can save close to $2,500 on its taxes by simply packing the U-Haul trailer and moving across the Potomac River to Virginia (one of us, Moore, knows this, because he did it).[7] The average tax premium for the privilege of living in New England is more than $4,000 for the average family of four—for schools, police protection, and other state and municipal services that are arguably inferior to those in most other areas.[8]

Table 1

Cumulative Domestic Migration
(+ = inflow, - = outflow)
10-Year Period, FY 1997 - FY 2006

	Top 10	
1	Florida	+1,643,073
2	Arizona	+769,679
3	Texas	+667,810
4	Georgia	+650,941
5	North Carolina	+570,716
6	Nevada	+491,325
7	Tennessee	+258,838
8	South Carolina	+258,109
9	Colorado	+231,891
10	Washington	+218,304
	Bottom 10	
41	Connecticut	-109,930
42	Pennsylvania	-182,078
43	Michigan	-317,389
44	Massachusetts	-330,657
45	Ohio	-362,601
46	Louisiana	-402,745
47	New Jersey	-409,409
48	Illinois	-727,150
49	California	-1,318,266
50	New York	-1,955,023

Source: U.S. Census Bureau

Yet even on the tax issue there is a quintessential free-lunch quality to the sentiments of contemporary Northeastern voters. They gripe continuously about over-taxation, but when even modest budget restraint is suggested, the media, the unions, and the poverty industry begin invoking dark visions of the apocalypse. When governors like Eliot Spitzer of New York or Martin O'Malley of Maryland propose expansive state-run health care systems, "free" child care centers, pay raises for teachers, government-subsidized sports stadiums, or some such gold-plated government scheme, Northeasterners salivate.

The governments in the Northeast are already about one-fifth more expensive than in the rest of America ($6,000 versus $5,000 of state spending per resident).[9] Only in recent years has the gap between the New England states and the rest of the nation been narrowing (see Table 2). However, an average-income family of four still saves $4,000 by moving to just an average tax state and more like $6,000 a year by moving to Florida.[10] Because the Northeastern states tend to have highly progressive tax systems, the incentive to flee for rich people is higher.

Meanwhile, the Northeast is becoming increasingly inhospitable for employers. Labor costs are about 30 percent above the national average in this region.[11] Of the 22 right-to-work states, a grand total of zero are in the Northeast.[12] Other than taxes, this may be the single greatest factor impeding economic competitiveness in the region.

In Philadelphia, when Ed Rendell became mayor in the mid-1990s, city employees received 14 paid holidays a year (compared to eight for most private-sector workers). Add to that sick leave and vacation time, and some workers got up to 40 paid days off a year. Also, in several school districts in New York, teachers have gone on strike despite salaries and benefits exceeding $75,000 a year.

In isolation, none of these cock-eyed public policies would cripple a state's economic competitiveness. But in the Northeast each new piece of special-interest-driven legislation is encrusted upon layers and layers of existing anti-business rules, regulations, edicts, and laws. (As we write, New Jersey legislators have just approved a "mandatory paid family leave" law requiring employers to pay salaries to workers in the state who take maternity or paternity leave or stay home to take care of sick children.) The compounding effect has been to convert the entire region into a kind of businessman's purgatory.

For years, Northeastern politicians and academics have responded to critics with a self-delusional mantra: Taxes don't matter. Regulatory costs don't matter. Minimum wage and pro-union laws don't matter. Reminiscent of the pampered nomenclature in the final days of the Soviet Union, Northeastern elites pretend that what they have built is a modern-day worker's paradise. That fantasy is losing credibility as workers stampede out of the area.

The lesson of the last 50 years, especially from Eastern Europe, is that statism is difficult to sustain without a captive citizenry. There is no Berlin Wall around the Northeast. Workers, businesses, and capital have freedom of exit and entry. For three decades now Americans have been voting with their feet against the high taxes and debilitating policies of the Northeast—creating a massive brain drain from the region.

Over the past 30 years, the domestic flight from the Northeast into the Sunbelt, Southeastern, and Mountain states has begun to resemble a stampede. Rhode Island has had virtually the slowest population growth in the country with

Table 2
State Spending Per Capita in the Northeast

	2005
New England	
Connecticut	$5,771
Maine	$5,678
Massachusetts	$5,911
Rhode Island	$6,291
Vermont	$7,127
Extended Northeast	
Delaware	$7,014
Maryland	$4,795
New Jersey	$5,657
New York	$7,082
Pennsylvania	$5,065
New England Average	$6,155
Extended Northeast Average	$5,923
Rest of U.S.	$5,035

Source: U.S. Census Bureau

Table 3
Population Growth Trends and Projections
Northeast vs. Rest of U.S.

	1970-1995	1990-2006	2000-2030 projection
New England			
Connecticut	8%	6%	8%
Maine	25%	7%	11%
Massachusetts	7%	7%	10%
Rhode Island	4%	6%	10%
Vermont	31%	10%	17%
Extended Northeast			
Delaware	31%	22%	29%
Maryland	28%	15%	33%
New Jersey	11%	11%	17%
New York	0%	7%	3%
Pennsylvania	2%	4%	4%
Washington D.C.	-26%	-4%	-24%
New England Average	9%	7%	11%
Extended Northeast Average	6%	9%	10%
Rest of U.S.	38%	17%	29%

Source: U.S. Census Bureau

Table 4
Highest Marginal Income Tax Rates in the Northeast

	Personal Income Tax	Corporate Income Tax
New England		
Connecticut	5.00%	7.50%
Maine	8.50%	8.93%
Massachusetts	5.30%	9.50%
Rhode Island	9.90%	9.00%
Vermont	9.50%	8.90%
Extended Northeast		
Delaware	5.95%	8.70%
Maryland	4.75%	7.00%
New Jersey	8.97%	9.00%
New York	6.85%	7.50%
Pennsylvania	3.07%	9.99%
Washington D.C.	8.70%	9.98%
United States Median	5.5%	7.0%

Source: Tax Foundation

domestic population leaving. This prompted the *Providence Journal* to quip, "Will the last person in Rhode Island please turn off the lights?"

New York and Pennsylvania have had almost no growth in population, and without an influx of foreign immigrants they would be suffering population losses as well.[13] The 10 Atlantic states, plus Washington D.C., experienced a piddling population gain of less than three million, or just 5.6 percent from 1970-95 (see Table 3). The rest of the nation grew six times faster. The 10 largest cities of the Northeast, once the centers of America's industrial muscle, have lost a combined 1.6 million people from 1970-95.[14]

Employers are abandoning the East Coast even faster than workers. A Dunn & Bradstreet study found that in the 1990s New York lost more businesses than any other state. In the '90s, the net employment number in the Northeast decreased by nearly half a million—mostly high-paying manufacturing jobs—while the rest of the states gained 8.5 million jobs.[15] This is a long-term trend. For the past 25 years, the non-Northeastern states have gained new jobs at three times the pace of the Northeastern states.

Northeasterners complain disdainfully of the "war between the states" for jobs and businesses. It's not surprising. This is a war they cannot win. Southern and Western states are literally cherry picking companies from the North Atlantic states. One Southern governor recently told us that his state had closed its economic development offices in Europe. "Why search for factories overseas when we can plunder high-tax areas like Connecticut and New York?" he reasoned. Why indeed? Forty years ago the Northeast was the global capital of manufacturing. Today manufacturing jobs are still being created in America—but down south in Alabama, North Carolina, and even Mississippi. There's no surer way to infuriate a snobbish Northeasterner than to remind him that the businesses in his state are trading up for Mississippi.

Other statistics would only add to the depressing tale of regional sclerosis. Incomes in the Northeast grew 20 percent slower than in the rest of the nation in the 1990s. Business startup and bankruptcy rates in the Northeast reveal less vitality and investment in the region.

With respect to the economic importance of the Northeast, all the data point to one conclusion: This is a dying region. The Atlantic states are suffering from a slow-motion version of the economic sclerosis now paralyzing much of Europe, particularly France and Sweden with their state-of-the-art, massive welfare systems.

In 2006, the Northeast was home to a smaller share of the U.S. population than ever before;[16] it had a smaller industrial base, and it produced a smaller percentage of America's total value added than at any time in the nation's history. For the rest of the United States—which has impressively restructured its economy for the challenges of the productivity-driven information age—the Northeast is not so much unnecessary as it is irrelevant. Today, most of the rest of America—competitive, capitalist, and confident—observe the Northeast through its rearview mirror.
In the mid-1990s, it appeared the Northeast might have finally awakened to the error of its ways and was ready to heal itself. In New York, Gov. George Pataki and Mayor Rudy Giuliani took many bold steps to stop the bleeding. The crime rate was down by nearly half during Rudy Giuliani's tenure as mayor and taxes were cut more than 20 times.[17] Manhattan is visibly cleaner, safer, and more vibrant than 15 years ago. In New Jersey, Christine Todd Whitman was elected governor and slashed income tax rates, which caused a mini-rally in the state.[18] Tom Ridge did the same in Pennsylvania.

But, for the most part, it's back to big government normalcy in these states. Governors Jon Corzine of New Jersey, Ed Rendell of Pennsylvania, and Jodi Rell of Connecticut have proposed giant tax increases in the last two years.[19] Today most Northeastern states have a personal income tax rate well above the national average and all but Maryland have a corporate tax rate above the norm (see Table 4). A scheduled reduction in income tax rates in Massachusetts was canceled by the new governor, Deval Patrick.

There is an old Wall Street adage: Sell a falling stock. Economically, the Northeast is exactly that: a falling stock.

Under normal circumstances domestic migration would be expected to mitigate the economic and ideological distinctions among different regions. But the culturally-based migration of the past decade is making the Northeast more rock-solid liberal and the rest of the nation more conservative. The Northeast's political culture is repugnant to the very human capital that is the life blood of a prospering region: college graduates, entrepreneurs, conservative-oriented families with children, and the wealthy. What has been left behind in the Northeast has been a residual of welfare recipients, government workers, senior citizens, and university professors. Rhode Island, for example, now ranks third among the states in population over the age of 65—not because seniors are moving there to retire (as is the case of Florida), but because young people are leaving.[20]

"At some point, the political balance in New England will tip irretrievably in favor of the redistributionists, business-bashers, anti-growth preservationists, the swelling ranks of government employees, and retirees living on tax-exempt bonds," notes John McClaughry, president of the Ethan Allen Institute in

Vermont.[21] "These people, whose policies have driven out those who create wealth, will be permanently in charge." The wipeout of Republicans in the Northeast in the 2006 midterm elections suggests this process is well under way. Massachusetts no longer has one Republican congressman out of 11.

But what will they be in charge of? A region consisting almost solely of tax consumers sows the seeds of its own destruction.

The good news is that the left's monopoly status in this region is almost inconsequential. The political clout of the Northeast hit its high water mark long ago, and with every year it continues to recede. The very demographic trends that are draining the region of economic energy are working against the Yankee states in terms of their political clout as well. In the 1950s, the Northeastern states had 141 House seats.[22] Now they are down to 111. They will lose four or five more seats after 2010. This slow drip, drip of lost political power will continue at least through 2030, as Table 5 shows. Between 1970 and 2030, the Northeast will have lost about one-third of its political power and relevance. New York and Pennsylvania will have lost 40 percent of their congressional seats.

State Political Winners and Losers

The map below shows the shrinking political influence of the Northeast and Midwest as well. Political power has shifted steadily to the perimeter states in the South and West. The red states are gaining muscle as the Northeast corridor surrenders its command of national politics (see Figure 2).

The Northeast is analogous to the once proud and mighty Boston Celtics—a franchise that still

Figure 2: Congressional Seat Apportionment 1970-2030

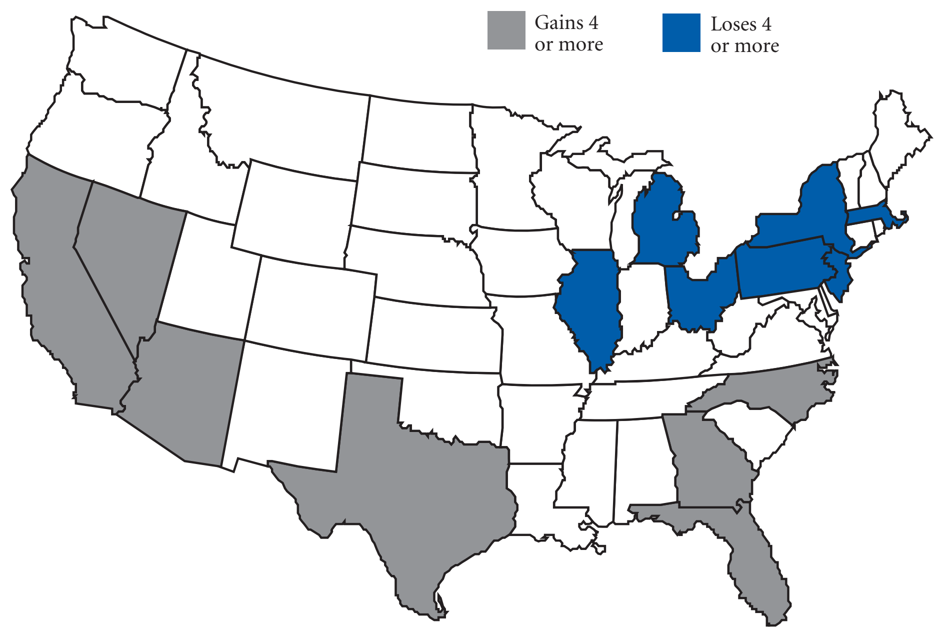


Table 5: Change in Apportionment of House Seats in the Northeast, 1970-2030

State	Number of Apportioned Representatives Based on Census 1970	Number of Apportioned Representatives Based on Census 2000	Number of Apportioned Representatives Based Census Projection, 2030	Seat gain/ loss from 1970 - 2030
Connecticut	6	5	4	-2
Maine	2	2	2	0
Massachusetts	12	10	8	-4
Rhode Island	2	2	1	-1
Vermont	1	1	1	0
Extended Northeast				
Delaware	1	1	1	0
Maryland	8	8	8	0
New Jersey	15	13	12	-3
New York	39	29	23	-16
Pennsylvania	25	19	15	-10
New England Total	23	20	16	-7
Extended Northeast Total	111	90	75	-36
Rest of U.S.	324	345	360	36

Source: House of Representatives, Office of the Clerk and U.S. Census Bureau.

revels in its glory days of the 1950s and 1960s with Bob Cousy and Bill Russell, and then a return to glory in the 1980s with Larry Bird and Kevin McHale. But today the franchise is in long run decline.

As with every failing institution in the world today, the Northeast now confronts a clear choice: Change or die. At the time of this writing, it is not at all clear that the political class in this region will choose the right course.

Top State Performers and Cellar Dwellers

As the above sad tale of the political and economic demise of the Northeastern states demonstrates, economic policies in the states matter a great deal. Let's examine which states have been the biggest winners and losers in recent years in the scramble for jobs, businesses, and people. In this section we present a ranking of state economic performance over the past 10 years, 1996-2006, based on three objective criteria equally weighted:

- Absolute Domestic Migration
- Per capita income growth
- Employment growth

The results for this ALEC-Laffer State Economic Competitiveness Index are found in Table 7. As the results show, the Northeast and Midwest lost ground while the South and West (except for California) gained traction.

Case Study #1: California Leavin'

It takes a lot of public policy folly to persuade people to pack their bags and abandon California's sunshine, 70-degree weather, scenic mountains, and beaches, but lately the politicians in Sacramento have proved themselves up to the task. The latest Census Bureau data indicate that in 2005, 239,416 more Californians followed Tiger Woods's lead and left the state than moved in. That was also the case in 2003 and 2004. The native-born out-migration flows have become so systemic that the cost to rent a U-Haul trailer to move from Los Angeles to Boise, Idaho is $2,090—or some six times more than the cost of moving in the opposite direction.[23]

What's gone wrong with the Golden State? A big part of the story is a tax and regulatory culture in Sacramento that treats rich people as if they were cash dispensing ATM machines. The cost for businesses of complying with California's rules, regulations, and paperwork is more than twice as high as other Western states.[24] Perhaps this story is a sign of the times: One of the leading companies that manufactures surfboards, a quintessential California firm, closed operations in California due to fear of "fines, civil lawsuits, and even time in prison."[25]

But the real growth killer is California's steeply "progressive" income tax with a 10.3 percent rate applied to high-income residents—the highest in the nation outside New York City. The richest 10 percent of earners pay almost 75 percent of the income tax burden in the state. And most of these "evil rich" are small business owners, i.e. the people who create the jobs.[26]

This has all been tragic because California has traditionally been a high-growth state—though there has been much volatility. During certain periods, personal income in California surges, while at other times California's growth lags the nation's (see Figure 3). From 1975-1978, personal income growth in California exceeded the average U.S. personal income growth by nearly 28 percent. Then, in 1978, Proposition 13 passed. In the following three years, personal income growth in California skyrocketed compared to the rest of the nation.[27]

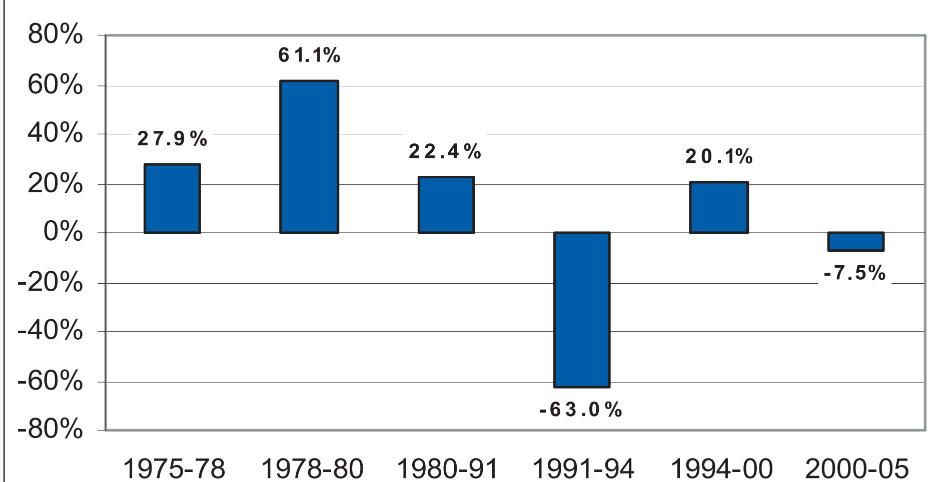
Proposition 13 limited property taxes in the state to one percent of a property's market value (down from the 3.5 percent rate that existed at the time), rolled assessed property values back to their 1976 levels, and capped annual growth in property tax bills at two percent (unless the property changed hands, at which point its market value was reassessed). Just as importantly, Proposition 13 mandated that any tax increases in the state must be

Table 6
Employment Growth in the Northeast, 1970-95

	1970-95
New England	
Connecticut	31%
Maine	63%
Massachusetts	33%
Rhode Island	28%
Vermont	83%
Extended Northeast	
Delaware	69%
Maryland	62%
New Jersey	38%
New York	10%
Pennsylvania	21%
Washington, D.C.	14%
New England Total	36%
Extended Northeast Total	25%
Rest of U.S.	82%

Source: U.S. Census Bureau

Figure 3
Personal Income Growth Premium in California Compared to the U.S. Average



Source: U.S. Census Bureau

Table 7 ALEC-Laffer State Performance Index, 1996-2006

	State	Absolute Domestic Migration	Per Capita Personal Income	Employment
1	Texas	3	12	7
2	Florida	1	23	4
3	Arizona	2	24	2
4	Virginia	12	7	12
5	Montana	21	3	10
6	Wyoming	27	1	6
7	Colorado	9	17	9
8	New Mexico	28	10	8
9	Oklahoma	23	2	23
10	Idaho	13	33	3
11	Washington	10	28	13
12	Maryland	35	4	15
13	South Dakota	29	6	20
14	Nevada	6	48	1
15	Delaware	19	21	17
16	Maine	20	18	27
17	Vermont	25	9	31
18	Alabama	18	8	39
19	New Hampshire	16	32	19
20	Utah	34	31	5
21	South Carolina	8	38	24
22	North Dakota	36	14	22
23	Georgia	4	50	18
24	Rhode Island	33	13	29
25	North Carolina	5	45	25
26	Minnesota	24	26	28
27	Tennessee	7	35	36
28	Oregon	11	46	21
29	California	49	15	14
30	Kentucky	14	34	32
31	Alaska	30	43	11
32	Arkansas	15	37	33
33	Wisconsin	22	30	35
34	West Virginia	26	22	41
35	Massachusetts	44	5	43
36	Kansas	40	19	34
37	Hawaii	39	41	16
38	New Jersey	47	20	30
39	Missouri	17	42	42
40	Connecticut	41	16	44
41	Nebraska	37	39	26
42	Mississippi	31	27	46
43	Louisiana	46	11	49
44	Pennsylvania	42	25	40
45	Iowa	38	36	37
46	Indiana	32	40	45
47	New York	50	29	38
48	Illinois	48	44	47
49	Ohio	45	47	48
50	Michigan	43	49	50

Source: U.S. Census Bureau

passed by a two-thirds "supermajority" vote in both houses of the legislature, and it also limited the ability of local government to raise taxes without voter approval. The relief was felt immediately by California homeowners.[28] The California tax burden had been $124.57 per $1,000 of personal income. That ranked fifth highest in the nation and towered by nearly 20 percent above the $105.16 for the nation as a whole. The tax burden immediately fell to $95 per $1,000 of income, nearly five percent *less* than the national average of $99.[29] Figure 4 shows that California's income growth has fluctuated in a direct inverse relationship with its tax burden.

California's economy came alive once Proposition 13 passed.[30] In 1977, California per capita personal income was 15 percent above the national average. By 1980, it was 18 percent above the national average. California's unemployment rate was 1.2 percentage points higher than the U.S. rate in 1977; in 1980 California's unemployment rate was lower than the national rate by 0.4 percentage points. Housing prices in the state soared.

And that wasn't all. People voted with their feet. California's population increased 24 percent between 1978 and 1988, more than twice the national increase of 10.7 percent. Between 1978 and 1988, the number of jobs in California increased by 32 percent, twice the 16 percent increase in jobs nationwide. Creation of more than three million jobs in California attracted Americans from other states as well as foreign immigrants.[31]

Figure 4 also illustrates how personal income growth significantly lagged the nation during Pete Wilson's tax increases, 1991-1994. Just as the pro-growth environment Proposition 13 created led to a relative personal income surge in California, these periods are associated with tax increases and poor overall fiscal policy. To its detriment, California is currently in the midst of a prolonged period of poor economic policies. Worse, the state's political leaders are showing no signs of reversing this trend.

The state budget deficit, a sign of excessive government spending, is a recurring problem, and in 2003 it hit $14 billion. California is also leading the nation with new and burdensome regulations. California is imposing strict carbon emissions restrictions on all power plants, cement producers, and oil refineries (regardless if they are located in California). According to a recent *New York Times* article, "Other states, particularly New York, are moving in some of the same directions, but no state is moving as aggressively on as many fronts. No state has been at it longer. No state is putting more at risk."[32]

A recent *Wall Street Journal* article summarizes California's obstacles quite elegantly:

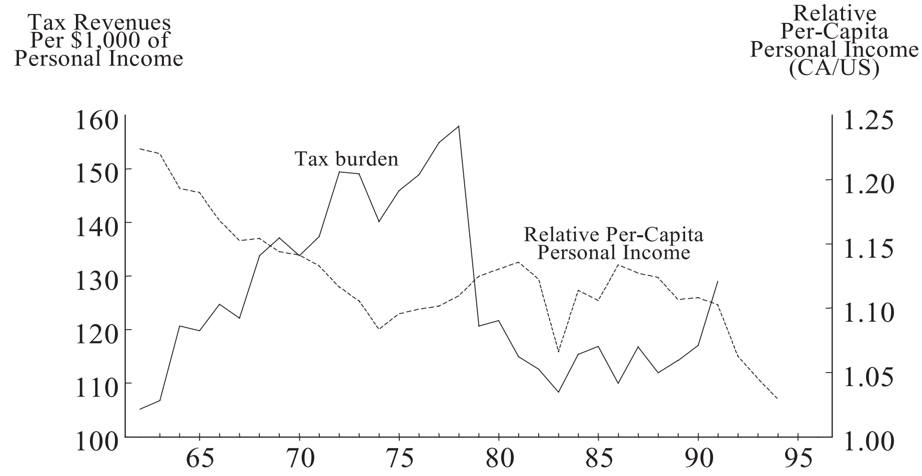
> *…which gets to California's potential problem. That state already boasts some of the highest energy prices, highest taxes, and toughest regulatory regimes in the U.S. Many of its businesses already depend on lower-cost energy from nearby states, and that practice will likely increase. Others have been looking for an excuse to leave the state for better business climates, and a costly global warming mandate could be the final enticement. One irony is that those companies that do depart for other states or other countries, such as China or India, may well be allowed to emit even more CO2 than they do now.*[33]

Another problem is the fact that California's high tax rates don't raise revenues.[34] An A.B. Laffer Associates study indicates that when California raised its income tax to 11.2 percent under Gov. Pete Wilson, the tax hike incited one of the worst fiscal crises in the state's history. As tax revenues cratered, the debt exploded, and high-income people fled the state never to return.

The Golden State's soak-the-rich tax philosophy has become a godsend for the economic development offices of neighboring states. Republican Assemblyman Ray Haynes has noted that the average high-income individual can buy a newly built house in neighboring Nevada and pay for it just from the money saved in a year of not paying California taxes.[35] There are scores of upscale housing developments in Las Vegas almost entirely filled with transplanted rich Californians, which no doubt explains why this is the fastest growing metro-area in the nation.

California, the fifth largest economy in the world—it just recently passed France—has the worst of all worlds: Taxes are sky-high and public services, most notably the roads and the public schools, are lousy. In 2006, Gov. Arnold Schwarzenegger endorsed $60 billion of new bonds in a state that is already the most indebted in the nation. The legislature in Sacramento refuses to save money by instituting common sense welfare reforms like strict work requirements and time restrictions—reforms that are standard practice in almost every other state. California political analyst Shawn Steel isn't exaggerating when he says "The politicians in Sacramento are the most left-wing collection of people ever to gather in one place at one time in North America."[36] In 2004, in the midst of the state's financial woes, the state Senate actually passed a bill that would impose fines of up to $150,000 on employers (including the Boy Scouts of America) if they "refuse to hire individuals on the basis of gender or perceived gender, which could include cross dressers, and transsexuals."

Figure 4
California Tax Burden and Relative Per Capita Personal Income



Source: U.S. Census Bureau

So now California is experiencing the great reverse gold rush, which surely will accelerate. In fact, one of us (Laffer) recently moved his home and business from Southern California to Nashville, Tennessee—where there is no income tax—in order to reduce his tax liability. And the Hollywood liberals are discovering the harsh reality that a state without businesses doesn't have jobs, and a state without taxpayers doesn't collect taxes.

The ALEC-Laffer State Economic Competitiveness Index

Of course, every state aspires to be a high-octane, high-growth state—a place of destination, not a place where people nostalgically say they are "from." The economic performance ratings on page 20 didn't just happen by chance. It is not a random occurrence that people move from Connecticut to Florida or from California to Nevada. They are driven by the law of supply and demand: High-growth states supply jobs, high incomes, and opportunities that Americans are in demand of. In this ALEC study we investigate what policy levers state legislators control that can make their state a desired location. Obviously, many important factors that make a place attractive—such as the climate, accessibility to beautiful beaches or mountains, or the mineral resources in the ground—are beyond the control of politicians. (Never mind that Al Gore and many other national politicians think that governments can actually change the global temperature.) And no one should think that Newark, New Jersey will ever compete on equal footing with Malibu, California, or that Flint, Michigan will ever be as desirable a destination as Palm Beach, Florida.

But the central premise of this publication is that the state economic policy decisions made by state legislators don't just matter in terms of how a state performs financially—they matter a whole lot. State officials can influence these factors—the economic, fiscal, and social policy legislation that contribute to, or in all too many cases against, the livability of a state—just as national leaders can impact the desirability of living or investing in a nation. If you don't believe that economic policies matter, then why is it that thousands upon thousands of people in East Germany risked their lives and fortunes every year to get through the Berlin Wall to move to West Germany? Or why the population of South Korea has increased four times faster than the population of North Korea? Why is it that Mexicans line up at the U.S. border to get into this nation to live and work here by whatever means they can, but not too many Americans sneak over the border to get into Mexico?

Overall State Rankings Based upon the equal-weighting of each state's rank in 16 policy variables	
Overall Rank	State
1	Utah
2	Arizona
3	South Dakota
4	Wyoming
5	Tennessee
6	Virginia
7	Colorado
8	Georgia
9	Idaho
10	Texas
11	Nevada
12	Indiana
13	Oklahoma
14	Florida
15	Arkansas
16	Michigan
17	Missouri
18	Alabama
19	North Carolina
20	New Hampshire
21	Louisiana
22	Delaware
23	Mississippi
24	North Dakota
25	South Carolina
26	Massachusetts
27	Iowa
28	New Mexico
29	Kansas
30	Wisconsin
31	Washington
32	Maryland
33	Montana
34	Nebraska
35	Minnesota
36	Oregon
37	Pennsylvania
38	Alaska
39	Connecticut
40	West Virginia
41	California
42	Illinois
43	New Jersey
44	Maine
45	Hawaii
46	Kentucky
47	Ohio
48	Rhode Island
49	New York
50	Vermont

In this study we have identified 16 policy variables that have a proven impact on the migration of capital—both investment capital and human capital—into and out of states. They are the basic ingredients to our 2007 Economic Competitiveness Rankings of the states. Each of these factors is influenced directly by state lawmakers through the legislative process. Generally speaking, states that spend less, especially on income transfer programs, and states that tax less, particularly on productive activities such as working or investing, experience higher growth rates than states that tax and spend more. The 16 factors are as follows:

- Highest marginal personal income tax rate
- Highest marginal corporate income tax rate
- Progressivity of the personal income tax system
- Property tax burden
- Sales tax burden
- Tax burden from all remaining taxes
- Estate tax/Inheritance tax (Yes or No)
- Recent Tax Policy Changes 2005-06
- Debt service as share of tax revenue
- Public employees per 10,000 residents
- Quality of state legal system
- State minimum wage
- Workers' Compensation Costs
- Right-to-work state (Yes or No)
- Tax/Expenditure Limit
- Education Freedom Index

Based on these factors, we rank the competitiveness of the states in the accompanied table.

ALEC-Laffer State Economic Competitiveness Rankings, 2007

We will explain in detail how well our 2007 Economic Competitiveness Rankings of the states works as a predictor of growth. But for now let us simply say that if state legislators will make it a priority to improve on each of these performance measures, they will be rewarded with faster growth and more jobs in their state. To illustrate this point we start by telling the tale of America's four largest states.

Case Study #2: The Largest States: A Story of Growth and Decline

The four largest states are on two separate paths as shown in Figure 5 (next page). Texas and Florida are implementing relatively pro-growth fiscal and regulatory policies. Both states rank very well in the ALEC-Laffer State Economic Competitiveness Index: Texas ranks 10 and Florida ranks 14. Neither Texas nor Florida has an income tax.[37] Both states have also been growing faster than the country as a whole.

California and New York by contrast have been implementing counterproductive fiscal policies that have eroded each state's relative economic competitiveness. Both states have among the highest taxes in the nation and have also been growing slower than the country as a whole.

The divergent experiences of those four states illustrate that when it comes to growth, it is the quality of the economic policies that matters, not necessarily the size—or the weather. California and New York share little in common other than their movement in a pro-government intervention direction in recent years. They both stand out as flashing billboards for what states should *not* do if they want to gain income and wealth.

Democrats for Growth and Tax Cuts

Growth is not a partisan issue. Nor are the ideas for prosperity laid out in this study. Just as importantly, Republicans have no monopoly on sound economic policy—far from it. Some of the worst governors in recent times, including Pete Wilson of California and Bob Taft of Ohio, were Republicans.

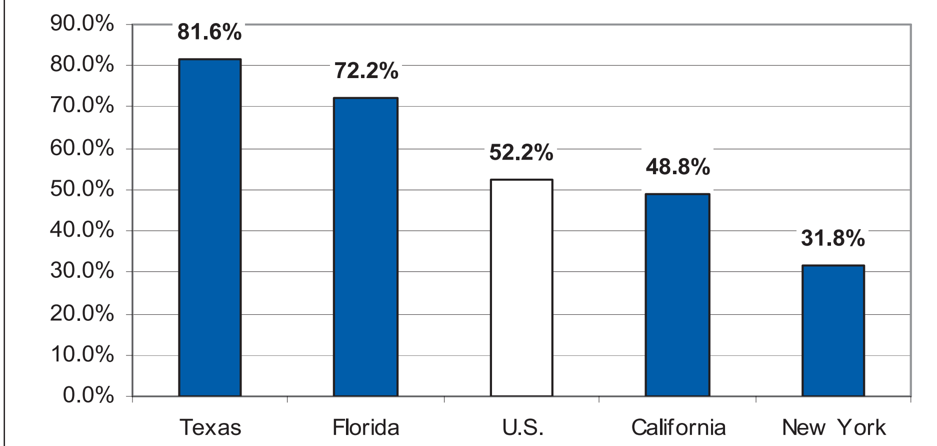
There are also signs that Democratic reformers understand the need to make their states more competitive by following the ideas laid out here. In 2006 one of the bluest states in the country, Rhode Island, with its 75 percent Democratic-controlled legislature, adopted one of the most sweeping pro-growth tax reform agendas that we've seen come down the pike anywhere in the country in many years. The Rhode Island renaissance plan allows residents the choice of a flat tax that would cut the top tax rate on high-income earners from 9.9 percent to 5.5 percent if they voluntarily give up deductions. With one swipe of the pen, Rhode Island has dropped from the 3rd to the 27th highest income tax state in the nation.[38] Add to that a cut and cap on the property tax burden, a reduction in the car tax, and an education tax write-off for private school tuition to expand choice options, and you have a state that has taken a moon bounce leap forward in improving its tax competitiveness.

Liberal, class warfare advocates in Providence have moaned and groaned over the inequity of these "tax cuts for the super wealthy." The Democrats smartly tuned them out and passed the tax cut by big margins. "What's happening is business leaders have a choice," says the House Speaker William J. Murphy. "These are people making $250,000 and above, and when they want to create jobs, they look at Massachusetts and see a 5.3 percent income tax, Connecticut with a 5.0 percent tax, and Rhode Island with a 9.9 percent tax. They make a choice on where to move and create jobs, and that difference in tax rates is a big factor in the choice they make."[39] Translation: Taxes affect economic behavior.

A handful of Democratic governors also signed into law ambitious tax cut plans in 2006.[40] Arizona's Janet Napolitano agreed to a 10 percent across-the-board cut in income taxes, and Oklahoma's Brad Henry accepted a budget that will cut Sooner tax rates by 10 percent and abolish the state's estate tax. Likewise, Virginia's governor, Tim Kaine, signed into law an abolition of the commonwealth's estate tax, much to the horror of Northern Virginians living inside the logic-free zone of the Washington Beltway.[41] Kaine reasons correctly that in too many instances the Virginia estate tax has incentivized business owners and wealthy residents to sell their homes and flee to locales without a tax imposed merely for the privilege of dying inside the state's borders. Our favorite story is what New Mexico's Democratic governor, Bill Richardson, has done in his state. He cut the state's highest income tax rate from 8.2 percent to 4.9 percent, and he cut the state's capital gains tax in half. "This was our way of declaring to the world that New Mexico is open for business," Richardson said. "After all, businesses move to states where taxes are falling, not rising," he continued, in language that would sound Greek to many Democrats in Washington.[42] The state now has a half-billion-dollar surplus, and over the last year its tax revenues have grown faster than any other state's. "We (Democrats) have to be the party of growth and the American dream, not the party of redistribution," Richardson counsels.[43]

Wise advice for state lawmakers in both parties, we'd say.

Figure 5
Growth in Personal Income 1990-2005



Source: U.S. Census Bureau

Tax Cuts and Debt: Does More of One Lead to More of the Other?

Is our call for leaner state governments and lower tax rates to improve competitiveness going to put vital public services at risk of famine funding? Will states still be able to balance their budgets if tax rates are slashed? Fair questions.

The first issue is whether tax reductions lead to a subsequent deterioration in a state's fiscal condition. The evidence from the 1990s indicates precisely the opposite. If tax cuts contribute to fiscal deterioration, then the bond ratings of states that cut taxes should be worse than those of states that raise them.[44] A comparison of tax-raising and tax-cutting states in the early 1990s found that in the tax-cutting states, the average Moody's bond rating in 1995 was between Aaa and Aa. In the tax-raising states, the average Moody's bond rating was between Aa and A1. Moreover, the tax-cutting states had much larger budget reserves (7.1 percent of state expenditures) than the tax-increasing states (1.7 percent).[45]

Because tax cuts can stimulate a state's economic development, whereas tax hikes can retard it, revenue growth is often faster than anticipated in the tax-cutting states and slower than anticipated in tax-raising states. After California's record $7 billion tax hike in 1991, actual revenue growth came in below projections in each of the next three years.[46] The same was the case in New Jersey after the Florio tax hikes in 1993. New York is perhaps the most amazing story of all. Tax increases in the late 1980s produced anemic revenue growth for the state treasury. But revenues climbed so rapidly after Gov. George Pataki's tax cuts in 1995 that according to the Empire Foundation, a New York taxpayer watchdog group, "Even when the final and deepest phase of New York's income tax cut was implemented [in 1997], the state's resurgent economy generated more income tax revenue under Gov. George Pataki than it ever did under former Gov. Mario Cuomo."[47]

Of the 15 states that cut income taxes by at least $75 million from 1995-1998, income tax revenues climbed by a robust 10 percent or more in every state except Michigan (where income tax revenues fell by 18 percent, but other tax receipts rose).[48] In eight of the 15 states, income tax revenue growth was at or above the rate for all 50 states (29 percent).[49] Clearly tax cuts can be an act of fiscal prudence and provide an economic stimulus for states.

The second objection to tax cuts is that money should be reserved for under-funded public schools or other "investment needs." It is understandable that politicians are sensitive to this argument. Public opinion polls consistently show that education is a top priority in our society. But the reality is that school funding already has been rising dramatically for a very long time. In 1970, spending in the public schools was roughly $3,400 per pupil (in today's dollars).[50] By 2000, per pupil U.S. education expenditures had doubled to $7,000, even after adjusting for inflation. Smaller class sizes are the latest fad in public education.[51] But class sizes have been steadily declining for the past 25 years. Since 1970, the number of pupils per teacher has declined by 23 percent, from 22.6 to 17.3.[52]

There is no evidence that this higher funding has led to better schools.[53] If more money were the answer to improving education, then the highest-spending states would have the finest education systems in the land and the lowest-spending states would be performing poorly. But state officials who believe that increased education funding is the solution to better school performance may be interested to learn that in 1997 the 10 highest-spending states spent twice as much as the 10 lowest-spending states, but average SAT scores in the more frugal states were 16 percent higher than in the big-spending states.[54,55]

There is no debate that America's schools need to do a better job of educating our children if the nation is to remain internationally competitive in the next century. Spending more money on the public schools, however, has been tried in earnest for decades, and it has yielded at best mixed results. As education analysts John Chubb and Terry Moe of the Brookings Institution have noted:

> *As for money, the relationship between it and effective schools has been studied to death. The unanimous conclusion is that there is no connection between school funding and school performance.*[56]

New solutions, including choice in education, charter schools, teacher pay for performance, and ending tenure to get rid of bad teachers, would seem to be much more promising ways to improve the schools than simply writing larger checks to an ailing public school system.

Case Study #3: Michigan Miracle to Malaise

Michigan is one of our favorite examples of a state that has gone from riches to rags, to riches, and back to rags over the course of the past several decades—with the cycles varying with the economic policies in place at the time. In the 1950s and 1960s, Michigan was one of America's richest states—the very emblem of America's industrial might. The Motor City was a beehive of activity, filled with vibrant and productive factories that built steel, cars, and other industrial equipment, employing hundreds of thousands of unionized UAW workers with high salaries and lots of generous benefits and perks. But starting in the late 1970s and through the 1980s, as the auto industry began to sag, Michigan's economy did, too.

One person changed all of that in a hurry: John Engler. Elected in 1990, Engler's three-term tenure as governor proved that policies do matter. When he took over the state house in 1991, Michigan was sputtering. The state's unemployment rate was about double the national average. The state budget was $1.5 billion in deficit. Michigan was considered the epicenter of America's rustbelt. Businesses were leaving the state in droves for more capital-friendly environments. Michigan had become the very symbol of American de-industrialization.[57]

The welfare dependency problem had become so insurmountable that there were 600,000 people on the dole. In Detroit, almost two of every three children born to a black mother were coming into a home without a father.[58] In the previous 30 years, Detroit had lost more than 40 percent of its population. Many commentators had written off Detroit as a "dead city."[59]

There were many policies initiated by John Engler that turned around this bleak condition, but tax cuts and welfare reform were by far the most significant. On welfare reform, Engler was the first governor to end general welfare assistance for employable adults. This basically ended a free entitlement to more than 80,000 Americans. It required work for benefits. The welfare establishment blasted Engler for this "inhumane policy." They said the policy would lead to death on the streets. When a homeless man died on the streets of Detroit one chilly winter evening, the welfare lobby blamed Engler for his death.

But the policy of requiring able-bodied Michigan citizens to work in exchange for government assistance was a startling success. The welfare rolls dropped rapidly and the vast majority of these tens of thousands of former welfare dependents found jobs and started to lead productive lives. The Michigan welfare rolls fell by 70 percent in the 1990s under Engler—making this state number two in the success of its welfare reform efforts.

Welfare reform reduced the benefit of not working. But those tens of thousands of people who left the welfare state needed jobs. And it was here that Engler moved aggressively in adopting a supply-side tax-cutting model. Invoking the name of Ronald Reagan, Engler began to chop the income tax in Michigan in order to attract more businesses. Skeptics said his policies could not work: Balancing the budget would require higher, not lower taxes.

When Engler was elected, the top income tax rate in Michigan was six percent. After a series of supply-side rate cuts, the top rate fell to 3.9 percent. This and some two-dozen other tax cuts—including a slashing of property taxes by half— helped cause what might be called an "Extreme Makeover." In 1997 and 1998, Michigan won the prestigious Governor's Cup for creating the most new plants and attracting the most new businesses in the nation. Michigan had been bleeding jobs in the 1970s and early 1980s.[60] In the 1990s, Michigan put 800,000 additional people in jobs. In early 2000, this Midwestern state that had once been the unemployment capital of the country recorded a jobless rate of just three percent, the lowest since Ford first introduced the Mustang Convertible in the mid-1960s.

Michigan was no longer an industrial plant state, but rather had become a corridor for high-tech entrepreneurship. It was, up until now, one of the nation's fastest growing states for attracting Internet and computer technology firms.

Engler's tax cuts went far beyond income tax reductions. In fact, there have been 26 separate tax cuts in the past decade. Total savings over this period to Michigan residents and businesses: nearly $12 billion. The other target of Engler's tax machete has been the property tax. Here the record is even more impressive. The average property tax for school funding has fallen from 36 mills to six mills—an 80 percent decline. No state has cut property taxes more than Michigan in the past decade. Part of the decline was financed by a half-point increase in the state sales tax—but the voters approved the tax shift overwhelmingly.

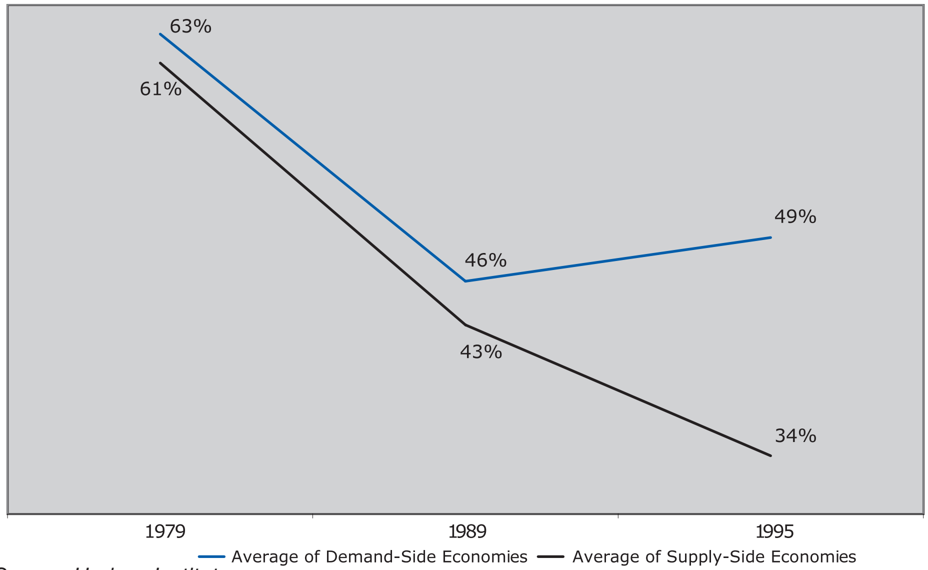
John Engler first launched his tax-cutting campaign during one of the gloomiest periods in Michigan's history. Engler believed that tax reduction was a precondition to economic revival and a permanently balanced budget. Here, again, he was correct. The $1.6 billion deficit was, by 1999, a $500 million annual surplus. Michigan now enjoys its best bond rating in 20 years.[61]

By the late 1990s, many national observers were shaking their heads in wonder at the improbable economic turnaround, which became known as "The Michigan Miracle." "We shocked the pundits and the prophets of doom and gloom," Engler said.[62]

John Engler's supply-side tax-cutting crusade is one of the great economic success stories of modern times. If imitation is the sincerest form of flattery, then it is a clear signal of his policy triumphs that the Engler model was adopted in states around the country. More than 30 states cut tax rates in the 1990s to regain competitiveness.

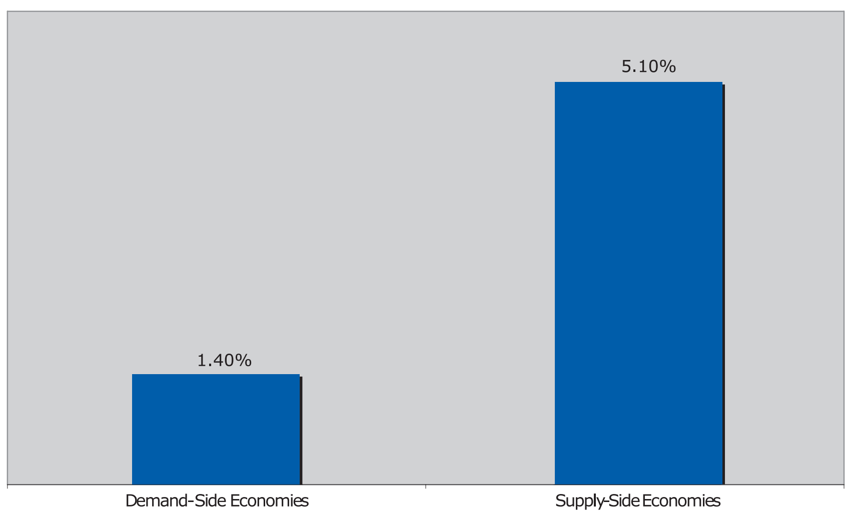
Alas, in the 2000s, Michigan moved away from these policies, its taxes started to rise again, and the economy began to atrophy—again. Mr. Engler allowed spending to increase in his last three years in office and his successor, Jennifer Granholm, believed the only way the state could balance the budget was to raise taxes.[63] Her budget proposal in 2007 called for the largest tax increase on Michigan businesses in the state's history. Michigan, in 10 years, went from one of the lowest unemployment rate states to one of the highest. "Our state moved away from supply-side pro-growth policy successes, and went back to the tax-and-spend model," according to the Mackinac Center, the state's free-market think tank. "We're now paying a heavy economic price for those policies."

Figure 6
Tax Rates and Growth: Top Marginal Rate



Source: Hudson Institute

Figure 7
Tax Rates and Growth: Average GDP Growth (1985-94)



Source: Hudson Institute

Taxes and the Wealth of Nations

This book is about the economic development of states, but we wish to emphasize that the economic growth principles underlying our analysis of state prosperity also explain why some nations grow and others fall behind. Taxes explain a lot of the difference between the growth rates of countries just as they do of states.[64] We should note that variations in national tax-and-spend policies can be expected to have larger impacts than the variations among states, because the disparity in national tax rates is much greater than among states. For example, the highest state income tax rate in the U.S. is 11 percent versus zero percent in nine states. But among nations, tax rates vary from a low of 13-15 percent in flat tax nations to a high of 50-60 percent in some European nations. There is a much higher incentive to leave a country that takes half your income than a state that takes 10 percent of it.

On the other hand, workers and businesses may be more sensitive to state tax rates because it is much easier and less costly to move from one U.S. state to another than it is to emigrate from one nation to another. Some nations have laws against emigrating to prevent expatriation and some have very tight immigration laws preventing people from moving inside their borders. But one of the greatest pro-growth aspects of the American experiment is that we have created a massive free trade zone among the 50 states. (The Commerce Clause of the Constitution prohibits states from erecting tariffs on interstate commerce and the Constitution also protects the rights of Americans to freely migrate among the states, which was not the case during the era of slavery.)

So do taxes and other "economic freedom" variables determine growth among countries? The answer to that question is a resounding yes. Alan Reynolds, an economist at the Cato Institute, has studied how countries that cut tax rates compared in terms of their economic growth rates with countries that didn't cut tax rates at all, or not by very much. He labeled the tax-rate-reduction countries, "supply-side economies," and the countries that raised tax rates in the 1990s "demand-side economies." His results were shocking.

The "supply-side economy" nations—whose tax rates fell from an average of 61 to 34 percent—experienced economic growth rates three times higher than the demand-side countries (see Figures 6 and 7). "Hong Kong, Singapore, and most other economies that have adopted supply-side tax strategies, have seen their private consumption and investment, good measures of living standards, increase three times the pace of the demand-side economies," he concludes.[65]

Case Study #4: Healthy, Wealthy and Wise—Is there a Trade-Off?

Okay, so we've provided some compelling evidence that high taxes hurt state and national economic performance. But critics say economic growth is not everything. What about quality of life? What about pollution? What about equality? What about health? We agree these, too, are very important.

For years prominent scholars and leaders, including the great American economist John Kenneth Galbraith, promoted the idea that we should forgo some freedoms to improve economic efficiency and output. Galbraith once noted that Americans wouldn't be cheered by news of higher GDP growth if they were choking on the air they were breathing. And we still hear American intellectuals tout the universal health care system in Canada and even Cuba. It may be that residents of states or nations are willing to sacrifice growth for improvements in other quality-of-life measures, such as a clean environment and equality. But do they have to?

To answer that question, we examined whether economic freedom and growth are correlated with these other measures. We found that the freer and more prosperous a nation is, the healthier its population.

In a Cato Institute study published annually, professors James Gwartney, Robert Lawson, and Walter Block rank 80 nations on economic freedom and then assign a grade of A for the most free to F for the least free.[66] The per capita income of the freest nations is $18,000. The per capita income of the least free nations is about 10 times lower or $1,700. As Adam Smith both understood and predicted over 200 years ago, market-based economic policies, or what he called "the freedom to truck, barter, and exchange," are powerful engines for economic growth. How do those "A" nations fare on other measures of well being?

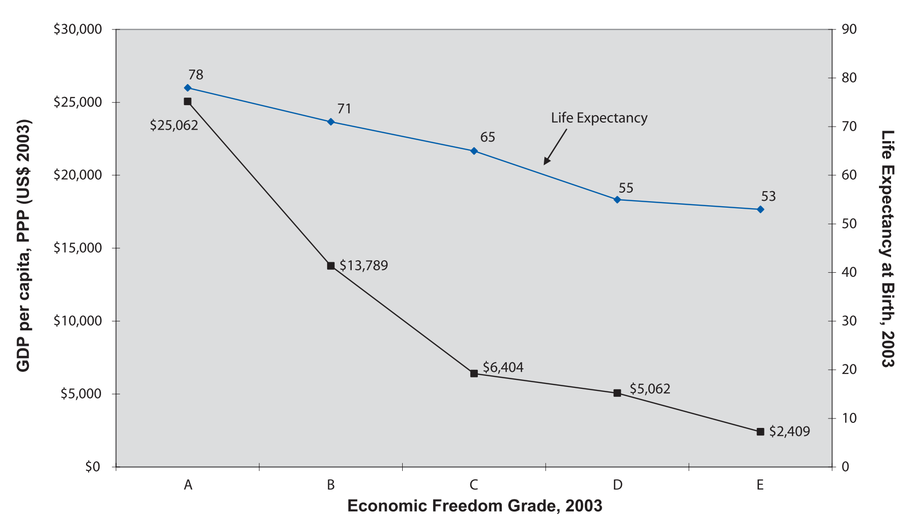
The best single measure of health in a society is life expectancy for it captures within it all sorts of other trends of health improvement: infant mortality, disease rates, quality of medical care for the population, nutrition, etc. As Figure 8 shows, people living in the free nations have substantially longer life spans (almost 30 years) than the citizens of nations that impose restrictions on individual freedom. There is further confirmation of this relationship when we examine what happened in nations that were divided into free and unfree pairs after World War II. South Koreans today have a much longer life expectancy than North Koreans. Taiwanese have longer life expectancies than the Chinese. And by the time the Berlin Wall came down, West Germans had achieved longer life expectancies than East Germans.

The freest people are not just overwhelmingly the richest, but they live the longest lives and are thus the healthiest. For those, like us, who believe that human freedom is a powerful good and that poverty is bad, it is heartening to know that these forces overpoweringly work together, mutually reinforcing each other and improving the human condition.

Is There a "Third Way" for States?

What about the "third way?" This was supposed to be a midway point between the failure of communism and the brutishness of laissez-faire capitalism. Part government and part private sector working together to grow economies and incomes in a way that is productive and fair to all citizens. This has been a popular notion in Western Europe in recent decades and among the intellectuals on this side of the

Figure 8



Source: The Cato Institute and the *Economist*, Economic Freedom of the World Index, 2005

Atlantic. Gov. Granholm of Michigan sounds almost French when she says her state must raise taxes in order to invest and grow the economy. Governors in Illinois, Washington, and Connecticut have made similar claims.

Unsurprisingly, the "third way" model has not performed well in Europe—particularly, in France, Spain, Italy, and Germany—and it is now being abandoned. One of the original motivations behind the creation of the European super-state was to create a counterweight to the economic superpower status of the U.S. Two competing economic models would vie for supremacy: the relatively laissez-faire market-based American model, and the welfare state, democratic socialist model of Europe.

So far, in the 21st century, this has been not much of a contest at all. The U.S. has substantially outperformed Old Europe in terms of wealth and job creation.[67] The economic growth rate of the E.U. nations since 2003 has limped along at about half the rate of the U.S., although growth rates are picking up there. The unemployment rate in Old Europe has been consistently about 50 percent higher than the jobless rate in the U.S. and U.K. Since 1980, the U.S. has created some 40 million new jobs versus about one-quarter that number in the Euro-zone, despite Western Europe having a 40 percent higher population base. In France the unemployment rate has hovered around 10 percent for nearly a decade now, and almost half of those without jobs are long-term unemployed, meaning they are out of work for at least a year.

If the divergence in economic performance between the U.S. and Europe that we have seen for the past 20 years were to continue for the next 40, the American worker will be roughly twice as wealthy as his European counterpart.

The Europeans have created a vast constellation of domestic policy interventions that are cloaked in the seductive rhetoric of compassion, fairness, and cultural sophistication. In reality they have suffocated work incentives and entrepreneurial activity. These anti-growth policies include highly generous welfare benefits for the unemployed; state ownership and/or subsidization of key industries (like the $15 billion bailout to Airbus); workplace rules that make it difficult for employers to hire and fire workers; prohibitions against closing down plants; heavy protections of labor unions against competitive forces; mandatory worker benefit packages that include health insurance, child care allowances, paid parental leave, and four to six weeks of vacation for employees; super-minimum wage laws; shortened work weeks; and, alas, high taxes on business and labor to pay for these lavish benefits. In sum, Europe penalizes work and subsidizes non-work, and unsurprisingly, they have gotten a lot of the latter and far too little of the former.

The countries that are showing hyper rates of economic growth are not following the Euro-model. China, India, Ireland, and Eastern Europe have assiduously avoided infection by the Western European disease. They are following the pro-growth operating system described in the ALEC-Laffer model presented here for states. This makes the case for states moving aggressively toward pro-growth changes all the more urgent. Michigan does not just compete for jobs against Minnesota and Massachusetts, but also Malaysia and Madagascar.

So beware of the European "third way" model. It has condemned the Euro-zone to two decades of anemic growth. The Europeans now recognize this; our state officials should, too.

Getting It Right–What's the Payoff?

So if states move in the direction we are recommending, how quickly can they turn things around? How much do the high-tax and high-regulation states sacrifice by adopting anti-growth policies? Certainly the examples of California after Proposition 13 and Michigan after the Engler "Miracle" suggest that a quick reversal of fortune is possible. Both California and Michigan saw dividends within two years.

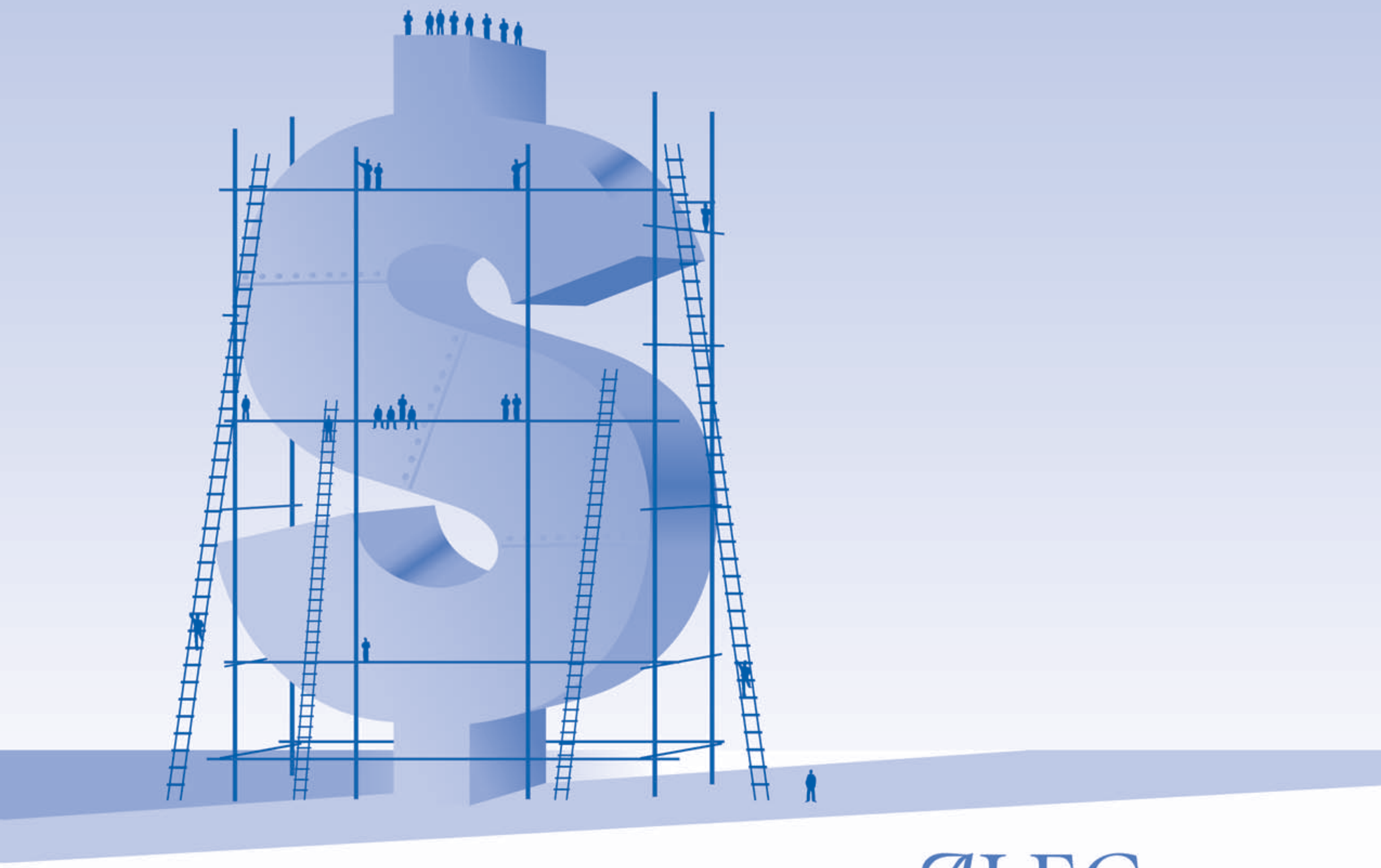
Our friends at the Pacific Research Institute examined what states gain in dollar terms from economic freedom and how much states lose by sacrificing economic freedom. They found that the highest economic freedom states, Delaware, Tennessee, and Florida, gain about $5,000 each in increased output per person from getting their economic policies right. The three bottom states, West Virginia, Rhode Island, and New York, lose about $5,000 per resident in income and output. The per capita GDP of the highest economic freedom state, Delaware, is $58,500 or twice the per capita GDP of the lowest state, West Virginia ($25,219). In sum, being poor is correlated with being from a state with bad economics and high taxes.

Conclusion

In the sections that follow, we will:

- Review the history of state and local government spending and taxing throughout the past century as well as show trends of the states in recent years.
- Explain why each economic variable in the Competitiveness Rankings has an impact on state economic performance.
- Show which states have had the strongest economic performance and the weakest, and then relate these performance measures with each state's ranking on the competitiveness index.
- Provide a comprehensive data review and analysis of each state's relative position on the competitiveness index.

SECTION II
THE STATE ROADMAP TO PROSPERITY



ALEC
American Legislative Exchange Council

Introduction

"The power to tax is the power to destroy."
McCullough vs. Maryland

In the previous section, we presented the policy interventions, which determine the rankings on the ALEC-Laffer State Economic Competitiveness Index. In this section we provide a primer on how and why taxes, over-spending, regulation, excessive litigation and other factors in our index inhibit a state's capability to generate economic growth and jobs. Because taxation is one of the most heavily-weighted factors in our index, let's start by reviewing why higher state tax rates inhibit economic performance of states. Later we will address the importance of the remaining policy variables.

Taxes and Growth: The Inverse Relationship

There are few more tested propositions in economics than this: High taxes lower the growth of income, wealth, employment, capital investment, and in-migration. Nations around the globe are cutting their taxes to become more cost competitive with neighboring jurisdictions. Reaganomics, the notion that low taxes can stimulate growth, is now the economic operating system around the world. And we have seen on a national level the pro-growth impact of President George W. Bush's investment tax cuts.

Hardly a month goes by without some scholar completing a study showing the adverse effects of tax increases and the positive effects of tax reductions. To demonstrate that point, we provide some citations from four studies published in the past year by the nation's most prestigious economic research organization, the National Bureau of Economic Research:

"Americans now work 50 percent more than do Germans, French and Italians. This was not the case in the early 1970s… this marginal tax rate accounts for the predominance of the differences at points in time and the large change in relative labor supply over time."[1]

"Regressions on rich-country samples in the mid-1990s indicate that a unit standard deviation tax rate difference of 12.8 percentage points leads to 122 fewer market work hours per adult per year, a drop of 4.9 percentage points in the employment-population ratio, and a rise in the shadow economy equal to 3.8 percent of GDP."[2]

"The individual income tax burden on dividends was lowered sharply in 2003 from a maximum rate of 35 percent to 15 percent...The surge in regular dividend payments after the 2003 reform is unprecedented in recent years."[3]

"This evidence is consistent with the notion that wealthy elderly people change their real (or reported) state of residence to avoid high state taxes…"[4]

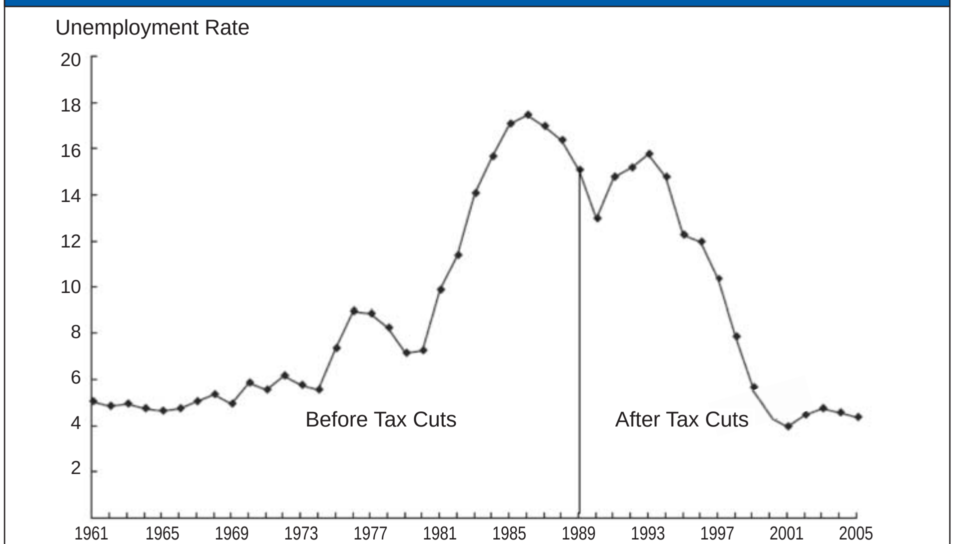
The first two of these studies (one done by a recent winner of the Nobel Prize in Economics, Edward Prescott) say that high taxes lead to significant reductions in the amount of work people do—both the number of workers falls, as well as the hours they work. The other studies say that when dividends are taxed less, there are more of them, and that people move into lower-taxed states and out of higher-taxed ones.

The notion that "taxes matter" leads to an even broader conclusion: High taxes mean lower economic growth. This became popular in the late 1970s and early 1980s as studies utilizing new computer-based statistical techniques as well as simpler modes of analysis observed that high taxes led to lower growth. Pioneer academic studies and popular writings by Robert Genetski, Richard Vedder, Jay Helms, George Gilder, Alan Reynolds, Bruce Bartlett, the late Warren Brookes, Larry Kudlow, Laurence Lindsey, Jude Wanniski, Martin Feldstein, Daniel Mitchell, and the two of us (Laffer and Moore) have all shown scientific evidence that lowering taxes stimulated economic activity.[5] The Eastern Europeans understand this, which is one reason they are all moving to low flat rate tax systems of 13 to 25 percent. Ireland has become the "Celtic Tiger" by reducing its tax rates, especially by lowering its corporate income tax rate down to 12.5 percent—the lowest corporate tax rate in the industrialized world.

Case Study #5: What States Can Learn from the "Irish Miracle"

Ireland is a nation that just over a century and a half ago had some 8 million people. But by 1980 that population had fallen to 5 million (4 million in the Republic) with far more Irish living in America than in Ireland. In the 1960s, '70s, and '80s, Ireland became a giant welfare state with high taxes, generous benefits for not working, and an industrial base in wreckage. A movie, "The Commitments," depicted a rock 'n' roll band with several of the band members

Figure 9
Ireland Unemployment Rate, 1961-2005



Source: Ireland Central Statistics Office and U.N. International Labour Organization.

on welfare. "It beats working," was one band member's famous response when asked why he stood in long lines for monthly benefits. Indeed, it did—and Ireland's GDP stagnated.[6]

In the 1990s, everything changed. Welfare policy was reformed; government services and enterprises were privatized; and most importantly, the corporate income tax rate was cut to 12.5 percent—not just the lowest in Europe, but one-third the average rate on the continent. In the succeeding 10 years, for the first time in decades the population grew (to 5.7 million), GDP rose at twice the rate of Europe's, and more than 1,000 international companies, such as Intel, Bristol-Myers, Squibb, Microsoft, Dell, and Motorola, moved in.

In 1991, Germany had a per capita income that was twice that of Ireland's. By 2004, Ireland's per capita purchasing power of 25,100 euros exceeded Germany's at 21,700. In less than a decade-and-a-half, Ireland climbed from last to first in Europe. The Irish brain drain that started during the potato famine of 1845 and continued almost unabated for the next 150 years has finally reversed course. Now brains are coming to Ireland. The unemployment rate has fallen from 18 percent to six percent (see Figure 9). The Irish are the Celtic Tiger of Europe and low tax rates have played a critical role in this amazing economic rehabilitation.

The Ten Principles of Effective Taxation

So let us now establish some basic rules for state policymakers to live by regarding the effect of taxes on economic performance.

PRINCIPLE #1: When you tax something you get less of it, and when you tax something less, you get more of it.

Tax policy is all about reward and punishment. Most politicians know instinctively that taxes reduce the activity being taxed—even if they don't care to admit it. Congress and state lawmakers routinely tax things that are "bad" like cigarettes, alcohol, and gambling to discourage such activities. We reduce, or in some cases, entirely eliminate taxes on behavior that we want to *encourage*, such as buying a home, going to college, investing in energy-efficient appliances, giving money to charity and so on. By lowering the tax rate in some cases to zero, we lower the after-tax cost, in the hopes that this will lead more people to engage in that activity.

This is why it is wise to keep taxes on work, savings, and investment as low as possible in order not to deter these activities.

Case Study #6: The Empire State: Taxed to Death

No state exemplifies the impact of over taxation on work and investment more than New York. New York economist and professor Steve Kagann found that between 1975 and 2000 there was a clear inverse relationship between New York's job creation and its tax burden, as shown in Figure 10. Here is how Kagann describes these results:

> *"History demonstrates that the ability of the upstate [New York] economy to provide opportunity, prosperity, and stability for New Yorkers is directly and inversely related to the propensity of the state government to spend and tax. More government means fewer jobs and less growth….*
>
> *"The excess tax burden, the degree to which New Yorkers bear a state and local tax burden over and above what other Americans bear, is represented by the upper line. The lower line represents the state's ability to grow jobs relative to other states. The result is crystal clear. When government becomes a growth industry, the private sector heads south—in New York's case figuratively and literally."*

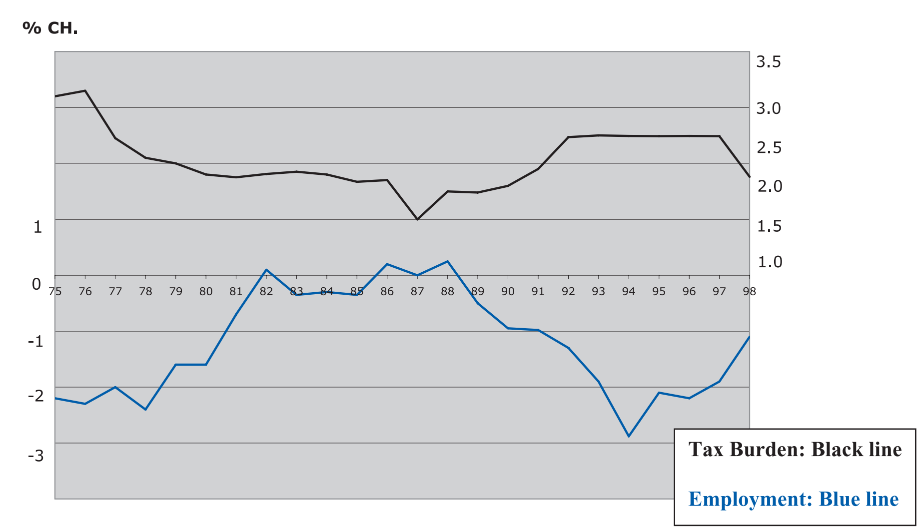
After adjusting for wage and cost-of-living differences, the average New York City resident can expect to keep slightly more than 65 cents of every $1.00 earned—and this is before the impact of the federal income tax has been calculated. Because of this confiscatory rate, New York City has the worst income incentive rate in the country. The state also imposes the largest property tax burdens on its citizens as well as a highly progressive tax code that further discourages innovation and economic activity.

Between 1995 and 1998, New York cut taxes under Gov. George Pataki.[7] The result was a temporary revival and the best private economic performance in decades. New York raised more money in the eight years after George Pataki chopped tax rates than did Mario Cuomo in the eight years after he raised taxes. However, taxes rose again in the late 1990s and early 2000s, and the upstate region is again one of the most depressed areas in the nation.

PRINCIPLE #2: Individuals work and produce goods and services to earn money for present or future consumption.

Workers save, but they do so for the purpose of husbanding their resources so they or their children can consume in the future. A corollary of this proposition is that people do not work to pay taxes—though some politicians seem to think they do.

Figure 10
Excess Tax Burden And Relative Employment Growth: Upstate NY vs. U.S.



Source: State of New York, Office of Economic Affairs

Case Study #7: The Supply-Side Version of Robin Hood

Don't believe for a moment that highly progressive tax structures in California or New York help the poor, the minorities, or the disenfranchised. They don't. Just on an intuitive level, it should be self-evident that if a government taxes people who work and pays people who don't work, there will be more people who don't work and fewer people who do work.

All of us understand the importance of helping those who have difficulty helping themselves. The question is not whether you want to help the poor. The question is, how can you make the poor better off?

If the rich are taxed and the money is given to the poor, do not be surprised if the number of poor persons increases and the number of rich persons subsides. People respond to incentives; it is the way the world works. If you make an activity less attractive, people will do less of it. If you make an activity more attractive, people will do more of it. Taxes make an activity less attractive and subsidies make an activity more attractive.

Let's retell the story of Robin Hood, only here the supply-side version. Robin Hood and his band of merry men would start their days hiding among the trees in the Sherwood Forest waiting for hapless travellers on the trans-forest throughway.

If a rich merchant came by, Robin Hood would strip him of *all* his belongings. Before you feel sorry for him, remember he is so rich that by the time he gets back to his castle there will be an abundance of jewels and wealth waiting for him. He'll be just fine, none the worse for the wear.

If just a prosperous merchant came through the forest, Robin Hood would take *almost* everything, but not all. Of a normal, everyday businessman's belongings, Robin Hood would seize just a moderate chunk. And if a poor merchant came through the forest, one who could barely make it, he would be deprived of a little token.

In the vernacular of our modern day society, Robin Hood had a progressive stealing structure. You recognize the model, don't you? Doesn't it sound like the California government to you or other tax systems used in this country?

At the end of the day, Robin Hood and his men would then take their contraband back to Nottingham to "help" the poor. They would distribute their treasures to citizens based on their destituteness.

Using today's words, the more a person makes, the less Robin Hood gives him, and the less a person had, the more he would receive. You follow the model: He stole from the rich and gave to the poor. This is the story of Robin Hood.

Now, put on your supply-side economics hat and imagine for a moment that you are a merchant back in the ancient days of Nottingham: How long would it take you to learn not to go through the forest?

Those merchants who couldn't afford armed guards would have to go around the forest in order to trade with the neighboring villages. Of course, the route around the forest is longer, more treacherous, and, as a result, more costly.

Those merchants who could afford armed guards (today's equivalent of lawyers, accountants, and lobbyists) would go through the forest and Robin Hood couldn't rip them off. As a result, Robin Hood had no contraband to give to the poor. All he had succeeded in doing was driving up the cost of doing business, which meant the poor had to pay higher prices and were literally worse off. By stealing from the rich and by giving to the poor, Robin Hood made the poor worse off.

And so it is in high-tax states. The poor, who rely on the state for their sustenance, are having their benefits cut to the bone. Because of some states' unfriendly business policies, unemployment rates rise. We could go on, but the point is simple enough: Progressive tax structures do not benefit the truly needy.

In its attempts to redistribute income, government never, ever succeeds. What it does accomplish is the destruction of the volume of income. Government cannot change the distribution of income with taxes, but it can and does lower the volume of income with taxes. As we look across the world at the progressive tax structure of California and other economies, it's amazing how the distribution of income, if anything, is made worse.

PRINCIPLE #3: Taxes create a wedge between the cost of working and the rewards from working.

To state this in economic terms: The difference between the price paid by people who demand goods and services for consumption, and the price received by people who provide these goods and services—the suppliers—is called the wedge. Income and other payroll taxes, as well as regulations, restrictions, and government requirements, separate the wages *paid* by employers from the wages *received* by employees. If a worker pays 15 percent of his income in payroll taxes, 25 percent in federal income taxes, and five percent in state income taxes, his \$50,000 wage is reduced after-tax to \$27,500. The lost \$22,500 of income is the tax wedge. The wedge is the difference, or some 45 percent. Large as the wedge seems in this example, it is just part of the total wedge. The wedge also includes excise, sales, and property taxes plus an assortment of costs such as the market value of the accountants and lawyers hired to maintain compliance with government regulations. As the wedge grows, the total cost to the firm of employing a person goes up, but the net payment received by the person goes down. Thus, both the quantity of labor demanded and quantity supplied fall to a new, lower equilibrium level, and a lower level of economic activity ensues. This is why *all* taxes ultimately affect people's incentive to work and invest, though some taxes clearly matter more.

PRINCIPLE #4: An increase in tax rates will not lead to a dollar-for-dollar increase in tax revenues, and a reduction in tax rates that encourages production will lead to less than a dollar-for-dollar reduction in tax revenues.

Lower marginal tax rates reduce the wedge and thus lead to an expansion in the production base and improved resource allocation. Thus, while less tax revenue may be collected per unit of tax base, the tax base itself increases. This expansion of the tax base will therefore offset some (and in some cases, all) of the loss in revenues because of the now lower rates.

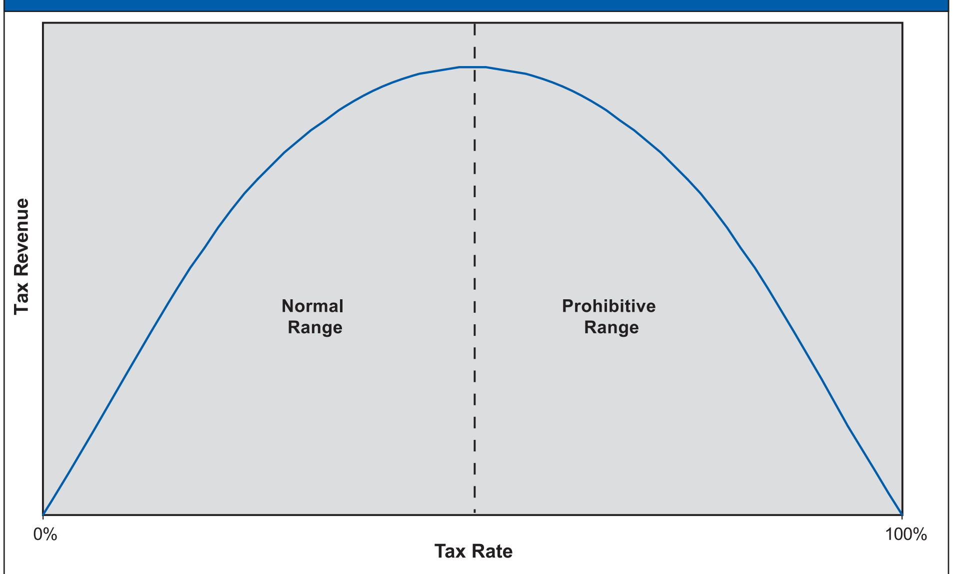
Tax rate changes also affect the amount of tax avoidance. It is important to note that legal tax avoidance is differentiated throughout this report from illegal tax evasion. The higher the marginal tax rate, the greater the incentive to reduce taxable income. Tax avoidance takes many forms, from workers electing to take an improvement in nontaxable fringe benefits in lieu of higher gross wages, to investment in tax shelter programs. Business decisions, too, are increasingly based on tax considerations as opposed to market efficiency. For example, at a 40 percent tax rate, which taxes \$40 of every \$100 earned, the incentive to avoid this tax is twice as high as when the tax rate is 20 percent and the worker forfeits \$20 for every \$100 earned.

An obvious way to avoid paying a tax is to eliminate market transactions upon which the tax is applied. This can be accomplished through vertical integration: Manufacturers can establish wholesale outlets; retailers can purchase goods directly from the manufacturer; companies can acquire suppliers or distributors. The number of steps remains the same, but fewer and fewer steps involve market transactions and thereby avoid the tax. If states refrain from applying their sales taxes on business-to-business transactions, they will avoid the numerous economic distortions caused by tax cascading. Michigan for instance, should not tax the sale of rubbber to a tire company, then tax the tire when it is sold to the auto company, then tax the sale of the car from the auto company to the dealer, then tax the dealer's sale of the car to the final purchaser of the car, or else the rubber and wheels will be taxed multiple times. Additionally, the tax cost that would be embedded in the price of the product would remain hidden to the consumer.

PRINCIPLE #5: If tax rates become too high, they may lead to a reduction in tax receipts. The relationship between tax rates and tax receipts is a proposition known as the Laffer Curve.

The Laffer Curve (Figure 11) summarizes a series of these diagrams. We start this curve with the undeniable fact that there are two tax rates that generate zero tax revenues: a zero tax rate and a 100 percent tax rate. (Remember **Principle #2**: People don't work for the privilege of paying taxes, so if all their earnings are taken in taxes, they don't work, or at least they don't earn income that the government knows about. And thus the government gets no revenues.)

Figure 11
The Laffer Curve



Now, within what is referred to as the "normal range," an increase in tax rates will lead to an increase in tax revenues. At some point, however, higher tax rates become counterproductive. Above this point, called the "prohibitive range," an increase in tax rates leads to a reduction in tax revenues and vice versa. Over the entire range, with a tax rate reduction, the revenues collected per dollar of tax base falls. This is the arithmetic effect. But the number of units in the tax base expand. Lower tax rates lead to higher levels of personal income, employment, retail sales, investment and general economic activity. This is the economic or incentive effect. Tax avoidance also declines. In the normal range, the arithmetic effect of a tax rate reduction dominates. In the prohibitive range, the economic effect is dominant.

Of course, where a state's tax rate lies along the Laffer Curve depends on many factors, including tax rates in neighboring jurisdictions. If a state with a high employment or payroll tax borders a state with large population centers along that border, businesses will have an incentive to shift their operations from inside the jurisdiction of the high-tax state and into the jurisdiction of the low-tax state.

Economists have observed a clear Laffer Curve effect with respect to cigarette taxes.[8] States with high tobacco taxes that are located next to states with low tobacco taxes have very low retail sales of cigarettes relative to the low-tax states. Illinois smokers buy many cartons of cigarettes when in Indiana, and the retail sales of cigarettes in the two states bear this out. The same is true of high gas taxes. Motorists, especially truckers, "fill 'er up" before they enter the state.

Case Study #8: The Laffer Curve for Beer

Is there a Laffer Curve for Budweiser and Michelob consumption? That is, can taxes get so high on alcohol that raising them at the state level reduces tax revenues? A 2004 Tax Foundation study documents that there is competition among the states for beer purchases and that beer drinkers make more purchases in low beer-taxed states than high beer-taxed states. In 2000, for example, states lost $40 million in sales and excise tax revenues because of cross-border beer shopping.[9]

The study found that "the greater the price differential, the more likely it is that individuals living in border areas of high-tax jurisdictions will shop in a low-tax jurisdiction." The beer tax differential can be substantial. For example, the beer tax (per barrel) is $32 in Bible belt Alabama, but just 62 cents in Wyoming. Washington's sales tax on beer is $8 per barrel versus $2.60 a gallon in Oregon, its next-door neighbor. The biggest loser in this cross-border drinking was Illinois, which lost 4.5 percent of its revenues due to its residents purchasing beer out of state. The state lost $8 million in revenues because 4.8 million cases of beer were imported into the state by residents of the Land of Lincoln. Meanwhile, 15% of beer purchases in Delaware, which has among the lowest beer taxes in the Northeast, were to "out of staters." Delaware's windfall from the low taxes: $338,000 in revenues. And of course that doesn't include the extra business for its retail stores.

So Illinois: This Bud's for you.

PRINCIPLE #6: The more mobile the factors being taxed, the larger the response to a change in tax rates. The less mobile the factor, the smaller the change in the tax base to tax rate changes.

Taxes on capital are almost impossible to enforce in the 21st century because capital is instantly transportable.

For example, imagine the behavior of an entrepreneur or corporation that builds a factory at a time when profit taxes are rather low. Once the factory is built, the low rate is raised substantially without warning. The owners of the factory may feel cheated by the tax bait and switch, but they probably do not shut the factory down because it still earns a positive after-tax profit. The factory will remain in operation for a time even though the rate of return, after tax, has fallen sharply. If the factory were to be shut down, the after-tax return would be zero. After some time has passed, and equipment needs servicing, the lower rate of return will discourage further investment, and the plant will move where tax rates are lower.

One recent study by the American Enterprise Institute has found that high corporate income taxes at the national level are associated with lower growth in wages.[10] Again, it appears a chain reaction occurs when corporate taxes get too high. Capital moves out of the high-tax area, but wages are a function of the ratio of capital to labor, so the reduction in capital lowers the wage rate.

The distinction between initial impact and burden was perhaps best explained by Nobel winner Friedrich Hayek, who makes the point as follows:

> *"The illusion that by some means of progressive taxation the burden can be shifted substantially onto the shoulders of the wealthy has been the chief reason why taxation has increased as fast as it has done and that, under the influence of this illusion, the masses have come to accept a much heavier load than they would have done otherwise. The only major result of the policy has been the severe limitation of the incomes that could be earned by the most successful and thereby gratification of the envy of the less well off."*[11]

Case Study #9: Taxes and Housing Prices

The least mobile factor of production is land and housing. If the tax burden becomes excessive in a state or city, we could expect capital to leave followed by businesses and families, but it's hard, if not impossible, to take your house and land with you. It is left behind and thus, in theory, land values and housing prices will bear the ultimate burden of higher taxes.

Several years ago, we tested this proposition with Richard Vedder of The Ohio University.[12] We examined the 10 states with the largest increase in state and local tax burdens as a percentage of income, from 1980-1990, and compared them with the 10 states with the smallest increase (actually, decrease) in tax burden for the same time period. Correcting for inflation, *real housing prices fell significantly (more than 12 percent) in the big tax-increase states, while real housing prices on average rose dramatically in the big tax-reduction states (almost 50 percent).* For the continental United States as a whole, real housing prices rose modestly (about eight percent).

This conclusion was not some sort of statistical fluke arising from one or two extreme values. Of the 10 states with the biggest percentage increase in tax burdens, nine of them saw a decline in housing values after allowing for inflation (Ohio, Indiana, Washington, West Virginia, Idaho, Texas, Iowa, Oregon, and Oklahoma). Only one state with significant tax increases had a rise in housing prices, South Carolina, and even there the increase in housing prices was in the single digits, and far less than in its neighbors to the north (North Carolina) or south (Georgia).

We also found that it wasn't just higher property taxes that held down housing prices. Changes in all forms of taxation have a negative effect on variations in housing prices. Although property tax changes have the biggest impact on housing price changes, other forms of taxation exhibit the same effects. This negative relationship was observed in the '70s, '80s, and '90s.

One example of this tax substitution effect was the response to the steep increases in income taxes on the rich in New Jersey in the early 1990s. This new tax was only intended to impact the wealthiest families in the Garden State. But the taxes were raised so high that many of these tax-targeted families moved out of the state. This out migration caused a reduction in property values at the high end of the market, but the slump eventually invaded the middle-class housing market. The middle class paid the tax burden in part through depressed home prices. That was one reason the taxes on the rich caused a middle-class revolt.

PRINCIPLE #7: Raising tax rates on one source of revenue will reduce the tax revenue from other sources, while reducing the tax rate on one activity will raise the taxes obtained from other activities.

For example, an increase in the corporate profits tax rate would be expected to lead to a diminution in the amount of corporate activity, and hence profits, within the taxing district. That alone implies less than a proportionate increase in corporate tax revenues. Such a reduction in corporate activity also implies a reduction in employment and personal income. As a result, personal income tax revenues would fall. This decline, too, would offset the increase in corporate tax revenues. Conversely, a reduction in corporate tax rates would lead to a less than expected loss in revenues and an increase in tax receipts from other sources.

PRINCIPLE #8: An economically efficient tax system has a broad tax base and a low tax rate.

Ideally, the tax system of a state, city, or nation will minimally distort economic activity. High tax rates alter economic behavior. Ronald Reagan used to tell the story that as an actor, he would stop making movies once he was in the 90 percent tax bracket because his after-tax income was so low. If the tax base is broad, tax rates can be kept as low and nonconfiscatory as possible. This is one reason that we favor a flat tax with minimal deductions and loopholes. It is also why 10 nations now have adopted the flat tax.

PRINCIPLE #9: Income transfer payments (welfare) also create a de facto "tax" on working and thus have a negative impact on the vitality of a state's economy.

Unemployment benefits, welfare payments, and subsidies represent a redistribution of income. For every transfer recipient, there is an equivalent tax payment or future tax liability. Thus, income effects cancel. In many instances, these payments are given to people only in the absence of work or output. Examples include food stamps (income tests), Social Security benefits (retirement test), agricultural subsidies, and, of course, unemployment compensation itself. Thus, the wedge on work effort is growing at the same time that subsidies to nonwork are increasing. Transfer payments represent a tax on production and a subsidy to leisure. Their automatic increase in the event of a fall in market income leads to an even sharper drop in output.

In some high-benefit states, such as Hawaii, Massachusetts, and New York, the entire package of welfare payments can pay people the equivalent of a $10-an-hour job (and don't forget welfare benefits are not taxed, but wages and salaries are). Because these benefits shrink as income levels from work climb, welfare can impose very high marginal tax rates (60 percent or more) on low-income Americans. And those tax rates have a deleterious effect. We found a high, statistically-significant, negative relationship between the level of benefits in a state and the percentage reduction in caseloads. The correlation is -0.54.

The 10 states with the lowest benefit levels slashed their caseloads by 58 percent between 1993 and 1998. The 10 states with the highest benefit levels only trimmed their caseloads by half that much. Hawaii, which offered the most generous welfare benefits of any state, totaling more than $30,000 a year, recorded the smallest reduction in caseloads in the nation in the 1990s.[13] Conversely, Mississippi, whose welfare package provided less than $11,000 a year, reduced their rolls by an impressive 70 percent.

High benefit levels reduce the attractiveness of a normal 40-hours-a-week job.

In sum, high welfare benefits increase the tax wedge between effort and reward. As such, output would be expected to fall as a consequence of making benefits from not working more generous. Thus, an increase in unemployment benefits is expected to lead to a rise in unemployment.

And finally, the most important of all principles for state legislators to remember:

PRINCIPLE #10: If there are two locations, A and B, and if taxes are raised in B and lowered in A, producers and manufacturers will move from location B to location A.

Our favorite real life example of this principle comes from Tennessee, which is location A, and Kentucky, which is Location B.

Case Study #10: Tennessee vs. Kentucky

Tennessee borders eight states, but Kentucky has the longest shared border and is probably the state most like the Volunteer State in many respects. The two states have similar histories and have comparable economic bases. In 1980, per capita income in the two states was nearly identical—just $8 (0.1 percent) apart.[14]

One big way in which Kentucky sets itself apart from Tennessee is tax policy. In 1980, state and local taxes as a percent of personal income were about 10 percent higher in Kentucky than in Tennessee, with the critical difference being that Kentucky levied a personal income tax, and Tennessee did not. From 1980 to 1996, Tennessee maintained its low-tax climate, with taxes as a percent of personal income actually falling slightly. By contrast, Kentucky went in the opposite direction. Taxes rose more than in any of the nine states bordering Tennessee (including Tennessee itself). Its income tax burden expanded enormously. By 1996, taxes per $1000 in personal income were $117.29 in Kentucky, but only $90.42 in Tennessee. The Kentucky tax burden was nearly 30 percent higher than in the Volunteer State.

What happened to the economies of the two states? Both grew, but Tennessee's percentage growth in real output per capita was more than one-third larger than Kentucky's. Whereas, in 1998 dollars, Tennessee's income per capita was a minuscule $16 higher than Kentucky's in 1980, by 1998 the income disparity had grown 129-fold to $2,064. It now takes the typical Kentuckian 13 months to make the income that a resident of Tennessee makes in a year.

Kentucky's income tax was a key factor in its relative stagnation for two reasons. First, as stated above, dollar for dollar, income taxes are worse than other taxes because they are a direct burden on production and income. Second, income tax revenues typically rise faster than incomes over time, so the overall tax burden tends to rise automatically in states relying on income taxes, unlike with states where sales, property, and other forms of taxation dominate. Since, dollar for dollar, private-sector activity is more efficient and growth-inducing than public-sector spending, the effect of income taxes in increasing the size of the public sector also retards economic growth in the long run. If Kentucky hopes to pick up lost ground to Tennessee, it will almost certainly have to lower its income tax, if not eliminate it altogether.

Taxes and Growth: Evidence from the States

Now we examine the real world evidence of the impact of taxes on relative state economic performance. Does the evidence match our taxation principles listed above? Do taxes have the "power to destroy?"

Academic Studies

Some of the most persuasive studies on the relative economic competitiveness of states examine the impact of tax policies on growth rates. In their analysis of the probable impact of the passage of Proposition 13 in California, Kadlec and Laffer examined the relationship between changes in the level of state and local tax revenues as a percent of personal income and growth in personal income.[15] Observations from the 20 states with the largest property tax revenues in 1965 and 1975 were used. Taxes were disaggregated in property taxes and all other taxes. The results showed a statistically significant negative relationship between increases in each tax burden and the rate of growth in personal income.

A more extensive study by Robert Genetski and Y.D. Chin[16] performed a cross-sectional analysis on all 50 states and Washington D.C. Again, changes in relative economic growth were related to changes in relative tax rates, this time between 1969 and 1976. The study concluded that during this time period, economic growth rates of particular states were not associated with relative levels of state and local tax burdens. A weak relationship was found based on changes in the states' relative tax burdens. Those states that had above-average increases in their tax burdens tended to experience below-average economic growth, and vice versa. However, once an allowance was made for a three-year period of adjustment, a strong, negative relationship was evident between above-average increases in tax burdens and economic growth. The study concludes, in part, that "...much of the slower-than-average economic growth experienced in many of the Northeastern states, such as New York, Connecticut, Rhode Island, Vermont, New Jersey, and Massachusetts, appears to be related to the sharp increases in relative tax burdens in those states. In contrast, New Hampshire's relative tax burden was lowered during this period, and its economic growth was above the national average. Similarly, the above average economic growth experienced in many Western and Southern states during this period is associated with decreases in their relative tax burdens.

Robert Newman[17] analyzed the relative growth rate in employment in the South relative to the non-South in 16 manufacturing industries and six other industries. The impact of three variables—corporate income taxes (changes in the corporate tax rate relative to the national average lagged 10 years), business climate (as indicated by right-to-work laws), and unionization (union membership as a fraction of nonagricultural work force)—were quantified. Newman's empirical results indicate that changes in relative corporate tax rates over the period as well as the extent of unionization and the existence of right-to-work laws were major factors influencing the shift of industry to the South from the non-South. Moreover, the evidence suggests that capital intensive industries are more sensitive to changes in the tax rate differentials, and less sensitive to labor cost differentials than are relatively labor-intensive industries."

In a 1982 study, Robert Genetski of the Harris Bank in Chicago compared taxes as a percentage of income in a state with income growth between 1963 and 1980.[18] Although he did not find a systematic relationship between average tax burden and income growth, he did uncover "an inverse relationship between *changes* in state relative tax burdens and state relative economic growth." According to Genetski, "Those states with decreasing relative tax burdens tend to experience subsequent above-average income growth. Those states with increasing relative tax burdens tend to experience subsequent below-average growth."

The Joint Economic Committee (JEC) of Congress published a landmark study in 1982, which further substantiated this finding.[19] That JEC study compared the tax policies in the 16 fastest income-growing states and the slowest income-growing states from 1970 to 1979. The results demonstrated that income growth in a state is inversely related to 1) the level of state and local tax burdens, 2) the changes in state and local tax burdens, 3) the amount of income taxes levied in the state, and 4) the progressivity of the income tax rates in the state. These relationships were found to be statistically significant. The conclusion of the study was as follows:

> *The evidence is strong that tax and expenditure policies of state and local governments are important in explaining variations in economic growth between states—far more important than other factors frequently cited such as climate, energy costs, the impact of federal fiscal policies, etc. It is clear that high rates of taxation lower the rate of economic growth, and that states that lower their tax burdens are rewarded with an enhancement in their economic growth. Income taxes levied on individuals and corporations are particularly detrimental to growth, more so than consumption-based taxes or user charges that do not reduce incentives to work or form capital. Progressive taxation not only lowers the rate of economic growth compared with proportional or regressive taxation, but in the process hurts the very persons that progressive taxes are designed to help: the poor.*

The JEC study determined a special sensitivity of a state's economy to changes in income taxes. The JEC discovered that the top 10 income tax-hiking states experienced a loss of 182,000 jobs, a 2.3 percentage point increase in the unemployment rate, and a $613 real decline in personal income per family of four. The top 10 income tax-cutting states saw 975,000 new jobs, an increase in the unemployment rate of only 0.3 percentage points, and a $148 real increase in personal income per family of four.

Economists Michael Wasylenko and Therese McGuire, in a 1985 study, found that between 1973 and 1980 the overall tax effort (taxes as a percentage of income) in a given state had "a negative and statistically significant effect on overall employment growth and on employment growth in manufacturing, retail trade and services."[20] They also found that sales taxes, which are traditionally thought not to impair employment opportunities, "had a negative and statistically significant effect on wholesale trade employment." The single stipulation to this general finding was that when the increased taxes were used to fund education, the effect on tax growth was positive.

Table 8
Impact of Highest Tax Rates on Interstate Migration
States with Highest Taxes on Rich

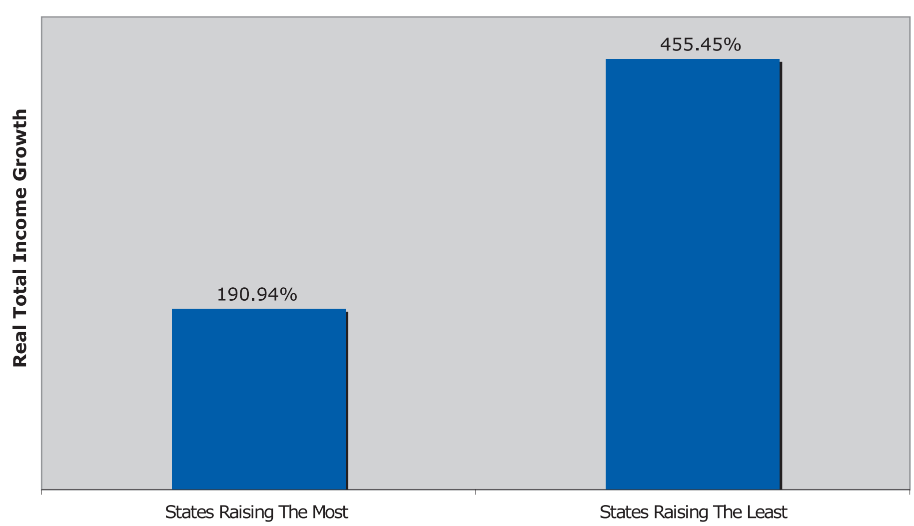
	Tax Rate on Top 1% Relative to National Average 1991	Growth in Population 1980-90
1. New York	11.3	-8%
2. California	10.6	16%
3. Maine	10.2	0%
4. Oregon	9.9	-1%
5. Hawaii	9.8	5%
6. New Jersey	9.7	-5%
7. Washington D.C.	9.7	-18%
8. Minnesota	9.6	-1%
9. Ohio	9.6	-8%
10. Rhode Island	9.6	4%
Average Ten Top Tax States		-2.4%

States with Lowest Taxes on Rich

	Tax Rate on Top 1% Relative to National Average 1991	Change in Population 1980-90
1. Nevada	1.8	41%
2. Wyoming	2.4	-12%
3. Alaska	2.5	28%
4. Florida	2.7	23%
5. Texas	3.1	4%
6. Washington	3.4	9%
7. South Dakota	3.5	-6%
8. Tennessee	3.6	-3%
9. New Hampshire	3.8	12%
10. Alabama	5.1	-6%
Average Ten Lowest Tax States		9.0%

Source: The Cato Institute

Figure 12
Economic Performance: 10 States Raising Income Taxes The Most vs. 10 States Raising Them The Least, 1957-1997



Source: U.S. Department of Commerce

Robert Newman, in examining state employment growth between 1957 and 1973, also concluded that taxes have a significant negative effect.[21] High corporate taxes were found to be particularly important in reducing state employment in "capital-intensive industries."

Businesses flee and avoid states with high relative tax burdens. That was the conclusion of a 1985 study by Timothy Bartik of Vanderbilt University, which reported that Fortune 500 companies' plant location decisions between 1972 and 1978 were significantly influenced by state tax policies.[22] According to Bartik:

> *"A 10 percent increase in a state's corporate income tax rate (for example, from 4.0 percent to 4.4 percent) is estimated to cause a 2-3 percent decline in the number of new plants. A 10 percent increase in a state's average business property tax rate (for example, from 2.0 percent to 2.2 percent) is estimated to cause a 1-2 percent decline in the number of new plants.... These changes in business location patterns put some limitations on the ability of states to redistribute income away from corporate stockholders, both in state and out of state, and toward other state residents."*

In some cases, state and local governments have so appreciably shrunk their corporate tax base because of high tax burdens, that higher taxes have even produced lower revenues. The classic case of this was in high-tax New York during the 1970s when over half a million people left the state, causing a loss of state and local tax revenues of $640 million. According to a 1976 New York State Special Task Force on Taxation to investigate the flight of people and capital:

> *"There is evidence that the present tax structure is in many respects counterproductive, fostering as it has an exodus of business, industry, and individuals, eroding the tax base, and shifting the burden of taxation relentlessly down the income scale. Either New York reduces tax levels now, or it will suffer an even greater revenue loss through further erosion of its tax base."*

That was a prescient prediction given the continued decline of New York in the 1970s and 1980s.

In a 2001 study, Richard Vedder looked at the change in states' tax burdens over a substantial period of time.[23] He found that over a 40-year period, states that raised taxes the most had an economic growth rate less than one-half the size of states that raised taxes the least, as shown in Figure 12.

Progressive State Income Taxes: The Worst

As alluded to in some of the studies surveyed in the above section, it is not just the overall *level* of taxes that matter, but the *kinds* of taxes as well. Not all taxes are created equal, and not all do the same damage.

Raising marginal tax rates seems to do the most economic damage. High tax rates violate **Principle #8** of taxation that optimally, tax rates should be low and the tax base should be broad.

One recent study to document an inverse relationship between state tax burden and economic performance was published in 1996 by economists at the Federal Reserve Bank of Atlanta.[24] The Atlanta Fed study examined personal income growth in the states from 1961-1992. The study is pioneering in that it examines the impact of average tax rates and marginal tax rates on income growth. The Fed study concludes that "relative marginal tax rates have a statistically significant negative relationship with relative state growth." It further found that state and local tax rates "have temporary growth effects that are stronger over shorter intervals and a permanent growth effect that does not die out over time. This finding supports the inference that part of growth is endogenous and susceptible to policy influence."

Case Study #11: What About Tax "Fairness?"

Pro-tax, income redistributionists argue that high tax rates on the rich are necessary to help the poor and to promote a just and equitable sharing of the tax burden. In fact, one liberal think tank in the early 1990s ranked states on the "fairness" of their tax systems. "Fair" was defined as imposing a heavy tax burden on the wealthy relative to the tax burden on the poor. States with high income tax rates tended to be labeled "fair" and states without income taxes were generally labeled the least fair.

So we used the index created by this liberal group, Citizens for Tax Justice, to examine the migration patterns in and out of these states.[25] We found that states with the highest tax rates on the richest one percent had much lower population growth than states with no income tax or flat rate income taxes. As shown in Table 8, the highly progressive income tax states had average population growth from 1980-1990, which lagged 2.4 percent below the national trend. The non-income tax states had population growth on average nine percent above the U.S. average. So it would appear that millions of Americans vote with their feet against "tax fairness."

A study by the Joint Economic Committee of Congress examined the economic growth records in the 10 states that had raised taxes the most in fiscal years 1990-1993 and the 10 states that had cut taxes the most over that same period.[26] The top 10 tax-hiking states experienced almost no net increase in jobs (3,000 on average), an increase in the unemployment rate by 2.2 percentage points, and a $484 real *decline* in personal income per family of four. In contrast, the top 10 tax-cutting states saw 653,000 net new jobs, an increase in the unemployment rate of only 0.6 percentage points, and a $300 real *increase* in personal income per family of four.

The contrast was even greater when only income tax changes were considered. The top 10 income tax-hiking states experienced the net *loss* of 182,000 jobs, a 2.3 percentage point increase in the unemployment rate, and a $613 real *decline* in personal income per family of four. The top 10 income tax-cutting states saw 975,000 net new jobs, an increase in the unemployment rate of only 0.3 percentage points, and a $148 real *increase* in personal income per family of four.

In all, 2,849,310 citizens moved into the non-income tax states from the other 41 states and the District of Columbia.

In a 2001 study for the Taxpayers Network, Richard Vedder examined the divergent economic fortunes of states with high and no income taxes over a 40-year period.[27] One of the most striking findings was that the states that raised the income tax the most over this period had only one-half the personal income growth of states that raised income taxes the least. He also found that "real income growth per person also grew faster on average in the low tax states" (see Figure 12, page 36).

The Most Recent Evidence on State Taxes and Growth

We recently examined the economic evidence for the most recent 10-year period, 1996-2006, for which official government data is available to verify that the inverse relationship between state taxes and state economic performance continued to hold true. We compared the economic results in the nine states with the highest income tax rates with the nine states without an income tax. The results fully confirm the earlier research: High income tax rates deter economic growth and job creation in states.

Major findings include the following:

- Employment Growth: Businesses and jobs migrated to low-tax states from 1996-2006. The non-income tax states had 23 percent job growth compared to 12 percent job growth in the high income tax states.
- Incomes: Total state income grew by 79 percent in the non-income tax states versus 60 percent in the high income tax states.
- Population Growth: Twice as high in the non-income tax states as the high income tax states.

The results are shown in Table 9 below.

Sales Taxes and Growth

The economic literature indicates that sales taxes are less harmful for a state economy than income taxes, but that high sales taxes can have unexpected negative effects as well. For example, they can raise the overall state tax burden and thus make a state less desirable. For this reason, we include state sales tax rates in our index of state economic competitiveness.

In a static revenue estimating world, a higher sales tax rate will simply collect exactly the additional revenue in proportion to the increase in the sales tax rate. So for example, increasing the sales tax from five percent to six percent is a 20 percent increase in the tax rate, and hence static analysis would assume a 20 percent increase in revenues. But we know the higher sales tax rate will lead to lower revenues than the static model predicts for at least four reasons:

1. Higher sales tax rates in one state encourage people to purchase major expenditure items across state lines in lower sales tax states, and this effect is especially pronounced for those who live near state lines.
2. Higher sales tax rates encourage more evasion and nonpayment.
3. Higher sales tax rates will encourage more Internet and catalog sales, which can often be transacted with no sales tax.
4. Higher sales tax rates will encourage less consumption and more savings (which may be a good thing), thus reducing the sales tax base.

The impact of sales taxes on retail sales along state lines is best documented in the case of Oregon and Washington. Oregon has no sales tax but a high income tax, and Washington has no income tax but an 8.9 percent sales tax in some cities such as Seattle.[28] How does this affect retail sales? According to a famous *Wall Street Journal* investigation a number of years ago, one startling result of Seattle's high sales tax is that people have voted with their automobiles to rank Portland first among all of the top 50 metropolitan areas in the nation in retail sales per capita. Here is how the *Wall Street Journal* put it:

There is 18 percent more money to spend per person in Seattle than Portland, and yet 69 percent more is spent in Portland than Seattle.

Table 9
The Nine States with the Lowest and the Highest Marginal Personal Income Tax (PIT) Rates vs. 10-Year Economic Performance, 1996 to 2006 **(current tax rate vs. performance between 1996 to 2006, unless otherwise noted)**

	Top PIT Rate*	Gross Domestic Product by State Growth**	Personal Income Growth**	Personal Income Per Capita Growth**	Population Growth**	Net Domestic In-Migration as a % of Population**	Non-Farm Payroll Employment Growth	Unemployment Rate, 2006
Alaska	0.00%	70.2%	52.6%	39.6%	9.8%	-3.9%	19.4%	6.8%
Florida	0.00%	94.0%	83.9%	46.4%	22.4%	8.9%	30.4%	3.2%
Nevada	0.00%	123.7%	120.1%	44.6%	52.7%	20.5%	52.9%	4.1%
New Hampshire	0.00%	73.9%	73.0%	55.2%	13.2%	6.0%	15.9%	3.4%
South Dakota	0.00%	71.0%	76.0%	62.1%	5.2%	-1.8%	14.5%	3.2%
Tennessee	0.00%	66.3%	63.6%	46.9%	11.9%	4.3%	9.6%	5.2%
Texas	0.00%	96.9%	87.2%	54.6%	20.6%	2.1%	20.8%	5.0%
Washington	0.00%	72.7%	70.6%	49.5%	14.7%	3.1%	18.6%	5.0%
Wyoming	0.00%	101.5%	86.0%	74.8%	5.0%	-2.0%	23.9%	3.2%
9 States With No PIT* **	**0.00%**	**85.6%**	**79.2%**	**52.6%**	**17.3%**	**4.1%**	**22.9%**	**4.3%**
9 States With Highest Marginal PIT Rate* **	**9.12%**	**62.1%**	**59.6%**	**49.5%**	**7.6%**	**-1.8%**	**12.1%**	**4.6%**
Kentucky	8.20%	49.6%	61.0%	51.0%	7.4%	1.7%	10.4%	5.8%
Hawaii	8.25%	49.2%	46.9%	38.1%	6.5%	-6.5%	16.5%	2.6%
Maine	8.50%	57.8%	62.6%	55.2%	6.3%	3.7%	13.1%	4.6%
Ohio	8.87%	47.3%	45.0%	44.4%	2.3%	-2.8%	3.0%	5.4%
New Jersey	8.97%	59.1%	63.3%	51.2%	7.9%	-4.2%	12.1%	4.8%
Oregon	9.00%	81.8%	65.0%	44.0%	14.3%	4.7%	16.0%	5.4%
Vermont	9.50%	69.2%	64.9%	58.7%	5.8%	1.0%	11.9%	3.5%
California	10.30%	80.1%	74.1%	53.3%	14.0%	-3.5%	17.7%	4.8%
New York	10.50%	64.4%	53.8%	49.6%	3.9%	-10.1%	8.3%	4.5%

* Highest marginal state and local personal income tax rate imposed as of 1/1/07 using the tax rate of each state's largest city as a proxy for the local tax. The effect of the deductibility of federal taxes from state tax liability is included where applicable. New Hampshire and Tennessee tax dividend and interest income only.
** 1995 through 2005 (data are not yet available for 2006)
*** Equal-weighted averages.

Source: U.S. Census Bureau

Table 10
States with Estate or Inheritance Taxes

Connecticut	New York
Illinois	North Carolina
Indiana	Ohio
Iowa	Oklahoma
Kansas	Oregon
Kentucky	Pennsylvania
Maine	Rhode Island
Maryland	Tennessee
Massachusetts	Vermont
Minnesota	Washington
Nebraska	Wisconsin
New Jersey	

Source: American Family Business Institute

It's not that Portland residents are living high; it's that others are coming here to shop. Washington shoppers freely admit they travel to Portland to avoid the sales tax. Portland and Seattle are about two-and-a-half hours apart on I-5. Said one man: "The savings on a $700 television is almost $60. You bet it's worth crossing the river."

Washington shoppers are blazing a new Oregon Trail.

One of the authors (Laffer) found the same phenomenon to be true when he authored a tax study for Pete DuPont, then-governor of Delaware, in 1978. Delaware had the highest income tax rate in the nation and no sales tax. Delaware also had the highest retail sales per dollar of income in the U.S.

Dying to Tax You: The Deadly Estate Tax

The estate tax is an unfair double tax on income. First, income is taxed when it is initially earned. The estate tax then essentially serves as a second tax on that same income. A common joke in Washington D.C. and many state capitals is that in America there ought to be a policy of "no taxation without respiration."

But the estate tax is not just unfair; it is a killer of jobs and incomes in states. Many studies indicate that the death tax is so inefficient, so adverse to saving and capital investment, and so complicated, that states and the federal government would actually recoup much if not all of the revenues lost from this tax with higher tax receipts resulting from long-term economic growth. A 1991 study by George Mason University economist Richard Wagner suggests that the economically destructive impact of the death tax on capital formation is so large that over the long-run, states and the federal government would enhance their revenue collections without the tax.[29] Other studies suggest that states and the federal government will recapture about one-third to one-half the static revenue losses. A recent study for the American Council for Capital Formation in Washington D.C., co-authored by Douglas Holtz-Eakin and Donald Marples at Syracuse University, highlights the negative impact of the estate tax:

> *Entrepreneurs are particularly hard hit by the estate tax as they face higher average estate tax rates and higher capital costs for new investment than do other individuals.*

The estate tax causes distortions in household decision-making about work effort, saving, and investment (and the loss of economic efficiency) that are even greater in size than those from other taxes on income from capital.

Case Study #12: Yankee Doodle Went to… Florida

State estate taxes are especially unwise because seniors often move to avoid them. Last year, Connecticut Gov. Jodi Rell, a Republican, did a big favor for the state of Florida by enacting an estate tax of up to 16 percent for the privilege of dying in Connecticut. The *Wall Street Journal* joked that then-governor of Florida, Jeb Bush, "should have sent her a thank-you note with a box of chocolates and a ribbon tied around it." Why? Because Ms. Rell signed into law an estate tax that might as well have been called the "Palm Beach Economic Development Act."

The legislators in Hartford hope the tax will raise $150 million in revenue each year—money that will come in only if the legislators in Hartford are also planning to build a Berlin Wall around the state. If not, high-income earners will leave for Florida or Texas with constitutional prohibitions against an estate tax. Thanks to the Connecticut death levy, a successful small business owner with a $10 million estate can save about $1 million by packing up and heading south.

"The Connecticut legislature can't seem to comprehend that it is taxing away the very wealth-producing people that this state is dependent upon for an economic revival," says Dowd Muska, an economist with the Yankee Institute, a Connecticut think tank.[30]

Alas, at last count 23 states (see Table 10) had estate taxes in hopes of "soaking their rich." Washington now imposes a death tax upwards of 19 percent, the most onerous in the nation. Until recently, a federal estate tax credit allowed states to impose death taxes of up to 16 percent, with the money coming out of Washington D.C.'s revenue, not from the estates. In 2001 that credit was replaced with a much less generous tax deduction, which will fall in value as the federal estate tax is phased out. State estate taxes aren't free or painless any longer. And because Americans build up estates in part so their legacies can be left to their children and grandchildren—and definitely not to politicians—seniors with medium and large estates are likely to shop around for low-tax venues.

A 2004 National Bureau of Economic Research study, "Do the Rich Flee from High State Taxes?," found that states lose as many as one of three dollars from their estate taxes because "wealthy elderly people change their state of residence to avoid high state taxes."[31] And that was when states imposed effective estate tax rates that were only one-third as high as they are enacting now. Under these new soak-the-rich schemes, some states could lose so many wealthy seniors they may actually lose revenue over time. Not surprisingly, it is generally the liberal, tax-and-spend blue states that are frantically reinstating punitive taxes on death. Will they ever learn? Over the past 20 years, about 1,000 people have been fleeing these high-tax blue states every day for low-tax red states. It's one reason the Northeast has suffered economically and declined politically in terms of electoral votes.

In New York, about one in three tax dollars comes from those with earnings of $1 million or more, according to the Manhattan Institute. But a recent report by the *New York Sun* found that "it has been typical for New York to lose wealthy residents to so-called 'retirement states' with warmer climates and more hospitable tax systems."[32] Estate tax lawyers told the *Sun* that "the costs of the state estate tax outweigh the benefits…because of loss of income and sales tax receipts as well as the economic loss engendered by the wealthy fleeing the state." A rational policy out of Albany would be to lay down a red carpet to encourage more rich people to move in, or at least to stay there. Instead, with its 16 percent estate tax, Albany politicians have effectively declared, "Invest anywhere but in New York."

Summing Up: Why and How State Tax Policies Matter

The conclusion is nearly inescapable that states with high and rising tax burdens are more likely to suffer through economic decline, while those with lower and falling tax burdens are more likely to enjoy robust economic growth.[33] Here is a quick synopsis of the results:

- The overall level of taxation has an inverse relationship to economic growth in the state.
- The change in the level and rate of taxation impacts state economic performance.
- High tax rates are especially harmful.
- Some state taxes have more negative an impact than others.

Case Study #13: The Bush Tax Cuts Stimulate the Economy

One of the best contemporary examples of how tax policy can affect economic behavior is the federal tax rate reductions of the last 25 years.

In the 1980s, President Ronald Reagan chopped the highest personal income tax rate from the confiscatory 70 percent rate he inherited when he entered office to 28 percent when he left. The resulting economic burst caused federal tax receipts to almost double from $517 billion to $1,032 billion.

In the early 2000s, the U.S. economy was on its back thanks to the stock market collapse after the dot-com bubble burst and the liquidation of some $6 trillion in wealth.[34] The jewel of the Bush economic plan was the reduction in tax rates on dividends from 39.6 percent to 15 percent and on capital gains from 20 percent to 15 percent. These sharp cuts in the double tax on capital investment were intended to reverse the 2000-2001 stock market crash and to inspire a revival in business capital investment, which had also collapsed during the recession. The tax cuts were narrowly enacted despite complaints of "tax cuts for the rich."

The Congressional Budget Office recently released its latest report on tax revenue collections. The numbers are an eye-popping vindication of the Laffer Curve and the Bush tax cut's real economic value. Federal tax revenues have surged by $750 billion in the three years after those tax cuts, the largest increase in tax receipts adjusted for inflation in American history. Since the tax cuts took effect, the federal budget deficit has fallen by more than $200 billion thanks to strong economic growth. Individual and corporate income tax receipts have exploded like a cap let off a geyser, up more than 40 percent from 2003-2006. Once again, tax rate cuts have created a virtuous chain reaction of higher economic growth, more jobs, higher corporate profits, and finally more tax receipts.

Also of special relevance to state policy makers, this Laffer Curve effect has created a massive revenue windfall for states and cities. As the economic expansion has plowed forward, and in some regions of the country accelerated, state tax receipts climbed 12.5 percent in 2005 and 11 percent in 2006. Perhaps the most remarkable story from around the nation comes from the perpetually indebted New York City, which suddenly found itself more than $2 billion *in surplus* in 2005.[35] Many of President Bush's critics foolishly predicted that states and localities would be victims of the Bush tax cut gamble.

On the private-sector side of the ledger, what we are now witnessing is a broad-based investment boom. The lower capital gains and dividends taxes have been capitalized into higher stock values, and that in part explains why the Dow Jones shot up 24 percent between May 2003 and May 2005; the NASDAQ rose 39 percent. Dan Clifton of the American Shareholder Association estimates that this rise in stock values translated into roughly $2 trillion in added wealth holdings of American households.[36] The severe slump in business capital spending in 2001 and 2002 has now taken the shape of u-turn, with spending on capital purchases up an enormous 22 percent since 2003. Because higher wages and new job creation are highly dependent on business capital investment, the mislabeled "Bush tax cut for the rich" has, in reality, enormously benefited middle-income workers.

Other Policy Variables which affect State Competitiveness

Taxes aren't the only state policy that determines the economic attractiveness of one state versus another. Our competitiveness index includes eight non-tax variables. To recap, these include:

- Debt service as share of tax revenue
- Public employees per 10,000 residents
- Quality of state legal system
- State minimum wage
- Workers' Compensation Costs
- Right-to-work state (Yes or No)
- Tax/Expenditure Limit
- Education Freedom Index

State and local governments can finance their spending through taxes or by issuing debt, which is nothing more than an obligation to collect taxes later. So if we want to capture the full impact of the taxing and spending going on in a state, we need to measure the debt that has accumulated. Just like a company, jurisdictions that are relatively debt-free are more attractive to investors/residents than places that have massive debt obligations that have to be paid by current or future taxpayers. High outstanding debt also impairs a state's bond rating thus making it more expensive for states to borrow in the future.

The Size of the Public Payroll

States and localities have been on a hiring binge of late. Moreover, a Cato Institute study shows that in 2005 public pay rose substantially faster than private pay.[37] States with high government payrolls have a hard time downsizing because of the power of the bureaucracy and the unions behind them. Contracting out and competitive bidding lowers costs and provides greater flexibility in getting the key personnel, but only when they are needed. States with big public-sector payrolls are often the most inefficient in their spending, and so this variable provides for us a government efficiency measure.

The State Legal System

The tort system is expected to reach a cost of $310 billion this year—the equivalent of an annual tax of about $900 for every man, woman, and child in America. The consulting firm, Tillingham, a unit of Towers, Perrin, calculates that the cost of excessive litigation in America is about two cents for every dollar of production—to settle everything from car accident claims, to investor lawsuits, to class-action suits. From 1997-2003, the average jury verdict in a medical malpractice case rose from $2 million to nearly $5 million, according to the Manhattan Institute.[38] When the legal system becomes a system of jackpot justice with huge awards not related to the negligence or misbehavior of the company being sued, the biggest winners are trial lawyers. Firms move out of such states. Mississippi recently enacted tort reform laws that are pro-business, and it now advertises around the country that it has a sane and low-cost legal framework for settling disputes.

States that have enacted common sense reforms—such as malpractice insurance limits and loser pays rules—have had better economic success. A 2002 study by the U.S. Chamber Institute finds that per capita state product rises by about 0.75 percent for every 10 percent improvement in a state's legal climate.[39] This is why we include the state legal environment in our state ranking system.

Minimum Wage

Study after study shows that states with minimum wage or living wage requirements have fewer employment opportunities for those at the lower rungs of the economic ladder. Service jobs often flow to areas with the least onerous wage requirements. States with high minimum wages also have higher and more enduring unemployment rates. The Employment Policies Institute has found that between 1996 and 2005, "Washington D.C. and 15 states have raised the minimum wage; employment growth lagged national employment growth by 0.8 percent."[40] The minimum wage-raising states had 1.8 percent job growth versus 2.6 percent for the nation. This variable also is a good measure of the relative power and influence of unions in a state. Some union policies can be inimical to growth and bad for business.

Minimum wage increases hurt the low-skilled and low-educated workers the most. Consider the recent case of a super-minimum wage ordinance proposed in Chicago in 2006. The City Council passed a law requiring mega-retailers like Wal-Mart, Target, Costco, Home Depot, and Marshall Fields to pay every worker—regardless of experience, education, or skill level—a minimum wage of $13-an-hour by 2010 ($10 in salary and $3 in health care). Liberal, union-funded activists and the politicians essentially declared, be gone with your lousy $6-, $8-, and $10-an-hour jobs.

But Chicago workers wanted those jobs. When Wal-Mart opened a store in Evergreen Park, just outside of the city last year, some 27,000, mostly Chicagoans, applied for the 325 jobs with starting pay of $7.25-an-hour. The Wal-Mart that will open later this year on the West side of Chicago already has 12,000 job applicants.

What these super-minimum wage ordinances do is create a modern version of redlining cities. For decades liberal advocates have complained that banks, grocery stores, and retailers were discriminatorily charging higher prices to poor people in inner cities than wealthier Americans in suburbia. When anti-Wal-Mart activists kept the store out of the South side of Chicago last year, the superstore opened in nearby Evergreen Park. Now that store collects $530 million a year in sales from Chicago residents with not a penny of sales taxes going to Chicago—and the location where Wal-Mart was going to build remains an empty lot of urban blight. All told, as a result of liberal anti-business policies like the super-minimum wage law, Chicagoans spend $5 billion a year shopping in the suburbs—the same is true in many other major U.S. cities.

Workers' Compensation

Workers' compensation costs vary widely among states. Workers' compensation is a quasi-tax on businesses for hiring workers. Those states that have reformed their workers' compensation system have much lower employer costs, which allows businesses to pay workers more. In California, in the early 2000s, the workers' comp costs to California businesses were sometimes three times higher than in states like Arizona and Nevada. States that reduce workers' compensation costs and payouts are generally more economically healthy and independent of union control and trial lawyer control.[41]

Right-to-Work

The Labor Department reported in early 2007 that union membership in America keeps shrinking. Unions lost 326,000 members in 2006 and the percentage of working Americans who belong to unions dipped to 12 percent, which is way down from the all-time high of 34 percent in the 1950s. Today only one in 13 private-sector workers is a member of a labor union—the tiniest percentage in at least 60 years. Four times as many Americans are stockholders as union members.[42]

States are divided into two distinct categories with respect to their union organizing laws. They are either right-to-work, which means workers have the right to not join a union, or non-right-to-work, which means that workers are forced to join a union and pay dues if they work in a unionized industry.[43] The evidence points overwhelmingly to the fact that right-to-work states have much greater growth of employment than non-right-to-work states, as shown in Table 11, which analyzes Midwestern states.

Case Study #14: Union Power Play in Iowa

After Democratic victories in state legislatures in the 2006 midterm elections, unions sought to overturn right-to-work laws that had been on the books for years in some states. These laws prohibit employers from requiring workers to join a union as a condition of employment. They also protect workers from having to pay the union dues "withholding tax" extracted from their members' paychecks.

Table 11
Right-to-Work States Benefit From Faster Growth

Percentage Growth in Non-Farm Private-Sector Employees)1995-2005)	Midwestern Right to Work States	12.9%
	Midwestern Forced-Unionism States	6.0%
	Iowa	9.6%
Average Poverty Rate, Adjusted For Cost of Living (2002-2004)	Midwestern Right to Work States	8.5%
	Midwestern Forced-Unionism States	10.1%
	Iowa	7.5%
Percentage Growth in Patents Annually Granted (1995-2005)	Midwestern Right to Work States	33.0%
	Midwestern Forced-Unionism States	11.0%
	Iowa	41.0%
Percentage Growth in Real Personal Income (1995-2005)	Midwestern Right to Work States	26.0%
	Midwestern Forced-Unionism States	19.0%
	Iowa	23.0%
Percentage Growth in Number of People Covered by Employment-Based Private Health Insurance (1995-2005)	Midwestern Right to Work States	8.5%
	Midwestern Forced-Unionism States	0.7%
	Iowa	7.6%

Source: National Institute for Labor Relations Research; BLS, Census, U.S. Patent and Trademark Office, BEA. December 2006

Iowa is one state where the unions are flexing their muscles. Iowa has been a right-to-work state for 60 years. But for the first time in 40 years, the Democrats control both chambers of the legislature and the governorship. Although neither the new governor, Chet Culver, nor the legislative candidates campaigned on overturning right-to-work, the unions are demanding a vote to overturn the popular law. If they succeed, thousands of Iowa workers, who don't want to pay union dues, would be forced to do so if they work in a union shop. Those union dues can be used for political purposes, so many workers would be required to bankroll causes they don't believe in.

If the Iowa legislature were intentionally trying to chase jobs and employers out of the state, they couldn't come up with a better plan. Leo Troy, an economist at Rutgers University, finds that "right-to-work laws are strongly correlated with faster growth in jobs and personal income." Many international and domestic companies won't even consider locating a plant in a non-right-to-work state, which is why almost all the new foreign auto plants owned by Mercedes, Nissan, BMW, and Honda are locating in Southern states like Alabama, South Carolina, and Texas. One survey recently found that between 1986 and 2006, 11 right-to-work states have added 104,000 auto manufacturing jobs, a 63 percent increase. The non-right-to-work states *lost* 130,000 auto jobs, or 15 percent of their total over the same period. One leading plant selection consultant, Bob Goforth, put it this way: "If you're not a right-to-work state, you're not in the game."

State Tax Expenditure Limit

One successful strategy employed by some states to prevent squandering budget surpluses during times of economic expansion is a state Tax or Expenditure Limitation (TEL). A popular form of a TEL is to cap taxes at some predetermined rate of growth. The most famous TEL was Proposition 13 in California, which capped property taxes in the state and ignited a nationwide tax revolt.

Colorado, Missouri, and Washington each have constitutional tax limitations that restrict the growth of revenues to the rate of population growth plus inflation. Colorado's Taxpayers' Bill of Rights (TABOR) has been a boon to the economy of the state as shown in Figure 14.[44] Those states generally require that any revenue in excess of that amount be returned to the people. For example, in 1997 Colorado rebated $142 million in tax revenues to taxpayers, while Missouri gave back $318 million in rebate tax credits.[45] The evidence suggests that states with tax and expenditure limitations have done a better job of restraining state government growth than have states without such disciplining measures. In 2002, the average per capita savings on taxes would have been $278 if every state had implemented a population plus inflation tax cap prior to the current expansion.

Another 14 states, including Arizona, California, and Nevada, have adopted measures requiring that any tax increase by the legislature must pass by a supermajority vote in both houses.[46] Most require a two-thirds vote, but others require three-fourths or three-fifths.[47] Those measures have been highly effective at deterring routine tax increases during non-emergencies.[48]

Supermajority requirements are most effective when they are applied to *all* tax increases—whether in income taxes, business taxes, sales taxes, or excise taxes. We believe these are effective deterrents to runaway taxing authority by the legislature, and we recommend that every state adopt one of these constitutional restrictions on spending and/or taxes.

Case Study #15: Proposition 13—The Tax Revolt Heard 'Round the World

It was almost three decades ago that America was jolted by the political equivalent of a sonic boom. On June 6, 1978, almost two out of every three California voters approved Proposition 13—a drastic 30 percent, statewide property tax reduction ballot initiative. The conservative, anti-tax movement that is still politically ascendant in America today was born.

Arguably, the greatest tax revolt since the Boston Tea Party, the spirit of Proposition 13 was rapidly exported to the rest of the country. Within five years of Prop. 13's passage, nearly half the states strapped a similar straitjacket on politicians' tax-raising capabilities by cutting income or property taxes, or both. In many ways, Prop. 13 pre-staged the improbable presidential election of Ronald Reagan, who sailed to the White House on the crest of a national anti-tax wave by promising supply-side, 30 percent income tax cuts for all. Once again, the old maxim was proved true: As goes California, so goes the nation.

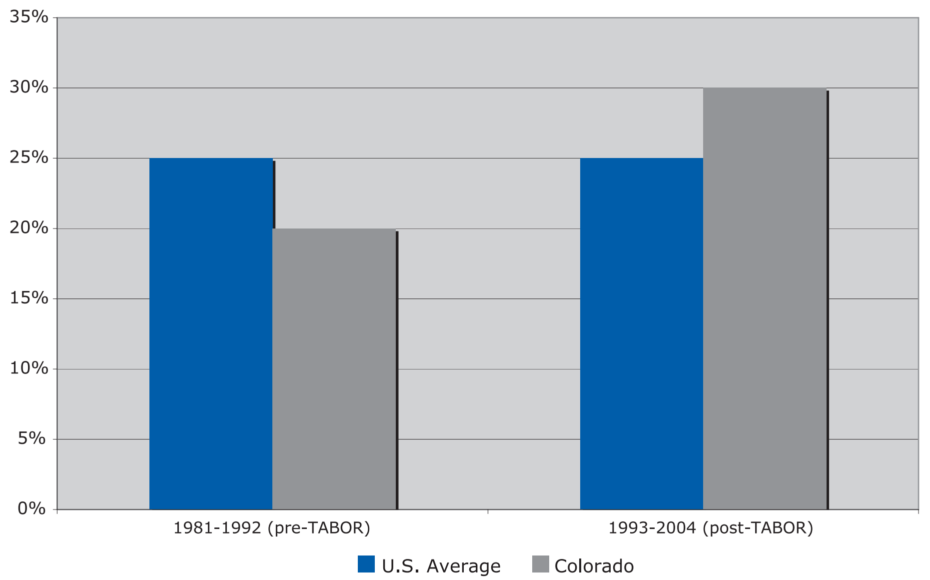
Two patriots led this tax revolt: Paul Gann and Howard Jarvis, men described by the *Los Angeles Times* as "the chief spokesmen for this expanding group of angry and disgruntled taxpayers across the state who believe they are paying too much for the cost of government."[49] And that was the essence of the Proposition 13 revolt. After a decade long voracious expansion in the size of the Great Society welfare state, coupled with years of double-digit inflation that escalated tax burdens through bracket creep while erasing family purchasing power, Americans no longer believed that government was giving them anywhere near their money's worth. In the 1970s, family tax burdens rose at almost twice the pace of real family income. In California, uncapped property tax assessments were driving thousands of residents out of their homes—particularly fixed-income seniors who had little capacity to pay the double-digit rates of increase in the taxes on their homes.

What made Proposition 13's victory so astonishing to the political class was that almost every person of consequence in both political parties (even Reagan was originally skeptical) and almost every organized interest group in the state condemned the measure as reckless. Big business stood opposed. Businesses not only lent their names to the "NO on 13" campaign, they helped finance it. The opponents warned voters of the doom that awaited if Prop. 13 passed. San Francisco's schools and libraries would be closed June 6; 2,500 Los Angeles policemen would be laid off; the prisons would be opened up for lack of funds; and the UCLA Business School predicted a loss of 450,000 jobs in the state. (If those claims seem familiar, UCLA's business school just recently released a similarly shrill and preposterous prediction on the impact of President Bush's tax cut. Few listened to the hysteria.) Taxes were so suffocatingly high in California that even firefighters in Los Angeles voted 2-to-1 in favor of Prop. 13.

Proposition 13 limited property taxes in the state to one percent of a property's market value (down from the 3.5 percent rate that existed at the time), rolled assessed property values back to their 1976 levels, and capped annual growth in property tax bills at two percent (unless the property changed hands, at which point its market value was reassessed). Just as importantly, Proposition 13 mandated that any tax increases in the state must be passed by a two-thirds "supermajority" vote in both houses of the legislature, and it also limited the ability of local government to raise taxes without voter approval. The relief was felt immediately by California homeowners. The California tax burden had been $124.57 per $1,000 of personal income. That ranked fifth highest in the nation and towered by nearly 20 percent above the $105.16 for the nation as a whole. As Figure 15 shows, the tax burden immediately fell to $95 per $1,000 of income, nearly five percent *less* than the national average of $99. Figure 16 shows the effect Prop. 13 had on relative unemployment in the state.

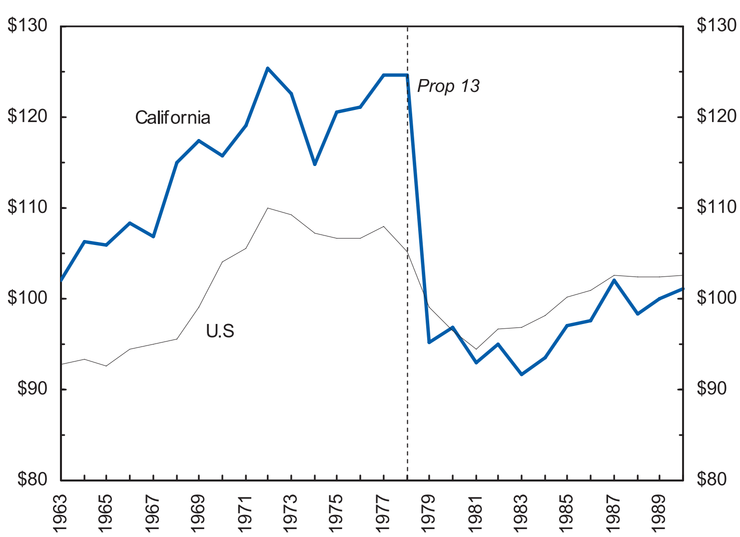
Contrary to critics' protests, Prop. 13 ushered in a second California gold rush in the decade

Figure 14
Per Capita Income Growth Before and After TABOR



Source: National Taxpayers Union

Figure 15
State and Local Tax Burden Per $1,000 of Personal Income
California vs. the U.S. (FY1963–FY1990)



Source: U.S. Census Bureau, *State and Local Government Finances*

following its enactment. California grew 50 percent faster than the nation as a whole; jobs grew at twice the pace. During the 1980s and 1990s, the high-tech sector in Silicon Valley ignited the greatest burst of technological progress anywhere at any time in history.

Not surprisingly, today the same group of critics who objected to Prop. 13 are blaming it for "starving the state and cities of revenues." Nonsense. In real dollars, California's budget climbed from $55 billion in 1980 to more than $100 billion today. After inflation, tax revenues have more than doubled since Prop. 13 passed.[50] For Californians, the legacy of Prop. 13 has been to save the average homeowner in California tens of thousands of dollars in property tax payments over the past 25 years.[51] This is money that would have fueled an increasingly rapid escalation in California's state and local public bureaucracies if those dollars had been sent to Sacramento and city hall.

Californians intuitively understand this. That is why every major poll has confirmed that a large majority of residents in California say they would still vote for Prop. 13 if it were on the ballot today—25 years later.

Taxpayers nationwide also owe a debt of gratitude to Howard Jarvis and Paul Gann. They helped reverse the economically disabling era of unrestrained over-taxation, overspending, and over-regulation of government at all levels in America, which dragged the nation into a malaise at the end of the 1970s. Just as importantly, they taught us all an enduring civics lesson that we should never forget: In America, you really can fight city hall.

Educational Freedom

Schools are one of the largest expenditure items in state and local budgets. Yet study after study documents that spending is only tangentially related to school performance. Washington D.C. now spends $12,000 per public school student, but it has many of the worst schools in the nation, with abysmally low high school graduation rates. Many states are experimenting with market-based school reforms. These include vouchers in low-income areas so parents can send their kids to alternative private schools, charter schools—public school alternatives—tuition credits, and corporate tax-deductible scholarship programs. Milwaukee, Cleveland, and Washington D.C. are now experimenting with vouchers for minority students in failing school districts.[52] Because the quality of education is one factor businesses and families examine when deciding on where to move, educational freedom can enhance the desirability of one state over another.

Conclusion

Location, location, location. Those are the three magical words in real estate that determine a desirable home or a smart place in which to invest.

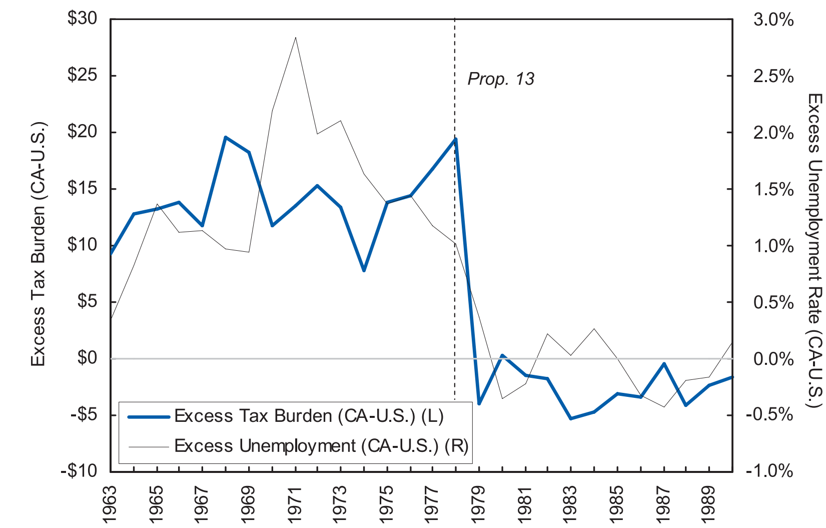
This chapter has provided a blueprint for how state lawmakers can enhance the competitiveness of their state. They can't change the weather or move mountains or put oil in the ground, but they can change fiscal, regulatory, and labor law policies that influence location decisions.

Taxes, regulation, excessive debt, minimum wages laws, the cost of the tort system, bad schools, and a lack of fiscal discipline are all factors that affect how fast a state grows and how many people and businesses want to call that state home. America is one massive free trade zone, where businesses, capital, and people move freely. States are now openly competing with one another for assets, and they are doing so on the basis of their tax systems, their liability laws, their education systems, and their quality of life. A recent *USA Today* story, "Wyoming Wins Over Michigan Job Seekers," summarizes the current competitive environment among the states:

> *Wyoming, says (Kathy Emmons) the director of the state's department of workforce services, isn't as cold in the winter as people think. There's very little traffic. Tons of skiing and snowboarding. No state income tax. And the best part: lots of jobs.*
>
> *Wyoming, a state with a population of around 500,000, is seeing a boom in the energy, coal mining, high-tech data storage, communications, and health care industries. The need for all kinds of workers, especially skilled ones, is so great that the state is actively recruiting from Michigan, where the situation is almost the exact opposite.*
>
> *For the past two years, as General Motors, then Ford Motor, and now Chrysler Group have sounded the siren on their worsening financial situations, workers have lived under the daily stress of knowing their jobs could be eliminated at any moment. More than 70,000 hourly autoworkers have agreed to take buyout packages this year.*
>
> *So, Wyoming officials thought, why not bring some of Michigan's displaced workers 1,000 miles west? The recruiting effort was "born out of absolute necessity to bring in people to fill jobs. . . ."* [53]

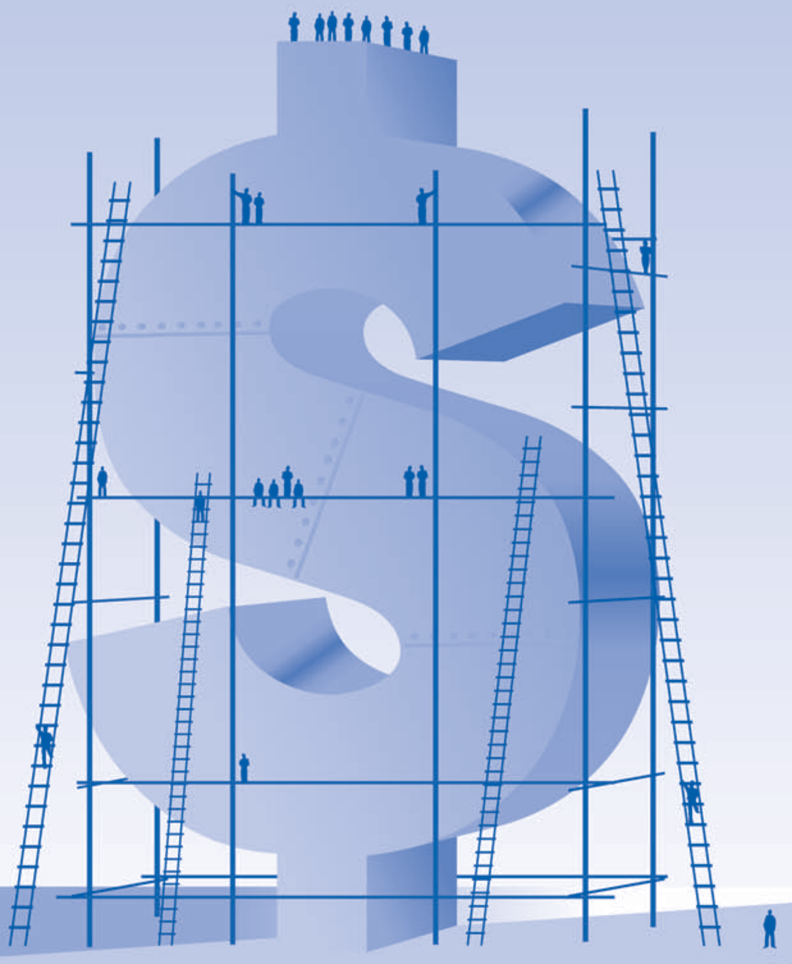
Michigan may be a perfect target area. Its unemployment rate [in 2006] was 6.9 percent, the highest in the nation. Wyoming's rate was 3.3 percent.

Figure 16
Excess State and Local Tax Burden vs. Excess Unemployment
California vs. the U.S. (FY1963–FY1990)



Source: U.S. Census Bureau, *State and Local Government Finances;* Bureau of Labor Statistics

SECTION III
THE STATE SPENDING BINGE



American Legislative Exchange Council

Introduction

It's tantamount to finding an unexpected wad of cash buried in the pocket of an old jacket. Utter euphoria at the windfall and mad money to splurge on a one-time extravagance. Nearly $60 billion in unexpected revenues in 2006 has afforded states an opportunity to find all sorts of creative ways to spend.... New Mexico funded a space launch pad for future commuter orbital excursions.
Washington Post, "States Find Creative Uses for Cash," August 19, 2006

From New York to Montana to California, states are proposing budget increases that outpace inflation and far exceed the one percent rise in federal domestic outlays. In Montana, Gov. Brian Schweitzer is boosting spending by 26 percent over two years. In Vermont, Gov. Jim Douglas wants to borrow $40 million to create the nation's first "e-state," where free wireless broadband is available to all. And in Arizona, the only dispute between a Democratic governor and a Republican legislature over a half-billion dollar road-repair program is whether to borrow the money or pay cash. Arizona increased its spending 18 percent last year.
Washington Post, "States Set big Spending Plans," March 9, 2007

Total state and local debt was stable during the 1990s but soared from $1.19 trillion in 2000 to $1.85 trillion by 2005, an increase of 55 percent….The Bond Buyer is full of stories on the latest Wall Street methods to help officials put their jurisdictions further into debt.
Cato Institute, Tax and Budget Bulletin, July 2006

As we write this section, states are flush with cash and state legislators are spending money with a more carefree attitude than drunken sailors on a 48-hour furlough. This story of fiscal extravagance has had more sequels than *A Nightmare on Elm Street*. It's been a recurring theme out of state capitals from coast to coast for the last three decades—spend and spend during the good times, tax and tax during the bad.

The result: State governments keep ratcheting upward in size and cost. The key to prudent state fiscal management is to circumvent this spend and tax and borrow cycle. The states that do will be richly rewarded with faster growth. While federal taxes have moderated in recent years, the state and local tax burden hit its highest peak ever in 2005 at 16 percent of income. See Figure 17.

The longer term data show even greater growth of government in state capitals. Go way back to the early 20th century and you will find that state and local government revenues were only 4.5 percent of the total economy. Today, states and localities take roughly four times more of worker earnings than back then.[1] Another way to look at it is that in 1890, total state and local taxes took $9.34 per capita, or approximately $202.66 in 2005 dollars.[2] As of 2005, the state-only tax burden per capita was $2,189—10 times higher. Including the local tax collections (where 2004 contains the latest data available) the state and local tax burden per capita is $3,447—compared to about $1,000 (in today's dollars) back in 1950. Adjusted for inflation and population, states and localities spend about three times more than they did 50 years ago. Where has all this money gone? Are schools better? Are the streets safer from crime? Do the roads have less potholes; are they less congested? Now if the answer is yes to any or all of these questions, are they *three times* better?

Groups that lobby for more government at the state and local levels argue that high taxes lead to better services. A recent editorial in the *Minneapolis Star Tribune* lashes out at Gov. Tim Pawlenty for vetoing a tax increase on the rich.[3] The paper opines that states with high taxes tend to have high-quality state services. According to the editorial, "States with regressive tax burdens—that is those that pile a disproportionate load on low- and middle-income earners—tend to be low-services states. Regressive-tax states have not performed as well economically in recent years as states that have taxes that are higher and more progressive."

But it's a myth that public services are better in high-tax states. New Jersey has among the highest taxes in the country, but has among the poorest state and municipal services. States with low spending on schools have no lower test scores than states that spend much more per pupil. If anything, the correlation between spending in the 50 states on the schools and test scores is negative.[4] No business measures outcomes by level of inputs, in fact, efficiency and productivity is based on achieving the opposite result: The goal is to attain high level of output with less inputs.

Here's our advice to state legislators: strive to get more for less, not less for more. That is what any enterprise that is in search of excellence does. As shareholders, we demand that of the firms we own stock in, and we should demand no less from our government at all levels. Perhaps the best advocate for this course of action was Thomas Jefferson who memorably wrote "...a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government."

Frugal and efficient government is much more important today than in the past from the standpoint of promoting economic competitiveness, precisely because states are such enormous consumers of resources today. As the state local tax burden has climbed, so has the variability across states. State taxes matter now more than ever because the difference between the cost of taxes in high- and low-tax states is now more pronounced. This means that the financial incentive to escape high-tax states has increased over time. For instance, in 2004 the difference between the state with the highest state and local revenues per capita (New York: $11,640) and the state with the lowest state and local revenues per capita (Kentucky: $6,478) was $5,161.[5] The comparable figure for 1890 in 2005 dollars was $443.68, which was the difference between Nevada, the state with the highest state and local revenues per capita of $480.39, and North Carolina, the state with the lowest state and local revenues per capita of $40.22. The wider discrepancy even holds as a percentage of national GDP, despite the larger numbers in 2005.[6,7]

Now that states have record budget surpluses they confront a fiscal policy choice that could have a profound influence on which will grow, and which will fall behind over the next 2 to 5 to 10 years. We've argued that cutting tax rates is one of the most efficient and speedy ways for states to improve their economic competitiveness. It's hard to cut taxes when times are tough and dollars are scarce even though it is clearly the best policy. But when money is pouring into state coffers the opportunity to invest those surplus funds in pro-growth tax changes could pay dividends for years.

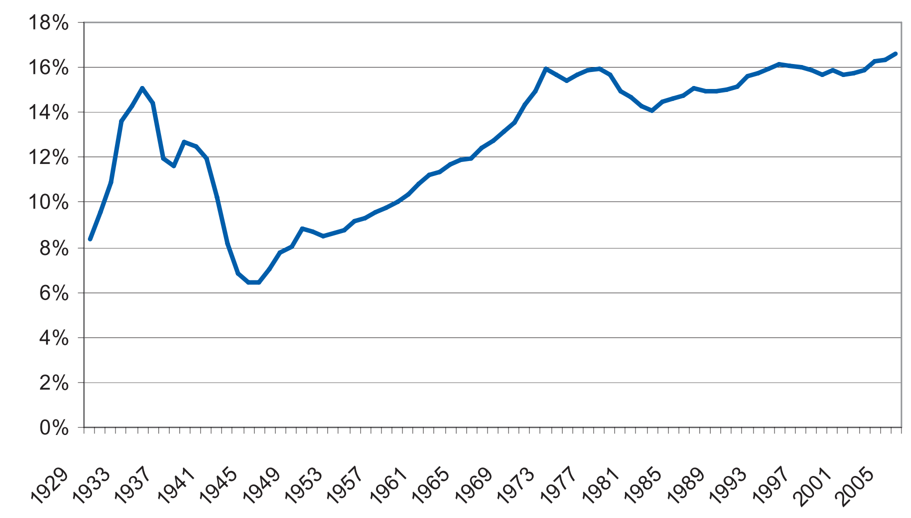
The State Fiscal Roller Coaster

States go through boom and bust cycles that are much more severe in their highs and lows than the more even-keeled federal government because of the states' tax structures. States are like manic-depressives: During good economic times, they have revenue feasts and spend money generously. During economic downturns, they face revenue famines and sometimes seem on the brink of bankruptcy.

It is an unfailing lesson of history that state lawmakers never seem to fully appreciate during boom cycles: Good times never last forever. And when the bust cycle hits, states are rarely adequately prepared for the lean years—even though they are usually temporary periods of angst until the economy turns around again. Economic growth cycles are the single driving force behind the wild gyrations in state budgets from one year to the next. In the last 25 years there have been three recessions, which have all come at the beginning of the decade. In 1981-1982, the country suffered its deepest recession since the Great Depression—the residue of the high-tax, high-inflation failures of Jimmy Carter in the 1970s and the slow phase in of the Reagan tax cuts. In the early 1990s, the economy suffered a brief recession in 1991-1992 partly as a result of the savings and loan crisis and an ill-advised federal tax hike in 1990.[8] And in 2000-2001, recession hit again after a major monetary policy mistake by the Federal Reserve that contributed to the stock market collapse. Fortunately, recessions have been far between and fewer than in past eras of American history. Since the Reagan economic policies took hold in 1983, the U.S. economy has grown about 94 percent of the time and has been in recession only 6 percent of the time.[9] But this has seemed to only make state legislators all the less prepared for the lean times.

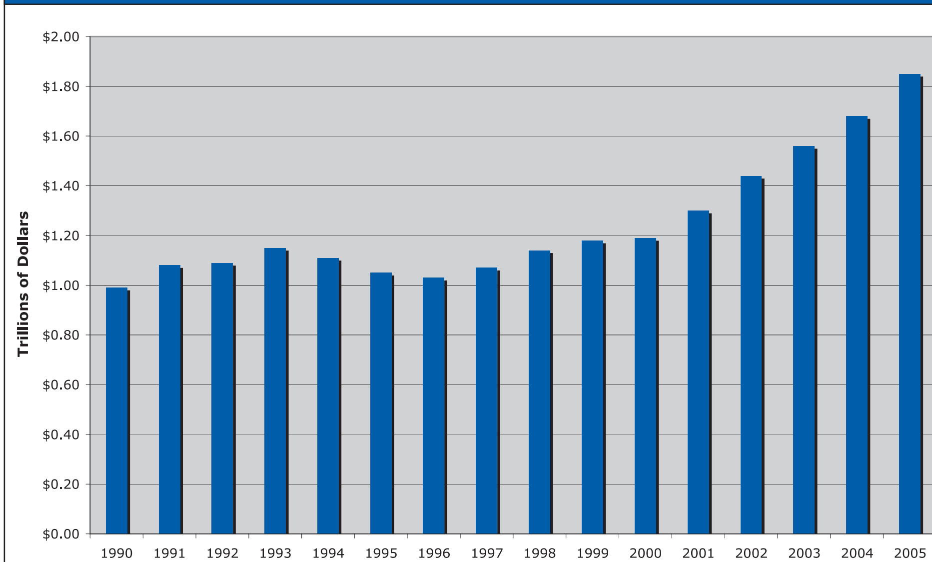
The information in Figure 18 (next page) gets to the heart of the matter and should be studied closely by state policymakers. It shows that state revenues/reserves soar during national economic expansions, and hit empty typically with a one- and two-year lag when the economy slips into recession. Over the last three decades, the years of lowest state revenues/reserves were 1983, 1991, and 2002.

Figure 17
State and Local Government Tax Receipts as a Percentage of Personal Income 1929-2005



Source: Bureau of Economic Analysis

State and Local Government Debt Outstanding



Source: Federal Reserve Board

Figure 18 has at least two implications. First, state policymakers should be unfailing lobbyists for pro-growth economic policies out of Washington D.C. Ironically, many state officials opposed President Bush's tax cuts even though they are hugely responsible for the current state surpluses. Growth is a much greater fiscal salvation for states than handouts from Washington D.C., which always come with expensive strings attached. The second implication is don't spend the fiscal dividends from good times.

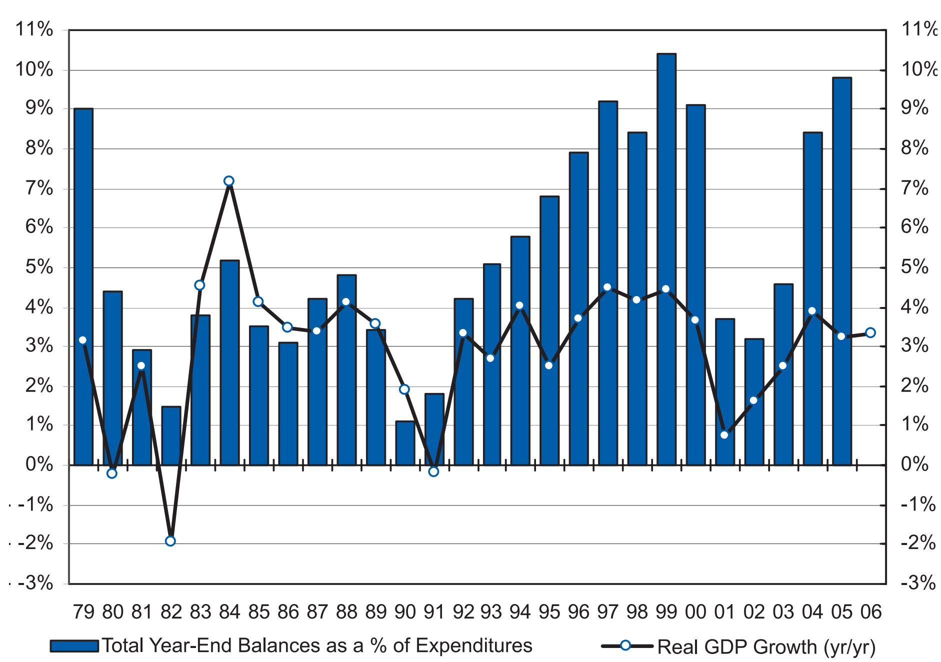
During the 1980s, the economic acceleration in the Reagan years caused a reckless surge in state revenues and expenditures. In the 1980s, most state budgets and tax collections more than doubled in size, and even grew by more than one-third after accounting for inflation and population growth. When the economy sank into recession in 1990, states suddenly found themselves, as then New York Gov. Mario Cuomo famously put it, "broke down to the marrow of our bones."

During the even more rapid economic expansion of the 1990s, state budgets grew by another 63 percent. After adjusting for inflation, state spending actually grew faster in the 1990s than in the 1980s, when many state budgets doubled in size. State expenditures expanded by 3.4 percent per year in the 1980s, after adjusting for inflation, compared to a 3.6 percent growth rate in the 1990s. State spending per $1,000 of personal income nudged upward by 0.1 percent per year in the 1980s. In the 1990s state outlays have grown at an annual rate of 1.3 percent above income growth.[10]

Tax revenues tumbled into state coffers as if it were manna falling down from heaven. Many states experienced growth in tax receipts of 10 percent or more in some years—even in states where the 31 Republican governors were cutting tax rates.

With this torrid pace of tax revenues, how is it that states found themselves in such mortal peril financially in 2002 and 2003? Why didn't they prudently squirrel away resources in rainy day funds and budget reserve lock boxes to prepare for the next, well…rainy day? In some cases states did build up healthy budget reserves of six percent or more of annual tax collections. But even these budget surpluses weren't able to curtail one of the most blistering rates of growth of state expenditures of any era in the history of state governments in America.

Figure 18
GDP Growth Rate and State Budget Surpluses*



Source: National Conference of State Legislatures and U.S. Census Bureau

One indication of the expenditure surge in state capitals is that from 1995-2000, Republican and Democratic governors allowed their budgets to rise at an average of 7.5 percent per year, or twice the pace of federal outlay growth. The Virginia state budget under Republican Jim Gilmore, for example, rose by nearly 40 percent from 1997-2000. The California state expenditures grew by double-digit rates of growth in each of Democrat Gray Davis's first three budgets. Clearly, neither political party was immune from the spending bug that spread like a virus throughout the states in the prosperity-filled 1990s.

States that spend like drunken sailors during good times generally face a painful hangover from their binge the morning after. They find themselves facing unattractive options to close expected budget gaps. They must either 1) raise taxes to pay the budgets for the new state programs that have been launched in recent years, 2) cancel programs that are no longer affordable, 3) cut back on the anticipated increases in state services across the board, or 4) let the budget slip into the red. Given that most states don't allow budget deficits because of balanced budget laws, the last option is no real option at all. So either taxes will be raised, spending will be curtailed, or state legislators will cross their fingers and hope the national economy improves enough to allow a return to business as usual.

Consider the current fiscal status of states. Between 2005 and 2007, states have had revenue riches nearly unprecedented in American history. They ended in 2005 with $45 billion in windfall revenue surplus and ended in 2006 with $57 billion in surplus. But just five years ago, states seemed as though they had suffered cardiac arrest and would never come out of financial intensive care. In 2002, half of the states savagely cut their budgets or imposed wildly unpopular tax hikes to prevent red ink for fiscal year 2002.

California is the classic example of a state with towering highs during the upsurge of the economy and hellish lows during the recessions.[11] In the late 1990s, California had a $7 billion surplus.[12] Surges in capital gains and stock option incomes caused flush reserves in Sacramento's coffers. It was reminiscent of the second California gold rush. Californians made billions just off of the Google public offering, further swelling the fat times in the state capital. Some even called it the "Google surplus."[13] Here is how the *San Francisco Chronicle* described it: "California took in a record $11.3 billion in personal income tax receipts in April, $4.3 billion more than it collected last April. It's almost certain that a significant chunk of April's haul came from Google employees—who sold billions of dollars of stock last year."[14]

But when the bubble burst, the merry times turned into a Sacramento river of red ink. The stock market decline—the NASDAQ fell from a high of 5,000 to a low 1,500 after the September 11 terrorist attacks—drained Americans of wealth and sapped both investors and consumers of buoyant confidence that defined the previous decade. Gov. Gray Davis was the victim of the fiscal deterioration, and angry voters recalled him from office electing Arnold Schwarzenegger to fix the budget hole.

We both worked on Arnold's economic advisory team. Our first fiscal audit was bleak as could be. The $7 billion surplus had morphed into a $14 billion structural deficit—the largest deficit of any state in American history. Arnold wisely eschewed calls for higher taxes—which would have been adding kerosene to a raging fire—and put in place temporary spending caps to restore some semblance of fiscal discipline. Although California still faces enormous long-term structural debts that make us bearish on the state's future, at least for now the state has a balanced budget on paper and the fiscal emergency is over. But now the governor is repeating the mistakes of his predecessors, proposing huge and unaffordable new spending programs—including a state-run health insurance program with enormous new costs imposed on Golden State businesses, which will only lead more wealth producers to flee the state and make it harder to generate revenues to keep California afloat.[15]

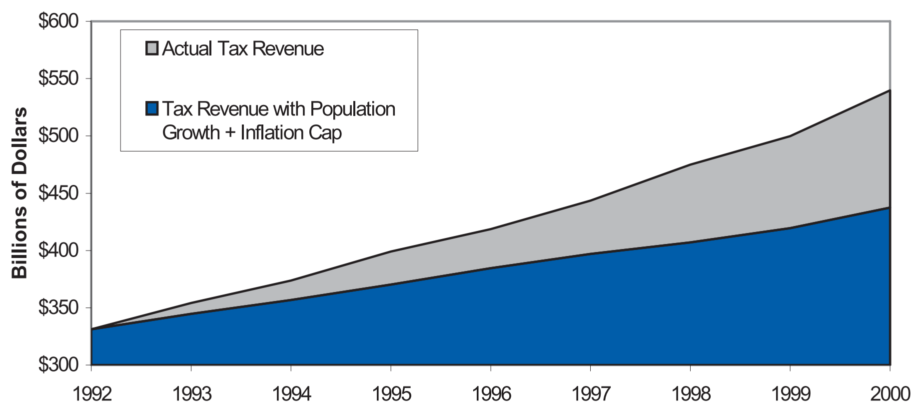
Will state lawmakers ever learn? We'd like to think yes, but experience tells us the answer is no. Governors and state legislators sometimes seem genetically short-sighted. So to borrow a phrase from Prince: They "party like it's 1999" during the good times and then cut, cut, cut during the lean years. As one legislator recently confessed after the 1990s boom ended in stock market wreckage and recession: "We thought the good times would last forever." We wish they would too, but they never do.

Table 12
More Government, Less Growth

Government Share of GDP in 1999	Average Annual Economic Growth Rate 1990-2001
33% or less	5.2%
34% to 43%	2.6%
44% and higher	2.2.%

Source: American Council for Capital Formation

Figure 19
$108 Billion Revenue Windfall



Case Study #16: Does More Spending Mean Slower Growth? Look at Europe.

A 2004 analysis by the American Council on Capital Formation examined the relationship between government spending and economic performance among industrialized nations, and it discovered a strong negative relationship.[16] Table 12 summarizes the findings.

The nations of New Europe, like Latvia and Estonia, understand firsthand the corrosive allure of nanny-state socialism and have turned a cold shoulder to these seductive policies.[17] Instead, these nations are privatizing government assets (including their pension programs), adopting flat taxes,[18] deregulating key industries, and disassembling unaffordable welfare state policies. Ironically, they are rejecting the policies of the European Union and adopting the American economic model of laissez-faire, free-market policies—at precisely the same time that we are turning away from this model. If America is going to avoid the "road to serfdom," we're going to have to make Hayek required reading on Capitol Hill and in state legislatures.

The 15 Year Fiesta: State Spending in the 1990s and 2000s

Let's examine in more detail just how much state budgets careened out of control in the '90s and 2000s. As fast as dollars flew out of state capitals in the 1960s, '70s, and '80s, the last 15 years have witnessed one of the biggest bursts of state outlays ever, after adjusting for inflation. Between 1990 and 2000, aggregate state government expenditures nearly doubled from $572 billion to just over $1 trillion.[19] General fund expenditures were up 40 percent after inflation over the decade. Since then, 2000-2006, aggregate state expenditures are up another $300 billion. The states now spend roughly $700 (adjusted for inflation) more per person than they did in 1990.

By our estimates roughly two of every three surplus dollars into state coffers between 1996 and 2001 were used for new spending, not for tax reduction.[20] In other words, spending increases were twice as large as tax cuts. Some budget analysts argue that the budget picture wouldn't have been so grim in 2001 and 2002 if governors had not cut taxes in the 1990s. We strongly disagree. In fact, our analysis suggests that it is very likely that state budgets would be fatter today if those tax cuts hadn't been enacted in the first place because the spending build-up would have been even more rapid and reckless. Colorado is the best example of this. It was forced to hold down spending and taxes because of a constitutional tax limitation measure (the Taxpayers' Bill of Rights); it has not had the enormous budget problems confronting other states.[21]

Table 13
Excess State Spending 1992 – 2000

	*Actual Tax Revenue 1992	*Actual Tax Revenue 2000	Actual 1992-2000 Increase	1992-2000 Population Growth	1992-2000 CPI-U Growth	1992-2000 Population Growth + Inflation	2000 Revenue with Population + Inflation Cap*	2000 Revenue Windfall*	2000 Per Capita Windfall	Rank
U.S. Total	$327,822	$539,640	64.6%	8.9%	22.7%	31.7%	$431,694	$107,947	$384	
Michigan	$11,279	$22,756	101.8%	4.9%	22.7%	27.7%	$14,401	$8,356	$841	1
Vermont	$763	$1,471	92.8%	6.8%	22.7%	29.6%	$989	$482	$792	2
Connecticut	$6,059	$10,171	67.9%	4.0%	22.7%	26.7%	$7,679	$2,492	$732	3
Minnesota	$7,450	$13,339	79.0%	10.0%	22.7%	32.7%	$9,889	$3,449	$701	4
Wisconsin	$6,911	$12,643	82.9%	7.2%	22.7%	29.9%	$8,979	$3,664	$683	5
California	$46,128	$83,808	81.7%	9.7%	22.7%	32.4%	$61,092	$22,716	$671	6
Massachusetts	$9,903	$16,153	63.1%	5.9%	22.7%	28.7%	$12,742	$3,411	$537	7
Mississippi	$2,494	$4,712	88.9%	9.0%	22.7%	31.7%	$3,285	$1,426	$501	8
Utah	$1,988	$3,979	100.1%	22.6%	22.7%	45.3%	$2,889	$1,090	$488	9
Kansas	$2,802	$4,865	73.6%	6.4%	22.7%	29.1%	$3,619	$1,247	$464	10
Virginia	$7,025	$12,648	80.0%	10.9%	22.7%	33.6%	$9,388	$3,260	$461	11
New Hampshire	$856	$1,696	98.1%	11.1%	22.7%	33.8%	$1,145	$551	$446	12
Maine	$1,664	$2,661	59.9%	3.2%	22.7%	25.9%	$2,095	$566	$444	13
Arkansas	$2,748	$4,871	77.2%	11.6%	22.7%	34.4%	$3,693	$1,178	$441	14
Colorado	$3,533	$7,075	100.3%	24.3%	22.7%	47.0%	$5,195	$1,880	$437	15
Illinois	$13,463	$22,789	69.3%	6.7%	22.7%	29.5%	$17,431	$5,358	$431	16
Oregon	$3,313	$5,946	79.5%	15.0%	22.7%	37.8%	$4,564	$1,381	$404	17
Ohio	$12,115	$19,676	62.4%	3.1%	22.7%	25.9%	$15,250	$4,427	$390	18
Rhode Island	$1,276	$2,035	59.5%	4.7%	22.7%	27.5%	$1,627	$408	$390	19
Delaware	$1,340	$2,132	59.1%	13.6%	22.7%	36.3%	$1,827	$305	$389	20
Georgia	$7,267	$13,511	85.9%	21.1%	22.7%	43.8%	$10,453	$3,058	$374	21
North Dakota	$755	$1,172	55.3%	1.0%	22.7%	23.8%	$934	$238	$371	22
New Mexico	$2,238	$3,743	67.3%	15.1%	22.7%	37.8%	$3,084	$659	$362	23
Maryland	$6,502	$10,354	59.3%	8.0%	22.7%	30.8%	$8,502	$1,852	$350	24
Missouri	$5,131	$8,572	67.1%	7.7%	22.7%	30.5%	$6,694	$1,877	$336	25
North Carolina	$9,010	$15,216	68.9%	17.8%	22.7%	40.6%	$12,664	$2,552	$317	26
Nebraska	$1,890	$2,981	57.7%	6.8%	22.7%	29.5%	$2,448	$533	$312	27
Idaho	$1,391	$2,377	70.9%	21.3%	22.7%	44.1%	$2,004	$373	$288	28
Nevada	$1,817	$3,717	104.6%	50.1%	22.7%	72.9%	$3,141	$576	$288	29
Florida	$14,412	$24,817	72.2%	18.3%	22.7%	41.1%	$20,332	$4,485	$281	30
Tennessee	$4,526	$7,740	71.0%	13.5%	22.7%	36.2%	$6,164	$1,575	$277	31
South Carolina	$3,936	$6,381	62.1%	11.4%	22.7%	34.2%	$5,281	$1,101	$274	32
Indiana	$6,476	$10,104	56.0%	7.6%	22.7%	30.4%	$8,443	$1,661	$273	33
Kentucky	$5,081	$7,695	51.4%	7.6%	22.7%	30.3%	$6,623	$1,072	$265	34
South Dakota	$565	$927	64.1%	6.5%	22.7%	29.3%	$730	$197	$261	35
Wyoming	$646	$964	49.2%	6.6%	22.7%	29.3%	$835	$128	$260	36
West Virginia	$2,352	$3,343	42.1%	0.1%	22.7%	22.9%	$2,890	$453	$251	37
Louisiana	$4,250	$6,512	53.2%	4.6%	22.7%	27.4%	$5,414	$1,099	$246	38
Oklahoma	$3,874	$5,852	51.1%	7.7%	22.7%	30.4%	$5,053	$799	$231	39
Alabama	$4,218	$6,438	52.6%	7.4%	22.7%	30.2%	$5,491	$948	$213	40
Iowa	$3,602	$5,185	44.0%	4.2%	22.7%	27.0%	$4,574	$612	$209	41
New Jersey	$12,803	$18,148	41.7%	7.5%	22.7%	30.2%	$16,673	$1,475	$175	42
New York	$30,110	$41,736	38.6%	4.9%	22.7%	27.7%	$38,445	$3,291	$173	43
Pennsylvania	$16,270	$22,467	38.1%	2.5%	22.7%	25.2%	$20,377	$2,090	$170	44
Montana	$951	$1,411	48.3%	9.7%	22.7%	32.4%	$1,259	$152	$168	45
Texas	$17,031	$27,424	61.0%	18.1%	22.7%	40.9%	$23,992	$3,432	$165	46
Washington	$8,468	$12,567	48.4%	14.7%	22.7%	37.4%	$11,637	$930	$158	47
Arizona	$4,827	$8,101	67.8%	32.7%	22.7%	55.4%	$7,502	$599	$117	48
Hawaii	$2,710	$3,335	23.1%	5.4%	22.7%	28.1%	$3,472	-$138	-$114	49
Alaska	$1,603	$1,423	-11.2%	6.8%	22.7%	29.5%	$2,076	-$653	-$1,042	50

Source: The Cato Institute

*Dollar value in millions

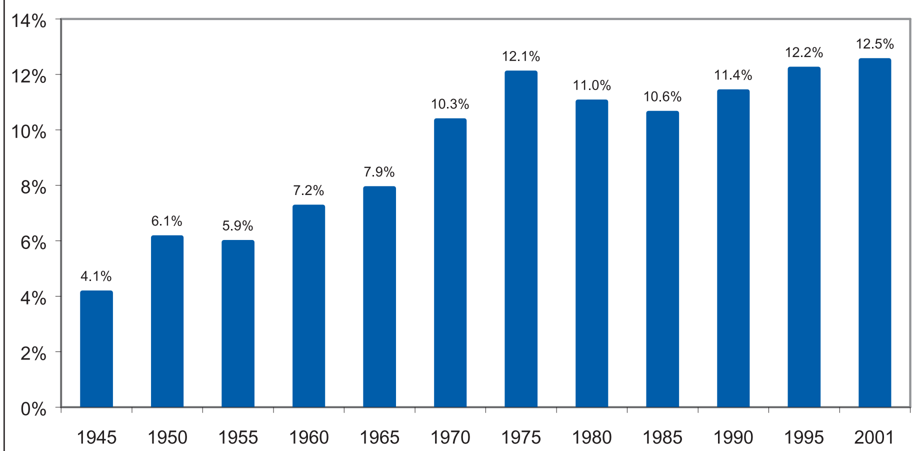
Just how much did states overspend in the decade of the ’90s? We estimated the size of excess tax collections by states by measuring how much actual revenue intake exceeded inflation plus population growth over the course of the current economic expansion that began in early 1992.[22] The answer is provided in Figure 19 (page 49). If every state had strictly adhered to such a revenue cap from 1992 through 2000, taxpayers would have saved a combined total of $108 billion, or $2,384 per capita, in 2001 alone. In other words, even if states had passed $108 billion in tax cuts in 2000, their revenues still would have grown by about 34 percent—the level of inflation and population growth. Instead, state tax collections climbed by 65 percent.[23]

As Table 13 shows, the size of the revenue windfall varies substantially from state to state. Taxpayers in six states would have saved more than $600 per capita in 2000: Michigan ($841), Vermont ($792), Connecticut ($732), Minnesota ($701), Wisconsin ($683), and California ($671). There were only two states where tax revenues grew more slowly than population and inflation from 1992 to 2000: Alaska and Hawaii.[24]

Bill Owens of Colorado, one of the best governors over this period, recently recalled that during this period, “I knew that our budget had gotten too flabby when I learned that Colorado and most other states were paying Medicaid dollars for Viagra coverage.”[25] It’s not clear why sexual pleasure should be subsidized by the government. This is just one example of how states lost control of the purse strings and the ability to say “no” to special interests pleading for more dollars.

But all this wild spending is now going on again. Revenues in 2005 and 2006 came in nearly twice as fast as expected and budgets burst at the seams in those years. If states don’t learn to say “no” soon to excessive expenditures, today’s days of splendor could be the first stage of the worst budget crisis for the states in half a century.

Figure 20
State and Local Spending as Percentage of GDP



Source: BEA, National Income and Product Accounts

Did States Go Overboard in Cutting Taxes?

Liberal commentators often draw the opposite conclusion from the last three recessions. They argue that states cut taxes too much during the fat years and then the erosion of the tax base forces savage spending cuts during the recession. The lesson they argue: Don’t cut taxes and your budget problems will be manageable. The liberal Center for Budget and Policy Priorities recently made this warning to state lawmakers that tax cuts are unsustainable and irresponsible.[26]

Well it’s true that the years between 1995 and 2000 marked one of the longest sustained runs of net state tax cutting in American history. Under the lead of fiscal tax-cutting Republican governors like John Engler, Fife Symington, and Bill Owens, the states cut taxes by $5.8 billion in FY 2001, by $5 billion in FY 2000, and a record $7 billion in FY 1999.

But those tax cuts did not cause the red ink of 2001-2003. The state tax cuts of the mid- and late 1990s did not even keep pace with burgeoning surpluses in those years. Even with the state tax cuts, tax revenues averaged a robust six to eight percent growth path throughout the latter half of the 1990s.[27] To some extent, most of these tax cuts were to counteract the fact that state revenues grow faster than family incomes during boom periods due to the progressive nature of state income taxes and the higher rates of consumer spending (and thus sales tax revenues) during good times.

Many of the program areas of state budgets that are said to be “under-funded” have actually seen dramatic increases over the past decade or more. Since 1970, state spending on education per student adjusted for inflation has roughly doubled.[28] Since 1980, state highway spending has also risen much faster than population and inflation. State health and welfare spending has risen three times faster than population and inflation.[29] Shrinking government is the only way to address structural gaps in the state budgets. Figure 20 shows there has been no under-funding.

The same has been true in this current economic expansion. State spending rose in 2006 more than any year this decade, and in 2007, states recommended another binge in spending thanks to the revenue spike.[30] In this expansion, it appears that about $4 of new spending has accompanied every $1 in tax cuts. Oklahoma and Arizona passed tax cuts in 2006 but that was just a small fraction of the budget surplus, most of which went to new spending.

Beating the Business Cycle

Since the business cycle hasn’t been repealed, the main issue for state legislators is how can they smooth out the wild ride so the roller coaster of state budgets don’t undergo the wild turns and the unpredictable ups and downs.

This brings us back to state reliance on income taxes. In this study we show that state income and business taxes are undesirable because it reduces their competitiveness. But there is another reason for states to become less reliant on income taxes: They exacerbate the wild fluctuations in revenues during boom and bust cycles. States without income taxes have tended to have less fluctuation in their budgets than states highly dependent on income tax revenues. But what is even more undeniable is that the biggest villain here is the progressive nature of state income taxes. The graduated rate structure means that state revenues rise much faster than incomes during good times and fall much faster than incomes

Table 14
Implementation of State Income Tax by Year Tax Implemented

State	Year Implemented
Hawaii	1901
Wisconsin	1911
Mississippi	1912
Oklahoma	1915
Massachusetts	1916
Virginia	1916
Delaware	1917
Missouri	1917
New York	1919
North Dakota	1919
North Carolina	1921
South Carolina	1922
New Hampshire*	1923
Arkansas	1929
Georgia	1929
Oregon	1930
Idaho	1931
Utah	1931
Vermont	1931
Alabama	1933
Arizona	1933
Kansas	1933
Minnesota	1933
Montana	1933
New Mexico	1933
Iowa	1934
Louisiana	1934
California	1935
Kentucky	1936
Colorado	1937
Maryland	1937
D.C.	1947
Alaska**	1949
West Virginia	1961
Indiana	1963
Michigan	1967
Nebraska	1967
Connecticut***	1969
Illinois	1969
Maine	1969
Ohio	1971
Pennsylvania	1971
Rhode Island	1971
New Jersey	1976

* Interest and dividends only
** Repealed in 1979
*** Capital gains interest and dividends until 1991

Source: Laffer Associates

and economic growth during the downturns. This is why revenues can climb at an annual rate of sometimes 10 to 20 percent during times of prosperity and then fall off the Cliffs of Dover in recession. If states can't eliminate their income taxes, at the very least they would be wise to put in place a flat rate structure. For example, Utah adopted one last year, and Georgia is now considering a flat tax devised by one of us (Laffer).

Case Study #17: The Income Tax as a State ATM Machine

It is also instructive to examine what happens in states after they implemented a state income tax. The results are hardly encouraging for states considering an income tax. A landmark study by economist Thomas Dye of Florida State University has documented that six of the last eight states to implement an income tax (not counting Connecticut, whose income tax came after this study was completed), experienced an economic slowdown. Personal income fell significantly after the state adopted the new tax. He also found that state spending increased sharply after the income tax became law.

A 2001 study by The Ohio University's Richard Vedder corroborated this finding.[31] Vedder examined the increase in the overall tax burden from 1957-1997 for three groups of states: the 10 states that had no income tax at all over this period, the 12 states that enacted an income tax over this period, and the remaining 28 states that already had an income tax over this period (see chart below). The tax burden rose by 10.5 percent in the non-income tax states, but by 37.2 percent in the states that adopted an income tax during these years. Here was Vedder's conclusion:

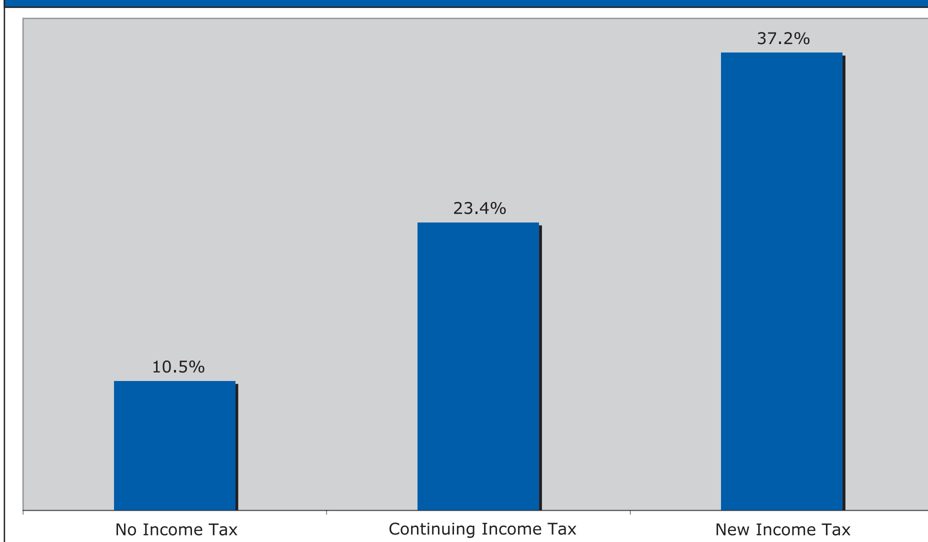
"Income taxes are such potent revenue sources, with revenues typically rising faster than personal income owing to the progressive nature of the tax, that they provide government treasuries with great revenue growth—which politicians seem to spend. Thus income tax states tend to be big government states, whereas non-income tax states like New Hampshire, Florida, and Texas tend to have more moderate levels of government spending and taxation relative to income levels."

The State Income Tax Monstrosity

It was not until 1913 with the passage of the 16th Amendment to the Constitution that the federal government had formal authority to levy an income tax. But states had already begun experimenting with an income tax. In 1911, Wisconsin was the first American state to adopt an income tax. Since then, 42 states have followed suit—Hawaii had an income tax dating back to 1901 long before it became a state. One state, Alaska, repealed its income tax (see Table 14).

Prior to the 1930s, only a handful of states imposed income taxes. Today only nine states do not have an income tax. Connecticut was the last state to adopt one in 1991. In 1900, states

Percent Increase in Overall Tax Burden: States With No Income Tax, New Income Taxes, Continuing Income Taxes, 1957-1997



Source: U.S. Department of Commerce

Table 15
Top Marginal Income Tax Rates

State	Personal Income Tax				Corporate Income Tax		
	1990	Today	% change		1990	Today	% change
Alabama	5	5	0.00%		5	6.5	30.00%
Alaska	0	0	0.00%		9.4	9.4	0.00%
Arizona	7	4.79	-31.60%		9.3	6.968	-25.08%
Arkansas	7	7	0.00%		6	6.5	8.33%
California	9.3	10.3	10.80%		9.3	8.84	-4.95%
Colorado	5	4.63	-7.40%		5.5	4.63	-15.82%
Connecticut	0	5	New Tax		11.5	7.5	-34.78%
Delaware	7.7	5.95	-22.70%		8.7	8.7	0.00%
D.C.	9.5	8.7	-8.40%		10	9.975	-0.25%
Florida	0	0	0.00%		5.5	5.5	0.00%
Georgia	6	6	0.00%		6	6	0.00%
Hawaii	10	8.25	-17.50%		6.4	6.4	0.00%
Idaho	8.2	7.8	-4.90%		8	7.6	-5.00%
Illinois	3	3	0.00%		7.3	7.3	0.00%
Indiana	3.4	3.4	0.00%		7.9	8.5	7.59%
Iowa	9.98	8.98	-10.00%		12	12	0.00%
Kansas	5.95	6.45	8.40%		6.75	7.35	8.89%
Kentucky	6	6	0.00%		8	7	-12.50%
Louisiana	6	6	0.00%		8	8	0.00%
Maine	8.5	8.5	0.00%		8.93	8.93	0.00%
Maryland	5	4.75	-5.00%		7	7	0.00%
Massachusetts	5.95	5.3	-10.92%		9.5	9.5	0.00%
Michigan	4.6	3.9	-15.22%		2.35	1.9	-19.15%
Minnesota	8	7.85	-1.88%		9.8	9.8	0.00%
Mississippi	5	5	0.00%		5	5	0.00%
Missouri	6	6	0.00%		5	6.25	25.00%
Montana	11	6.9	-37.27%		6.75	6.75	0.00%
Nebraska	6.41	6.84	6.71%		7.24	7.81	7.87%
Nevada	0	0	0.00%		0	0	0.00%
New Hampshire	0	0	0.00%		8	9.25	15.63%
New Jersey	3.5	8.97	156.29%		9	9	0.00%
New Mexico	8.5	5.3	-37.65%		7.6	7.6	0.00%
New York	7.875	6.85	-13.02%		9	7.5	-16.67%
North Carolina	7	8.25	17.86%		7	6.9	-1.43%
North Dakota	3.92	5.544	41.43%		10.5	7	-33.33%
Ohio	6.9	6.87	-0.43%		8.9	8.5	-4.49%
Oklahoma	7	6.25	-10.71%		6	6	0.00%
Oregon	9	9	0.00%		6.6	6.6	0.00%
Pennsylvania	2.1	3.07	46.19%		8.5	9.99	17.53%
Rhode Island	6.4288	5.5	-14.45%		9	9	0.00%
South Carolina	7	7	0.00%		5	5	0.00%
South Dakota	0	0	0.00%		0	0	0.00%
Tennessee	0	0	0.00%		6	6.5	8.33%
Texas	0	0	0.00%		0	0	0.00%
Utah	7.2	7	-2.78%		5	5	0.00%
Vermont	7.84	9.9	26.28%		8.25	8.5	3.03%
Virginia	5.75	5.75	0.00%		6	6	0.00%
Washington	0	0	0.00%		0	0	0.00%
West Virginia	6.5	6.5	0.00%		9.375	8.75	-6.67%
Wisconsin	6.93	6.77	-2.31%		7.9	7.9	0.00%
Wyoming	0	0	0.00%		0	0	0.00%

Source: Tax Foundation

and localities raised none of their revenues through income taxes. In 1960, they raised 10 percent of their revenues from income taxes. And now that number is close to 30 percent.

The nine states that do not have a broad-based income tax are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming. How do they make ends meet? Two of those states do not even have a sales tax: Alaska and New Hampshire.

We mentioned earlier the Google tax payments during 2005. Google alone accounted for billions of dollars of added income tax receipts in that year, but when the "Google surplus" evaporated, Sacramento was out of money again. California has become the model of how *not* to devise a tax system. At 10.3 percent, California's top individual income tax rate is the highest in the nation, outside New York City. Income taxes have risen from 35 percent of general fund revenues in 1981 to 58 percent in 2002. Fully 70 percent of the income tax revenues in Sacramento come from the richest five percent of Californians. So when the rich don't do well, the state goes through fiscal hell. In 2002, income taxes declined in one year by 45 percent, creating a one year budget hole of $5.1 billion. This is a microcosm of the problem of all the income tax states: The revenues from this tax are volatile in the extreme.

There is good news on this score. States are learning of the hazards of income taxes—both from an economic and fiscal standpoint. Tax rates have generally been falling on state personal and corporate income. Table 15 shows that since 1990 several more states have cut tax rates than raised them. That's a trend state legislators would be wise to continue.

States Move to Eliminate the Income Tax

Perhaps the era of the income tax is finally coming to an end. And better yet, we may not just see the rollback of income taxes, but their full repeal.[32] Maybe it's just a pipe dream. After all, governments don't usually repeal their tax laws.

But there's a lot of activity in state capitals to eliminate state incomes taxes. In Georgia, Missouri, and South Carolina, governors and state legislatures are drafting serious proposals to repeal their income taxes to promote more rapid growth and tax fairness. The city of St. Louis is also considering repealing its wage/income tax. And in Michigan, the legislature has phased out the hated Single Business Tax (SBT)—the most onerous in the land. States are now in a ferocious competition to attract jobs and businesses. One of the best ways to win this competition is to abolish the state income tax.

Recently reelected South Carolina Gov. Mark Sanford is talking of reviving his plan from four years ago to phase out the income tax over 18 years. Sanford ran into stiff opposition from the legislature in his first term, but now state legislators are crafting their own income tax elimination plan. "I still consider this one of my top priorities and if the legislature wants to do it, I would like nothing more," he said.[33]

Georgia may beat Gov. Sanford to the punch. House Republicans in Atlanta have announced that one of their top priorities is to use the half-billion dollar budget surplus this year as a down payment to "dismantle the current tax code." House Republican Majority Leader Jerry Keen tells us the debate in Atlanta is between a flat rate income tax and a plan that would "broaden the sales tax by eliminating 107 exemptions and then do away with either the personal income tax or all property taxes. We're committed to a pro-growth tax plan that announces to the country that Georgia is open for business," he said.[34]

Georgia Speaker of the House Glenn Richardson filed a bill in early 2007 that if implemented may constitute the most far-reaching and pro-growth tax overhaul for a state in many years. Under the plan, all state and local property taxes would be eliminated.[35] So would the estate tax, unemployment insurance and workers' compensation taxes, business and occupational fees, intangible taxes and insurance taxes. The entire tax structure of the state would be replaced with a flat rate 5.75 income tax and a flat 5.75 percent sales tax. The state's top personal income tax rate is currently 6 percent and the state sales tax rate is 4.5 percent.

In Missouri, the legislature is reviewing a plan by a state think tank, the Show Me Institute, that would broaden and increase the rate of the sales tax to 7.5 percent and limit spending growth to population plus inflation, to end that state's income tax within 10 years.[36] The former Speaker of the House, Carl Bearden, tells us that he "favors a plan to end the income tax. It would benefit everyone in the state." [37]

Conclusion

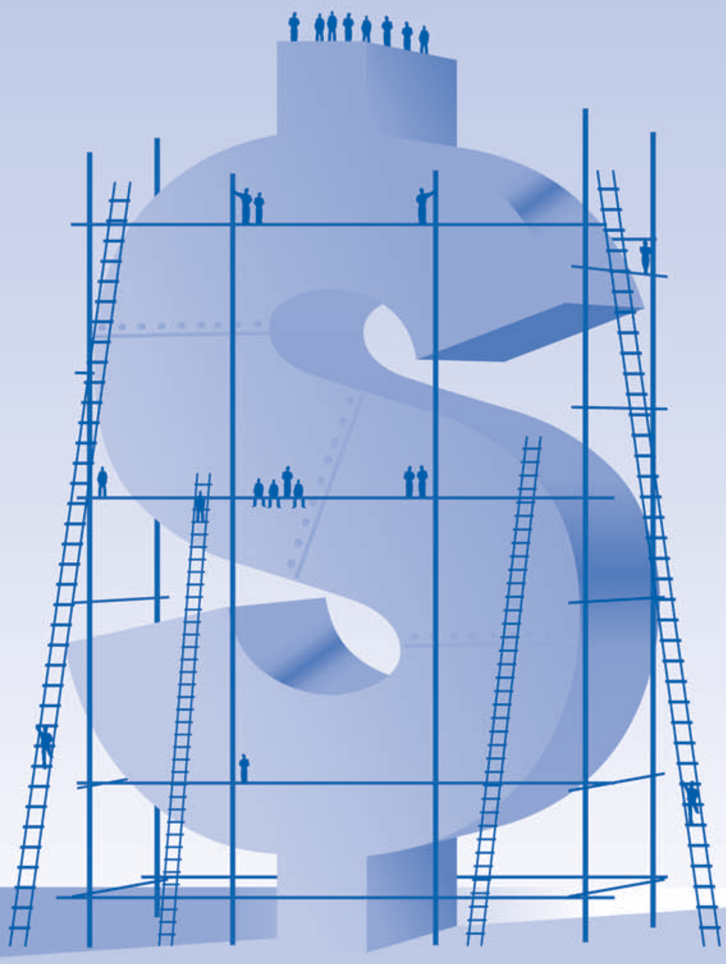
State lawmakers may be surprised to hear this given that we are now in the sixth year of an economic expansion, but these growth spurts don't last forever—in fact as we write this, there are already signs that state revenues are slowing down from the blistering pace of the last three years.[38]

The analysis and case studies discussed in this chapter have shown that states often find themselves in fiscal trouble because they spend far too much during economic expansions. They are like the scorpion that is carried on the back of the frog across the river that then stings the frog causing them both to drown. "Why," asks the frog in his dying breaths. "I couldn't help myself," responds the scorpion. "It's in my nature." It seems that overspending when the coffers are flush is in the nature of state legislators.

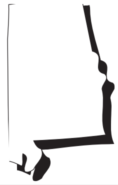
The most advisable path to avoid future fiscal crises is to keep spending and tax receipts at a manageable and justifiable rate, usually population growth plus inflation. Some states have constitutional amendments to keep spending in check. Colorado is an example of a tax and expenditure limitation that works well. The surpluses are mostly refunded to taxpayers automatically and spending is kept at bay. Arizona requires a supermajority vote of the legislature to raise taxes, which may be an even better restraint on government growth.

Finally, if history is any guide, states that try to respond to slow revenue growth and budget deficits with tax hikes will not gain tax revenues; they will lose businesses, jobs, and families. In the last U.S. recession, the states that actually cut taxes to promote economic growth and job creation saw the most rapid return to fiscal and economic health. States cannot tax their way to prosperity or to a balanced budget for that matter. We believe this is the most critical state fiscal lesson of all.

STATE RANKINGS



American Legislative Exchange Council

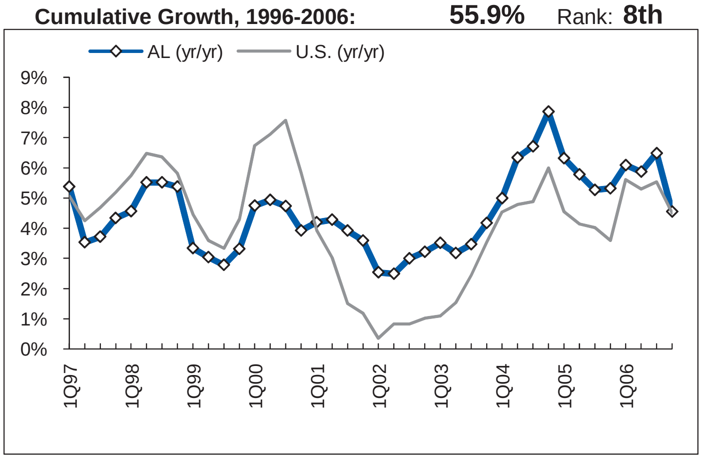


18 | Alabama

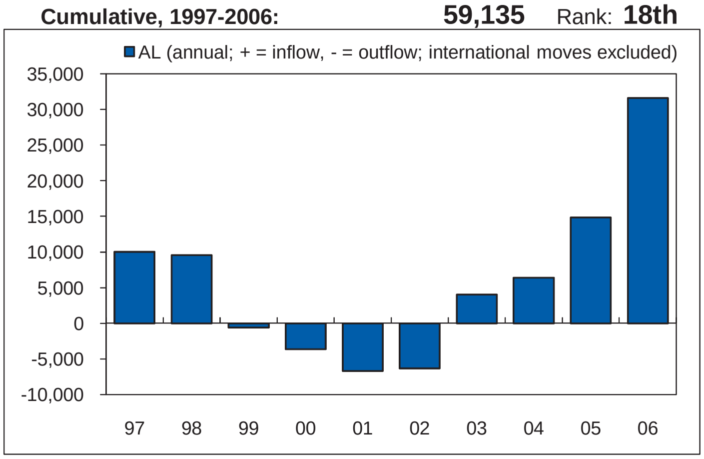
Economic Outlook Rank

Economic Performance Rank 18 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

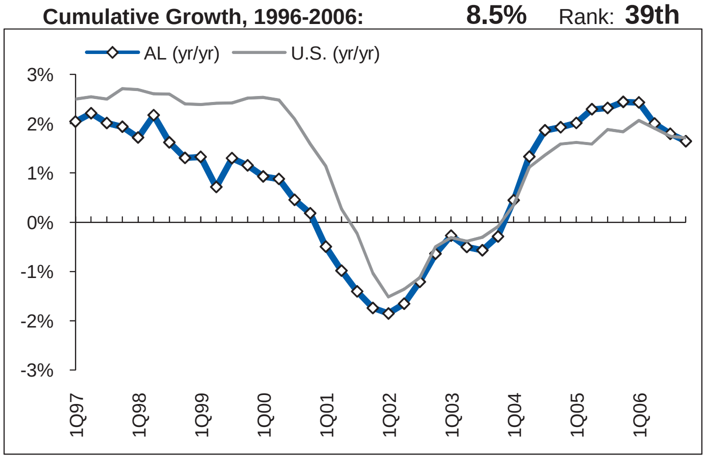
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **55.9%** Rank: **8th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **59,135** Rank: **18th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **8.5%** Rank: **39th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

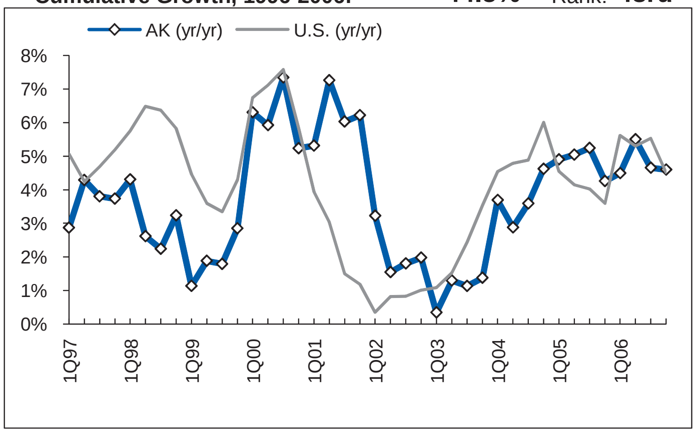
1) Top Marginal Personal Income Tax Rate:	**4.25%**	Rank: **12th**
2) Top Marginal Corporate Income Tax Rate:	**4.23%**	Rank: **5th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**-$1.51**	Rank: **1st**
4) Property Tax Burden: (per $1,000 of personal income)	**$13.60**	Rank: **1st**
5) Sales Tax Burden: (per $1,000 of personal income)	**$26.28**	Rank: **27th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$23.23**	Rank: **38th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.24**	Rank: **17th**
9) Debt Service as a % of Total Tax Revenue:	**9.8%**	Rank: **34th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**592.6**	Rank: **38th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**50.7**	Rank: **47th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.17**	Rank: **42nd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.50**	Rank: **41st**

38 Alaska

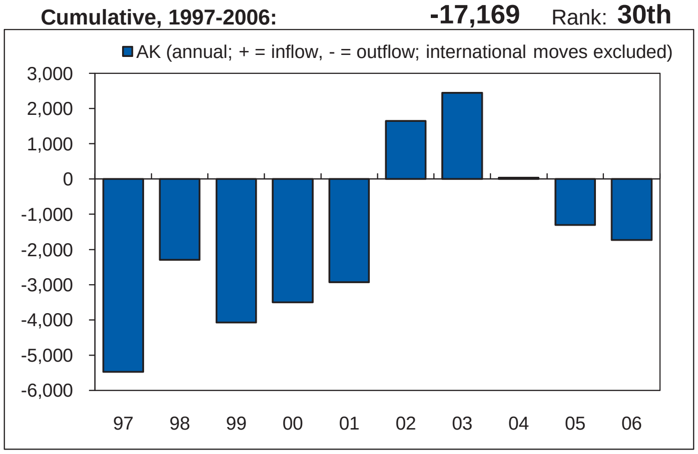
Economic Outlook Rank

Economic Performance Rank 31 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

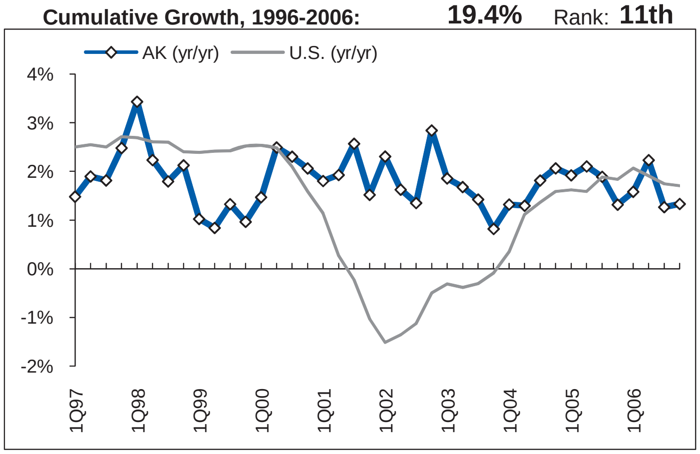
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **44.5%** Rank: **43rd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-17,169** Rank: **30th**

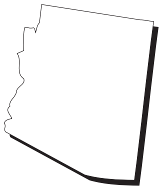


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **19.4%** Rank: **11th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**9.40%**	Rank: **43rd**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$39.74**	Rank: **39th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$6.87**	Rank: **5th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$15.26**	Rank: **6th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.29**	Rank: **28th**
9) Debt Service as a % of Total Tax Revenue:	**18.3%**	Rank: **50th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**785.5**	Rank: **49th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**56.0**	Rank: **43rd**
12) State Minimum Wage: (federal floor is $5.85)	**$7.15**	Rank: **38th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$5.00**	Rank: **50th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.62**	Rank: **38th**

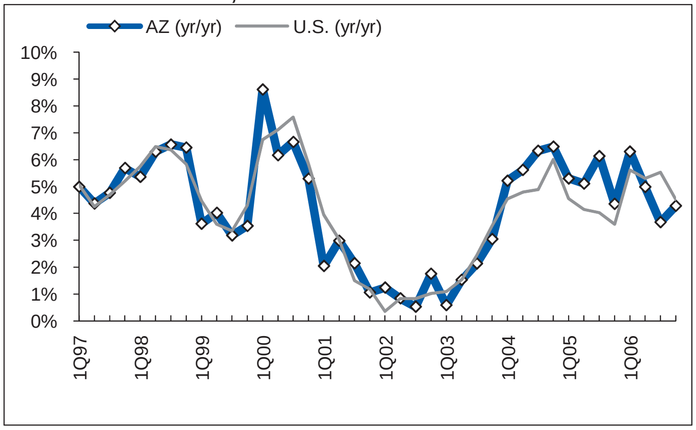


2 | Arizona

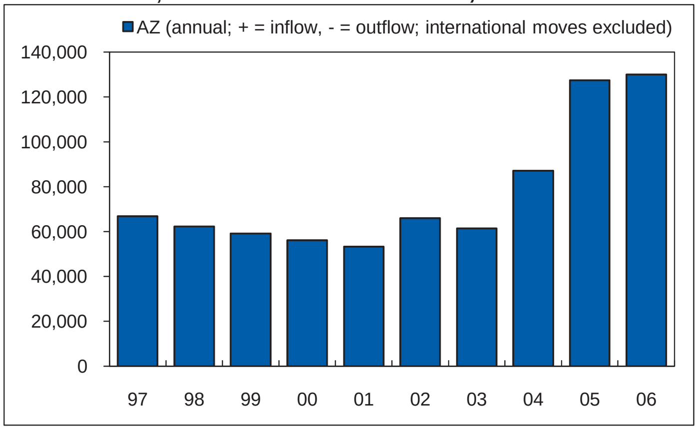
Economic Outlook Rank

Economic Performance Rank 3 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

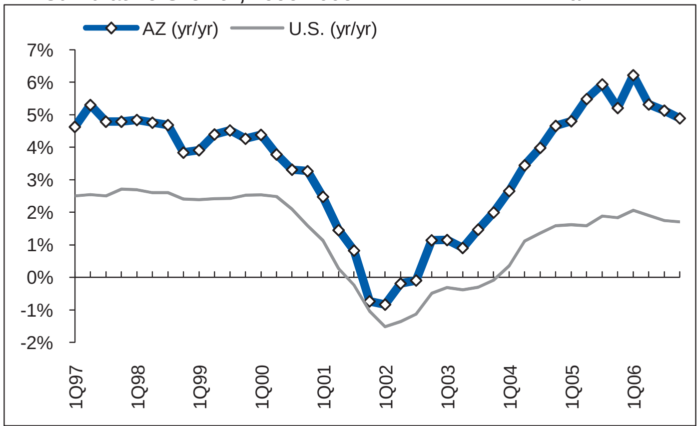
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **51.1%** Rank: **24th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **769,679** Rank: **2nd**

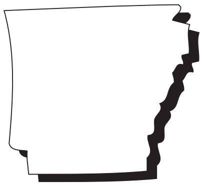


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **39.7%** Rank: **2nd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**4.79%**	Rank: **16th**
2) Top Marginal Corporate Income Tax Rate:	**6.97%**	Rank: **23rd**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$10.87**	Rank: **33rd**
4) Property Tax Burden: (per $1,000 of personal income)	**$31.00**	Rank: **24th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$40.60**	Rank: **45th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$15.06**	Rank: **5th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$1.31**	Rank: **9th**
9) Debt Service as a % of Total Tax Revenue:	**8.8%**	Rank: **28th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**462.3**	Rank: **3rd**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**66.3**	Rank: **14th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.75**	Rank: **34th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.73**	Rank: **6th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.94**	Rank: **1st**

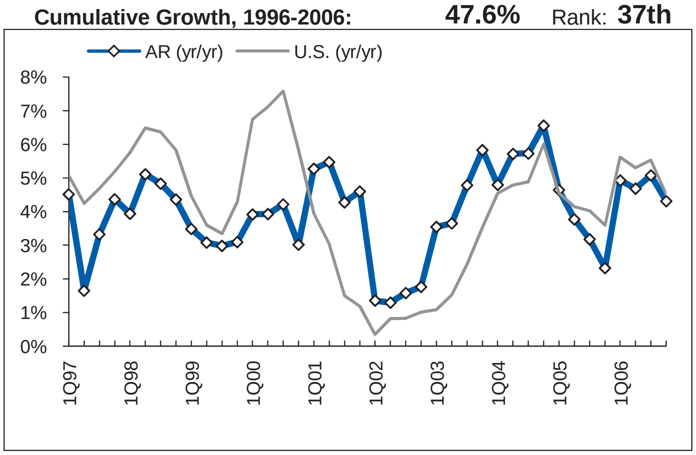


15 Arkansas

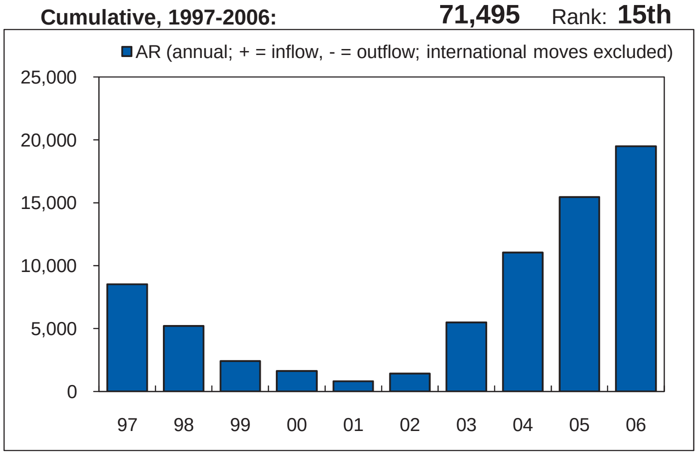
Economic Outlook Rank

Economic Performance Rank 32 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

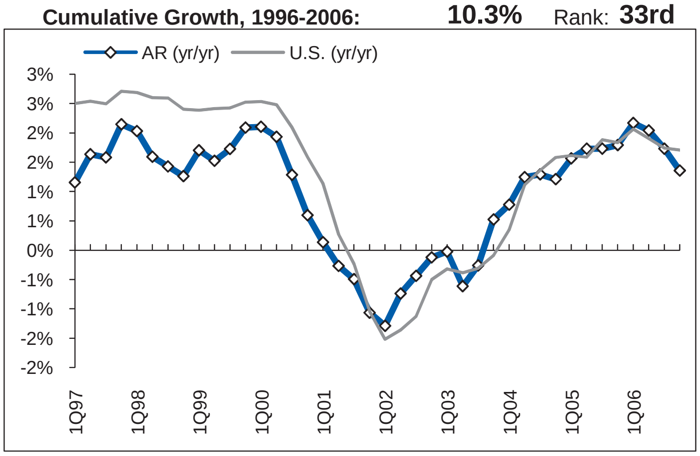
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **47.6%** Rank: **37th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **71,495** Rank: **15th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **10.3%** Rank: **33rd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

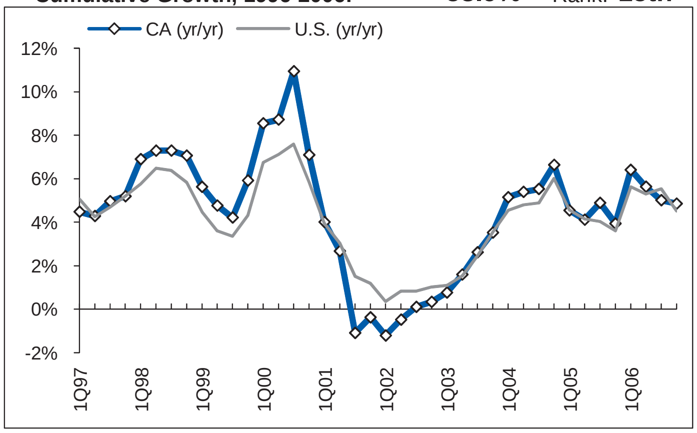
1) Top Marginal Personal Income Tax Rate:	**7.00%**	Rank: **33rd**
2) Top Marginal Corporate Income Tax Rate:	**6.50%**	Rank: **19th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$12.57**	Rank: **39th**
4) Property Tax Burden: (per $1,000 of personal income)	**$16.07**	Rank: **3rd**
5) Sales Tax Burden: (per $1,000 of personal income)	**$41.33**	Rank: **46th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$16.73**	Rank: **11th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.45**	Rank: **12th**
9) Debt Service as a % of Total Tax Revenue:	**6.9%**	Rank: **8th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**576.1**	Rank: **30th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**56.5**	Rank: **41st**
12) State Minimum Wage: (federal floor is $5.85)	**$6.25**	Rank: **26th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.59**	Rank: **4th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.76**	Rank: **32nd**

41 California

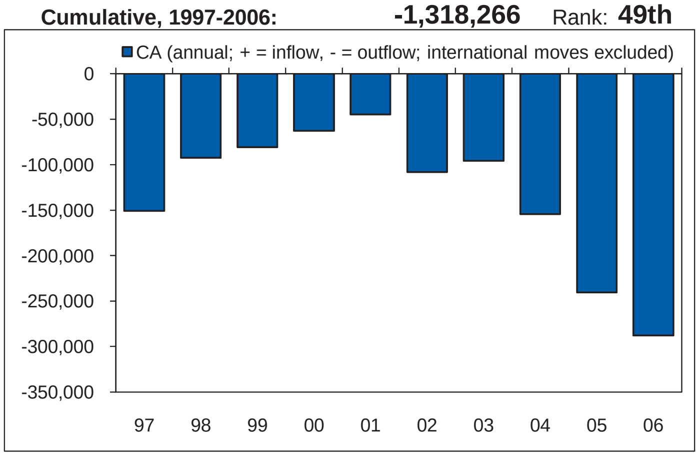
Economic Outlook Rank

Economic Performance Rank 29 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

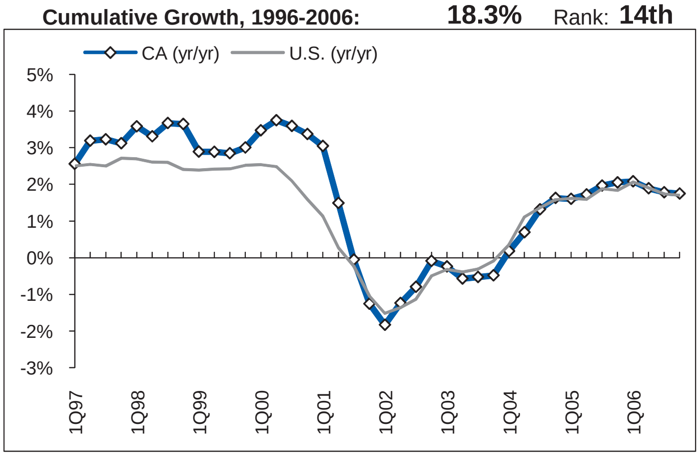
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **53.9%** Rank: **15th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-1,318,266** Rank: **49th**

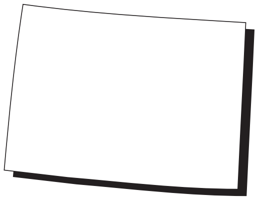


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **18.3%** Rank: **14th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**10.30%**	Rank: **49th**
2) Top Marginal Corporate Income Tax Rate:	**8.84%**	Rank: **36th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$33.58**	Rank: **50th**
4) Property Tax Burden: (per $1,000 of personal income)	**$28.24**	Rank: **17th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$28.06**	Rank: **32nd**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.76**	Rank: **19th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.29**	Rank: **28th**
9) Debt Service as a % of Total Tax Revenue:	**9.2%**	Rank: **30th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**498.9**	Rank: **9th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**53.5**	Rank: **45th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.50**	Rank: **44th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$4.13**	Rank: **49th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.11**	Rank: **14th**

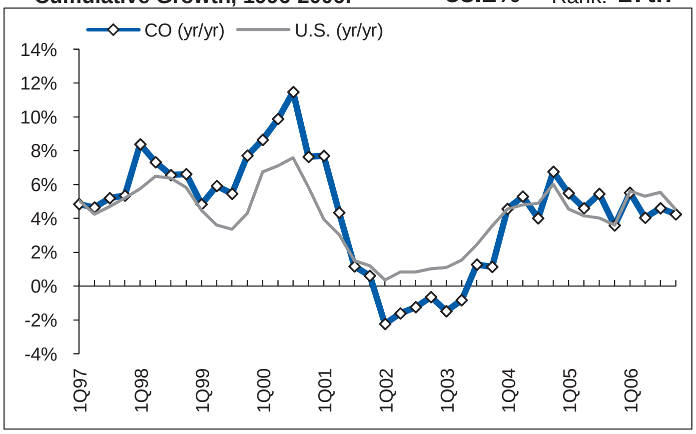


7 | Colorado

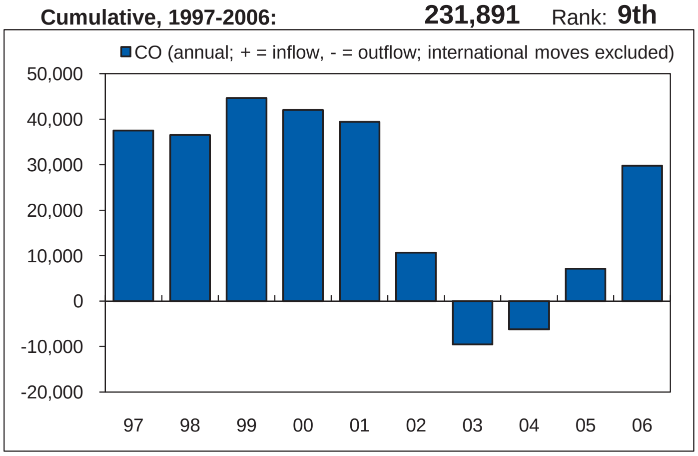
Economic Outlook Rank

Economic Performance Rank 7 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

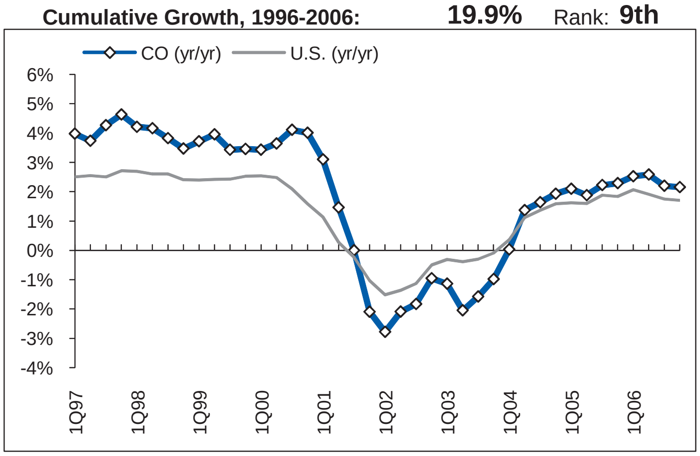
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **53.2%** Rank: **17th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **231,891** Rank: **9th**

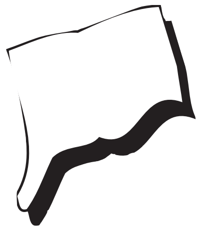


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **19.9%** Rank: **9th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**4.63%**	Rank: **15th**
2) Top Marginal Corporate Income Tax Rate:	**4.63%**	Rank: **8th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$29.61**	Rank: **19th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$26.12**	Rank: **26th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$12.02**	Rank: **1st**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$2.28**	Rank: **46th**
9) Debt Service as a % of Total Tax Revenue:	**11.3%**	Rank: **44th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**536.5**	Rank: **20th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**65.1**	Rank: **21st**
12) State Minimum Wage: (federal floor is $5.85)	**$6.85**	Rank: **36th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.40**	Rank: **23rd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**3**	Rank: **1st**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.16**	Rank: **12th**

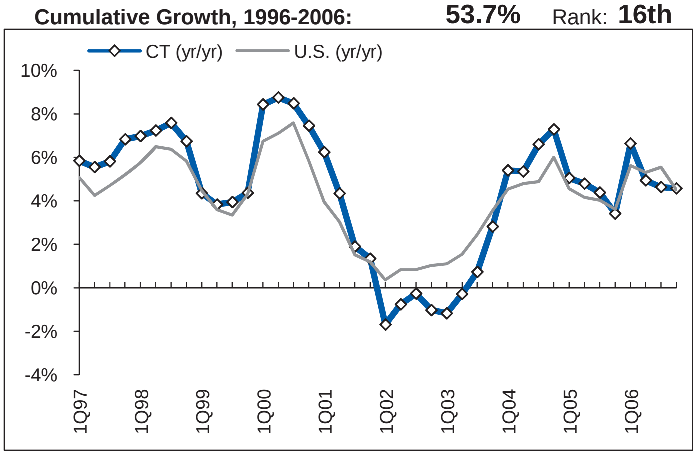


39 | Connecticut

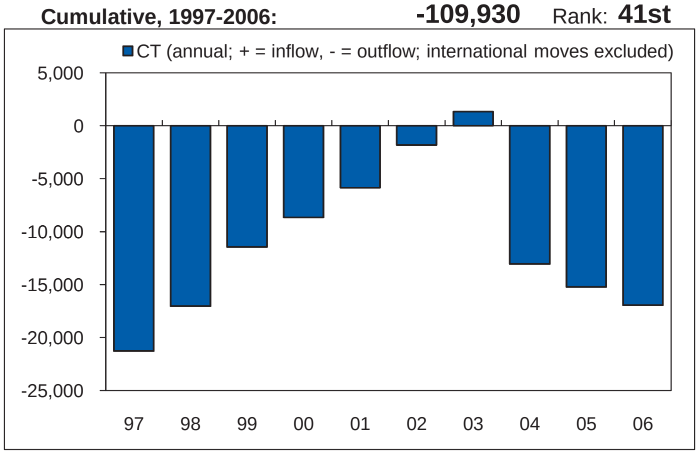
Economic Outlook Rank

Economic Performance Rank 40 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

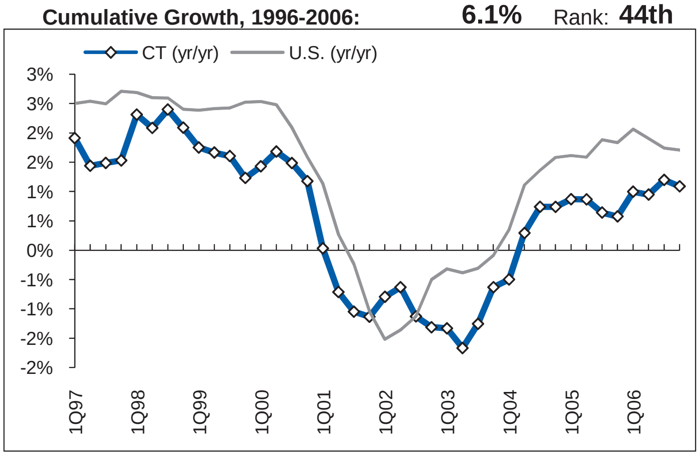
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **53.7%** Rank: **16th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-109,930** Rank: **41st**

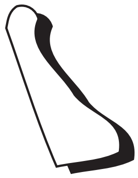


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **6.1%** Rank: **44th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**5.00%**	Rank: **17th**
2) Top Marginal Corporate Income Tax Rate:	**7.50%**	Rank: **27th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$11.08**	Rank: **34th**
4) Property Tax Burden: (per $1,000 of personal income)	**$44.35**	Rank: **44th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$20.39**	Rank: **13th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$16.80**	Rank: **12th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$2.39**	Rank: **47th**
9) Debt Service as a % of Total Tax Revenue:	**9.3%**	Rank: **31st**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**537.0**	Rank: **21st**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**66.3**	Rank: **14th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.65**	Rank: **48th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.90**	Rank: **37th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.84**	Rank: **23rd**

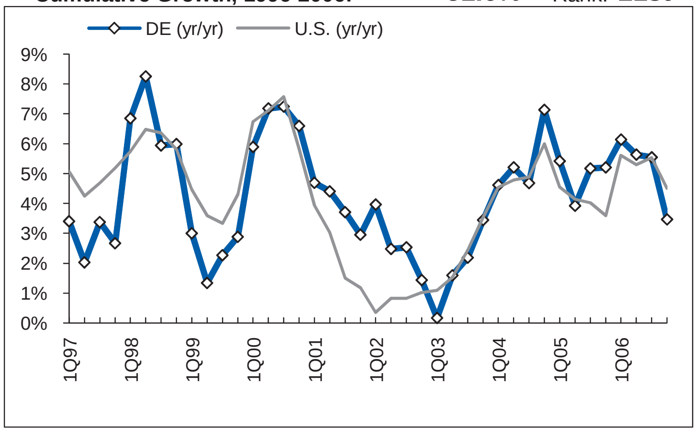


22 Delaware

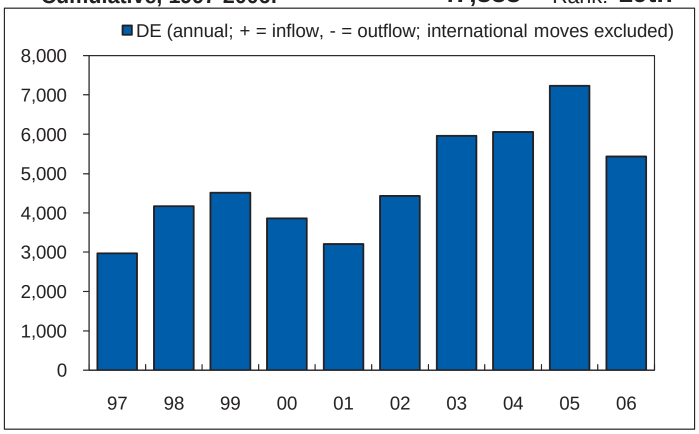
Economic Outlook Rank

Economic Performance Rank 15 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

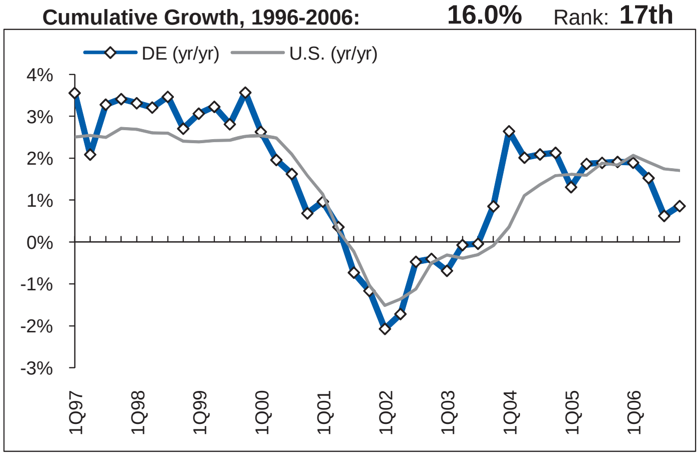
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **51.6%** Rank: **21st**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **47,833** Rank: **19th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **16.0%** Rank: **17th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

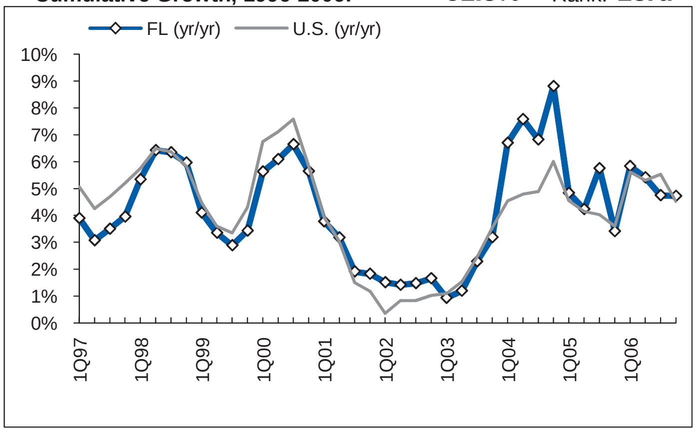
1) **Top Marginal Personal Income Tax Rate:**	**7.20%**	Rank: **35th**
2) **Top Marginal Corporate Income Tax Rate:**	**8.70%**	Rank: **34th**
3) **Personal Income Tax Progressivity:** (change in tax liability per $1,000 income)	**$11.34**	Rank: **36th**
4) **Property Tax Burden:** (per $1,000 of personal income)	**$15.97**	Rank: **2nd**
5) **Sales Tax Burden:** (per $1,000 of personal income)	**$0.00**	Rank: **1st**
6) **Remaining Tax Burden:** (per $1,000 of personal income)	**$32.67**	Rank: **48th**
7) **Estate/Inheritance Tax Levied?:**	**No**	Rank: **1st**
8) **Recent Legislated Tax Changes:** (2005 and 2006, per $1,000 of personal income)	**-$0.28**	Rank: **16th**
9) **Debt Service as a % of Total Tax Revenue:**	**10.6%**	Rank: **40th**
10) **Public Employees Per 10,000 of Population** (full-time equivalent)**:**	**579.8**	Rank: **35th**
11) **State Liability System Survey:** (tort litigation treatment, judicial impartiality, etc.)	**75.6**	Rank: **1st**
12) **State Minimum Wage:** (federal floor is $5.85)	**$6.65**	Rank: **32nd**
13) **Avg. Workers' Compensation Costs:** (per $100 of payroll)	**$3.91**	Rank: **48th**
14) **Right-To-Work State?:** (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) **Number of Tax Expenditure Limits:** (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) **Education Freedom Index Score:** (vouchers, ease of private/home schooling, etc.)	**2.40**	Rank: **3rd**

14 Florida

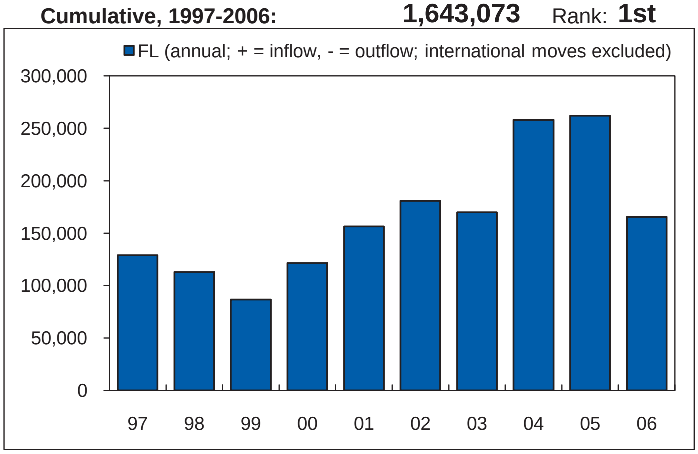
Economic Outlook Rank

Economic Performance Rank 2 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

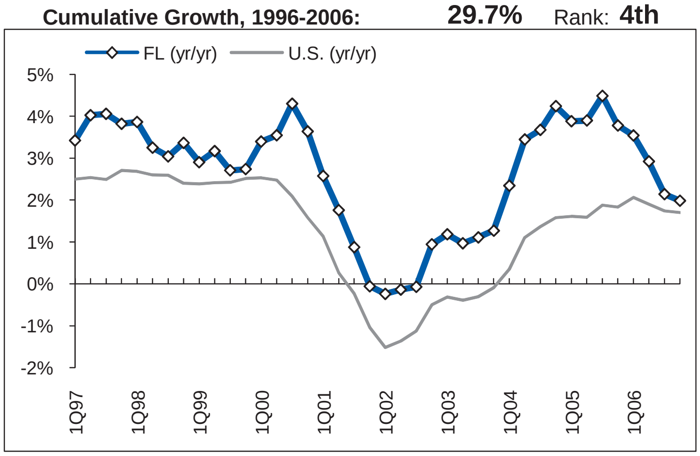
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **51.3%** Rank: **23rd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **1,643,073** Rank: **1st**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **29.7%** Rank: **4th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**5.50%**	Rank: **13th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$34.30**	Rank: **32nd**
5) Sales Tax Burden: (per $1,000 of personal income)	**$33.36**	Rank: **40th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$29.00**	Rank: **46th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.34**	Rank: **15th**
9) Debt Service as a % of Total Tax Revenue:	**10.4%**	Rank: **39th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**479.4**	Rank: **4th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**58.2**	Rank: **36th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.67**	Rank: **33rd**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.32**	Rank: **45th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.39**	Rank: **4th**

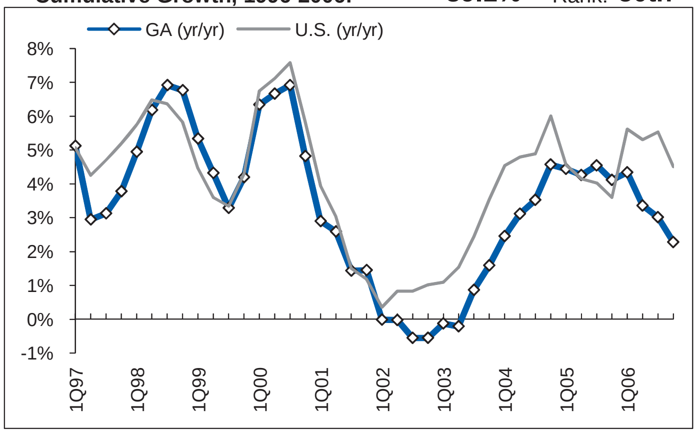
8

Georgia

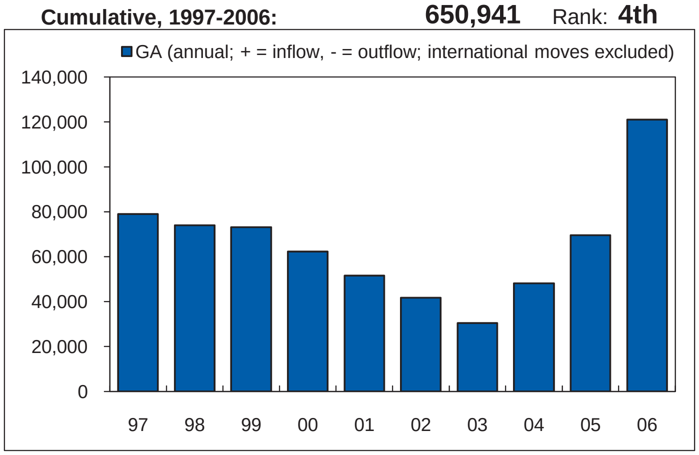
Economic Outlook Rank

Economic Performance Rank 23 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

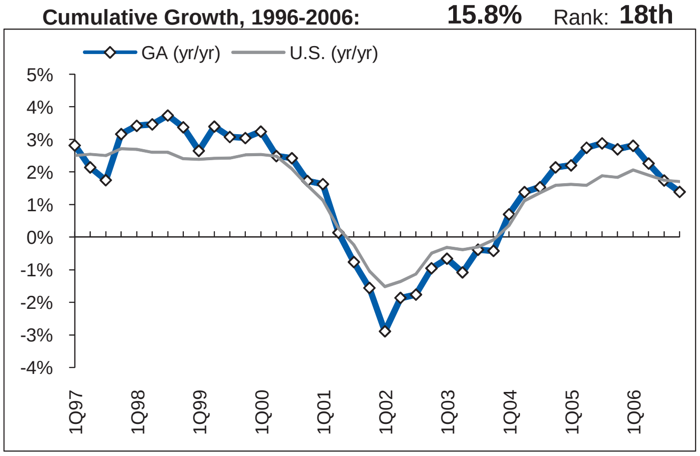
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **39.1%** Rank: **50th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **650,941** Rank: **4th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **15.8%** Rank: **18th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) **Top Marginal Personal Income Tax Rate:** **6.00%** Rank: **25th**

2) **Top Marginal Corporate Income Tax Rate:** **6.00%** Rank: **15th**

3) **Personal Income Tax Progressivity:** (change in tax liability per $1,000 income) **$6.53** Rank: **24th**

4) **Property Tax Burden:** (per $1,000 of personal income) **$30.48** Rank: **23rd**

5) **Sales Tax Burden:** (per $1,000 of personal income) **$27.59** Rank: **31st**

6) **Remaining Tax Burden:** (per $1,000 of personal income) **$12.94** Rank: **3rd**

7) **Estate/Inheritance Tax Levied?:** **No** Rank: **1st**

8) **Recent Legislated Tax Changes:** (2005 and 2006, per $1,000 of personal income) **$0.19** Rank: **25th**

9) **Debt Service as a % of Total Tax Revenue:** **6.7%** Rank: **6th**

10) **Public Employees Per 10,000 of Population** (full-time equivalent)**:** **540.0** Rank: **23rd**

11) **State Liability System Survey:** (tort litigation treatment, judicial impartiality, etc.) **61.2** Rank: **31st**

12) **State Minimum Wage:** (federal floor is $5.85) **$5.85** Rank: **1st**

13) **Avg. Workers' Compensation Costs:** (per $100 of payroll) **$2.02** Rank: **11th**

14) **Right-To-Work State?:** (optional joining or supporting of a union) **Yes** Rank: **1st**

15) **Number of Tax Expenditure Limits:** (0=least/worst, 3=most/best) **0** Rank: **29th**

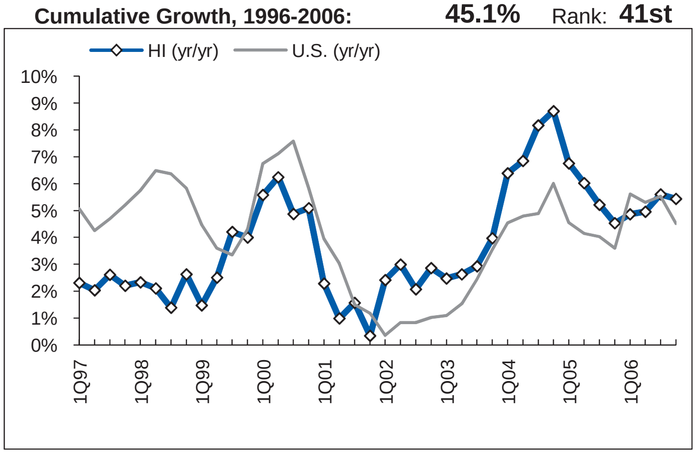
16) **Education Freedom Index Score:** (vouchers, ease of private/home schooling, etc.) **1.68** Rank: **35th**

45 Hawaii

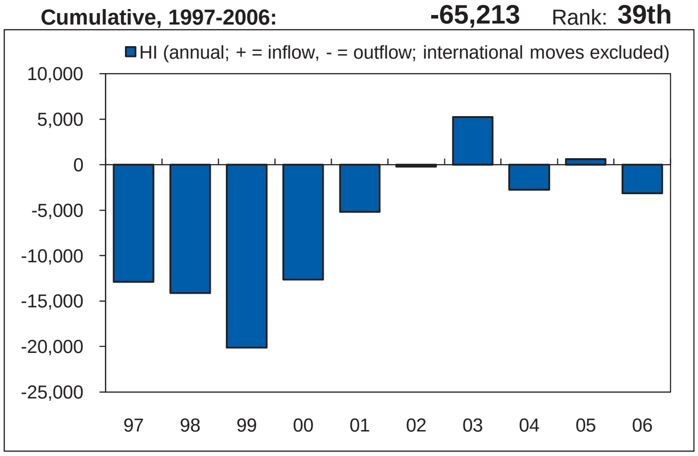
Economic Outlook Rank

Economic Performance Rank 37 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

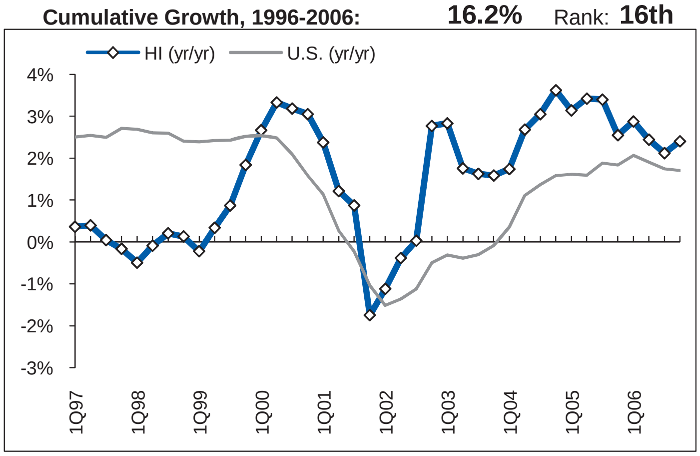
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **45.1%** Rank: **41st**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-65,213** Rank: **39th**

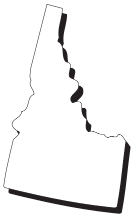


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **16.2%** Rank: **16th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**8.25%**	Rank: **43rd**
2) Top Marginal Corporate Income Tax Rate:	**6.40%**	Rank: **18th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$11.09**	Rank: **35th**
4) Property Tax Burden: (per $1,000 of personal income)	**$18.35**	Rank: **6th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$48.37**	Rank: **50th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$24.47**	Rank: **42nd**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.15**	Rank: **20th**
9) Debt Service as a % of Total Tax Revenue:	**10.1%**	Rank: **35th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**541.4**	Rank: **24th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**56.3**	Rank: **42nd**
12) State Minimum Wage: (federal floor is $5.85)	**$7.25**	Rank: **42nd**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.89**	Rank: **36th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**0.88**	Rank: **50th**

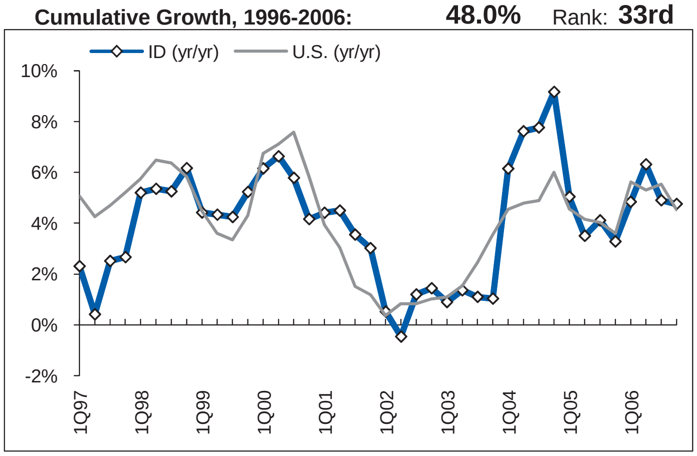


9 | Idaho

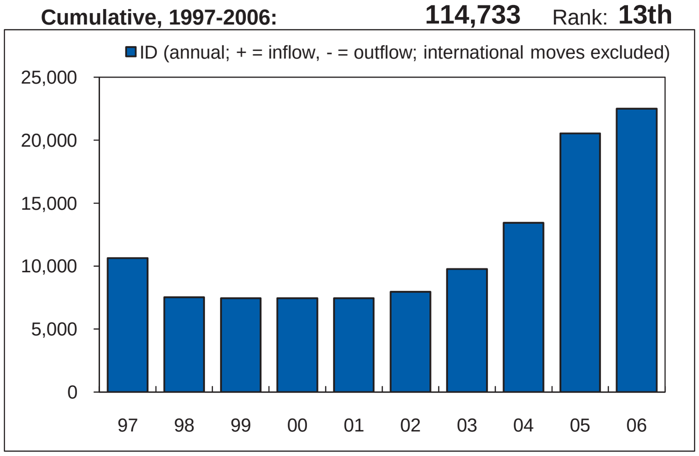
Economic Outlook Rank

Economic Performance Rank 10 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

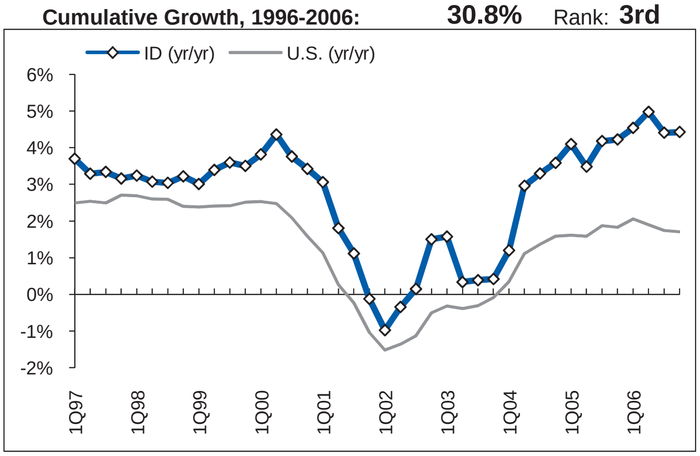
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **48.0%** Rank: **33rd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **114,733** Rank: **13th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **30.8%** Rank: **3rd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) **Top Marginal Personal Income Tax Rate:** **7.80%** Rank: **37th**

2) **Top Marginal Corporate Income Tax Rate:** **7.60%** Rank: **29th**

3) **Personal Income Tax Progressivity:** (change in tax liability per $1,000 income) **$12.43** Rank: **38th**

4) **Property Tax Burden:** (per $1,000 of personal income) **$29.95** Rank: **21st**

5) **Sales Tax Burden:** (per $1,000 of personal income) **$28.63** Rank: **33rd**

6) **Remaining Tax Burden:** (per $1,000 of personal income) **$18.46** Rank: **22nd**

7) **Estate/Inheritance Tax Levied?:** **No** Rank: **1st**

8) **Recent Legislated Tax Changes:** (2005 and 2006, per $1,000 of personal income) **-$5.35** Rank: **2nd**

9) **Debt Service as a % of Total Tax Revenue:** **5.7%** Rank: **3rd**

10) **Public Employees Per 10,000 of Population** (full-time equivalent)**:** **541.5** Rank: **25th**

11) **State Liability System Survey:** (tort litigation treatment, judicial impartiality, etc.) **61.3** Rank: **30th**

12) **State Minimum Wage:** (federal floor is $5.85) **$5.85** Rank: **1st**

13) **Avg. Workers' Compensation Costs:** (per $100 of payroll) **$2.29** Rank: **20th**

14) **Right-To-Work State?:** (optional joining or supporting of a union) **Yes** Rank: **1st**

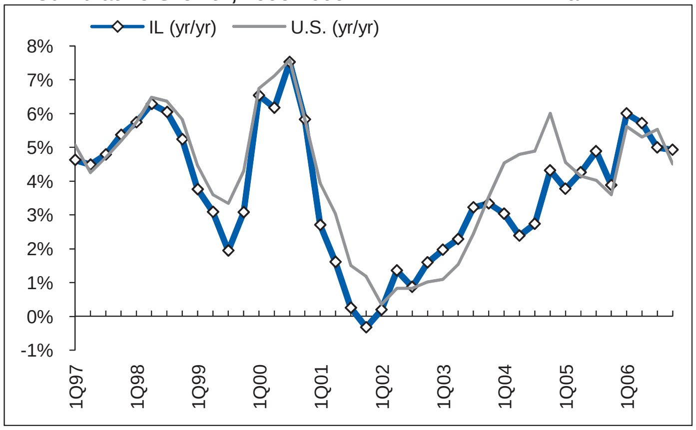
15) **Number of Tax Expenditure Limits:** (0=least/worst, 3=most/best) **1** Rank: **13th**

16) **Education Freedom Index Score:** (vouchers, ease of private/home schooling, etc.) **2.20** Rank: **11th**

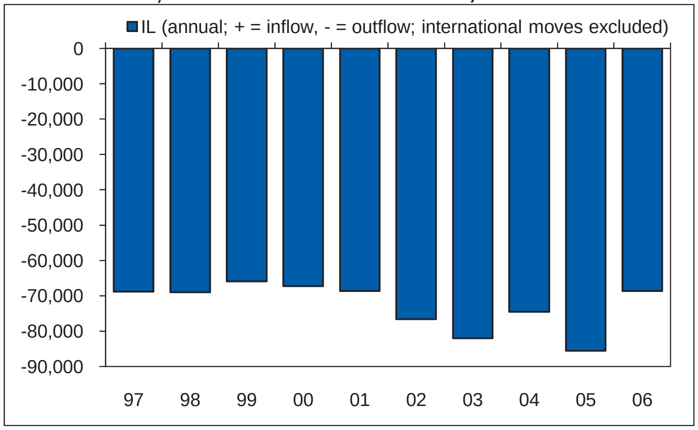
42 Illinois
Economic Outlook Rank

Economic Performance Rank 48 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

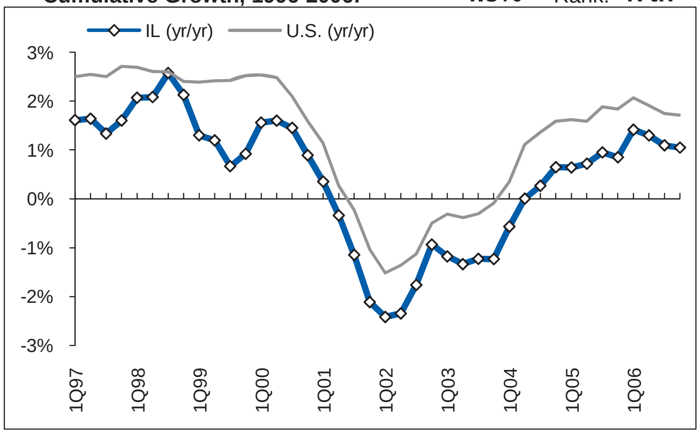
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **44.4%** Rank: **44th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-727,150** Rank: **48th**

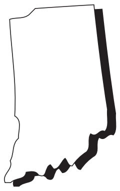


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **4.3%** Rank: **47th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**3.00%**	Rank: **10th**
2) Top Marginal Corporate Income Tax Rate:	**7.30%**	Rank: **25th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.80**	Rank: **15th**
4) Property Tax Burden: (per $1,000 of personal income)	**$41.22**	Rank: **41st**
5) Sales Tax Burden: (per $1,000 of personal income)	**$18.21**	Rank: **11th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$24.73**	Rank: **43rd**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.47**	Rank: **35th**
9) Debt Service as a % of Total Tax Revenue:	**11.7%**	Rank: **46th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**494.8**	Rank: **8th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**50.8**	Rank: **46th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.50**	Rank: **44th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.69**	Rank: **31st**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.94**	Rank: **21st**

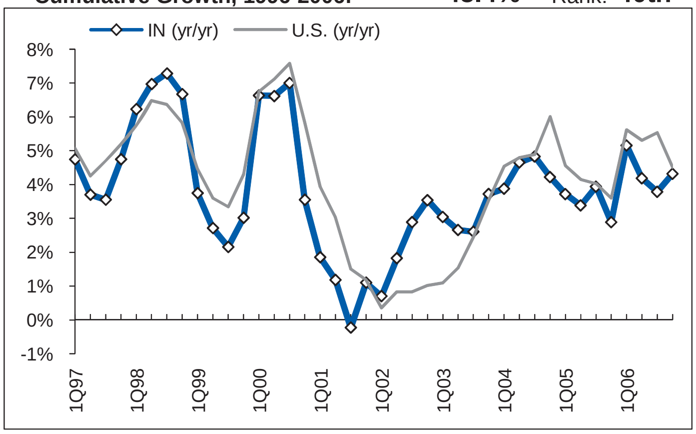


12 Indiana

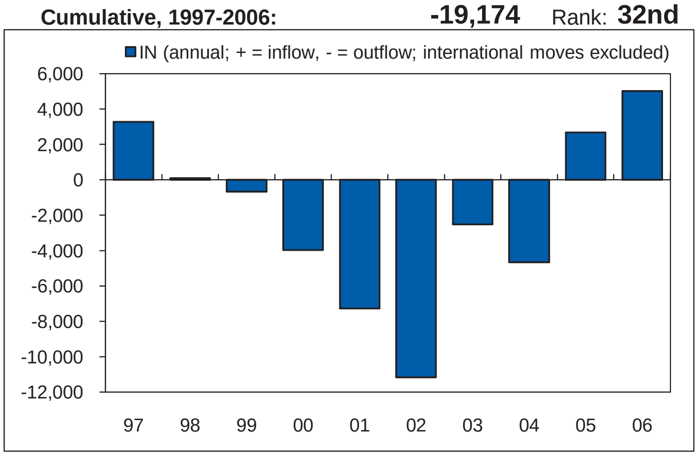
Economic Outlook Rank

Economic Performance Rank 46 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

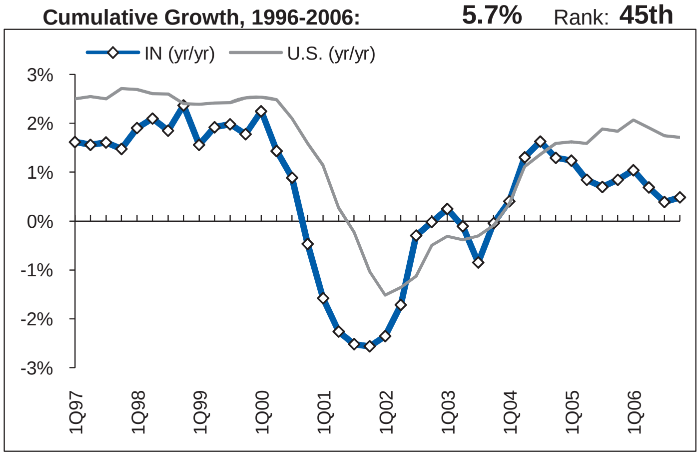
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **45.4%** Rank: **40th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-19,174** Rank: **32nd**

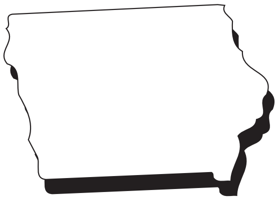


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **5.7%** Rank: **45th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**4.30%**	Rank: **13th**
2) Top Marginal Corporate Income Tax Rate:	**8.50%**	Rank: **33rd**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.57**	Rank: **14th**
4) Property Tax Burden: (per $1,000 of personal income)	**$33.15**	Rank: **30th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$25.97**	Rank: **25th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$16.15**	Rank: **10th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.65**	Rank: **36th**
9) Debt Service as a % of Total Tax Revenue:	**7.1%**	Rank: **11th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**527.2**	Rank: **16th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**68.2**	Rank: **6th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.24**	Rank: **2nd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.15**	Rank: **13th**

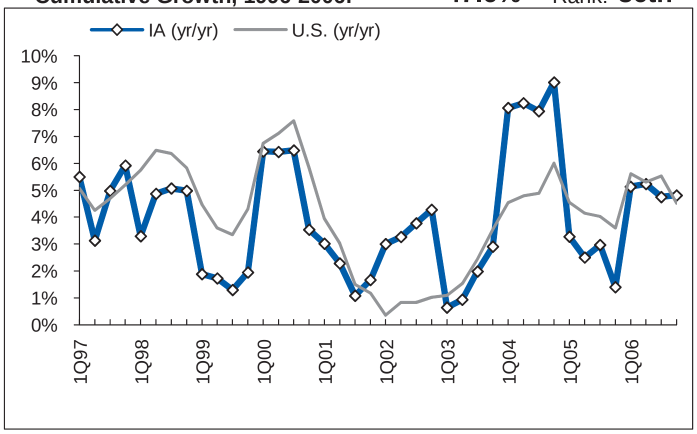


27 Iowa

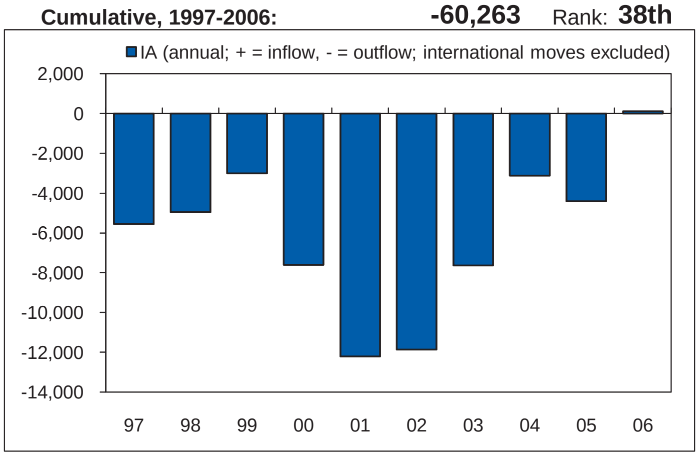
Economic Outlook Rank

Economic Performance Rank 45 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

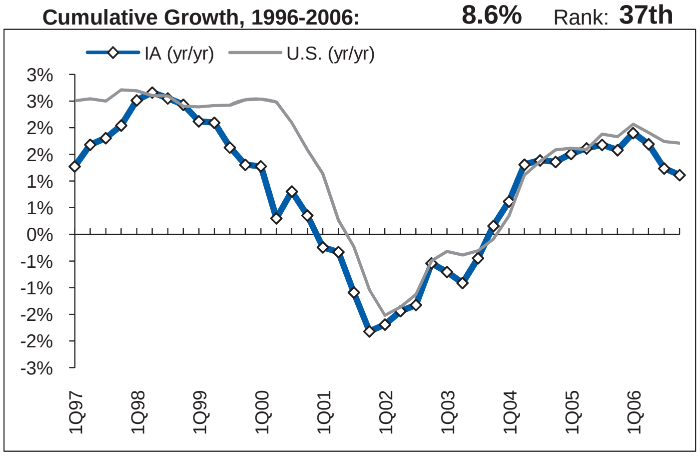
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **47.6%** Rank: **36th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-60,263** Rank: **38th**

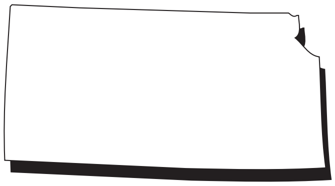


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **8.6%** Rank: **37th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**5.84%**	Rank: **24th**
2) Top Marginal Corporate Income Tax Rate:	**9.90%**	Rank: **46th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$11.74**	Rank: **37th**
4) Property Tax Burden: (per $1,000 of personal income)	**$36.40**	Rank: **33rd**
5) Sales Tax Burden: (per $1,000 of personal income)	**$23.23**	Rank: **18th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$18.89**	Rank: **25th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$1.50**	Rank: **8th**
9) Debt Service as a % of Total Tax Revenue:	**5.3%**	Rank: **2nd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**623.5**	Rank: **41st**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**68.9**	Rank: **4th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.20**	Rank: **25th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.75**	Rank: **7th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.76**	Rank: **32nd**

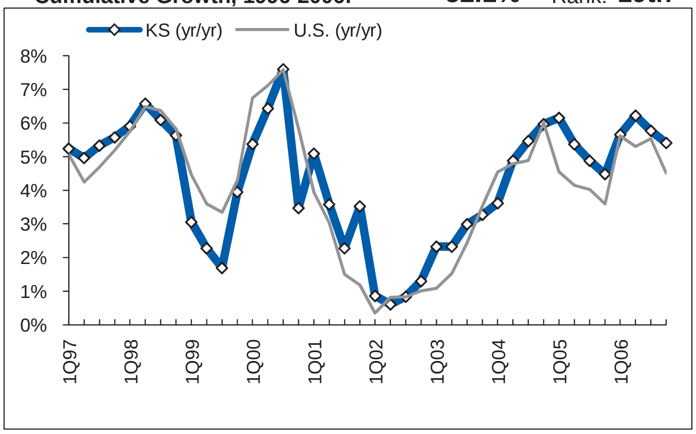


29 | Kansas

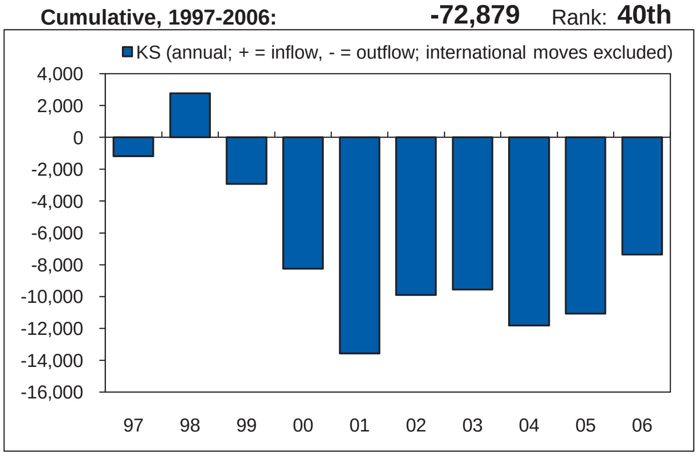
Economic Outlook Rank

***Economic Performance Rank 36 (1=best; 50=worst):** Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

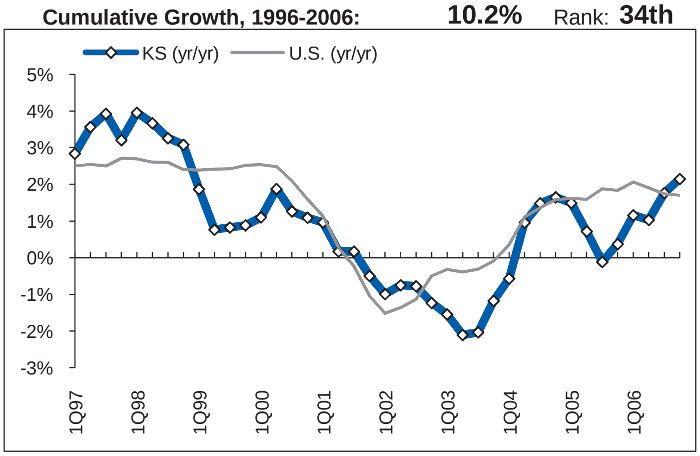
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **52.1%** Rank: **19th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-72,879** Rank: **40th**

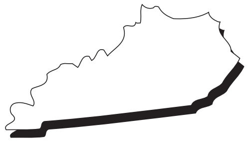


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **10.2%** Rank: **34th**



***Economic Outlook Rank (1=best; 50=worst):** A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**6.45%**	Rank: **28th**
2) Top Marginal Corporate Income Tax Rate:	**7.35%**	Rank: **26th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$10.82**	Rank: **32nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$39.10**	Rank: **38th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$29.90**	Rank: **36th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$15.48**	Rank: **7th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.03**	Rank: **21st**
9) Debt Service as a % of Total Tax Revenue:	**8.2%**	Rank: **23rd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**669.1**	Rank: **48th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**66.7**	Rank: **13th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.84**	Rank: **9th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.96**	Rank: **20th**

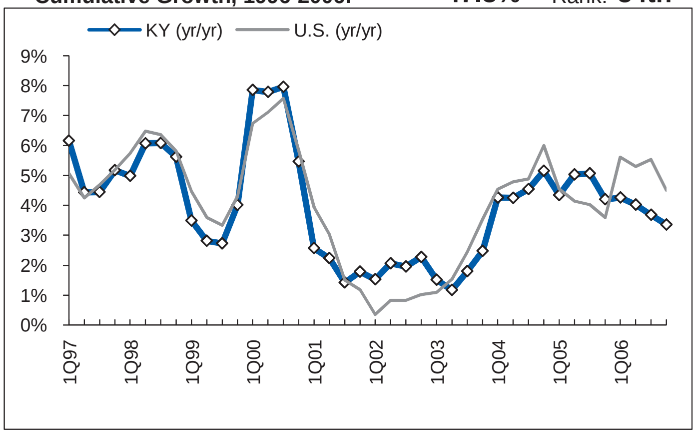


46 Kentucky

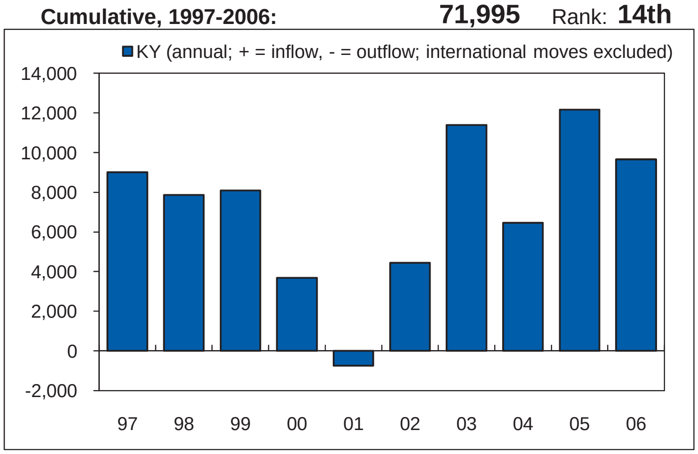
Economic Outlook Rank

Economic Performance Rank 30 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

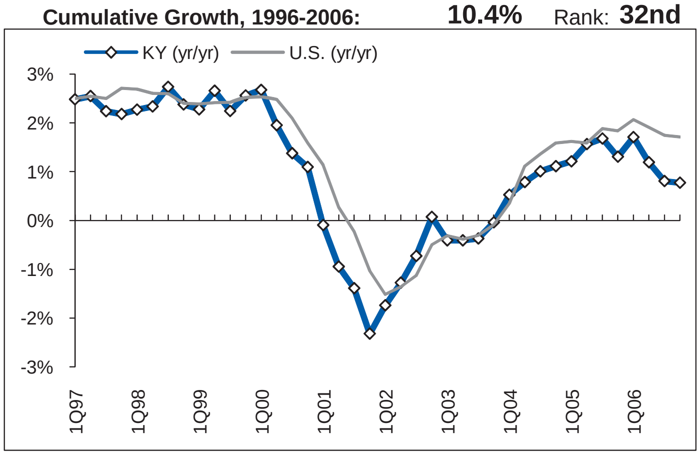
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **47.8%** Rank: **34th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **71,995** Rank: **14th**

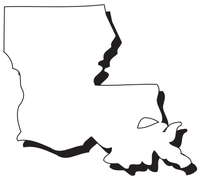


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **10.4%** Rank: **32nd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**8.20%**	Rank: **42nd**
2) Top Marginal Corporate Income Tax Rate:	**9.20%**	Rank: **41st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$5.17**	Rank: **20th**
4) Property Tax Burden: (per $1,000 of personal income)	**$19.61**	Rank: **8th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$22.74**	Rank: **15th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$22.49**	Rank: **37th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$2.02**	Rank: **44th**
9) Debt Service as a % of Total Tax Revenue:	**13.9%**	Rank: **49th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**579.6**	Rank: **34th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**60.8**	Rank: **32nd**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.78**	Rank: **47th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.44**	Rank: **43rd**

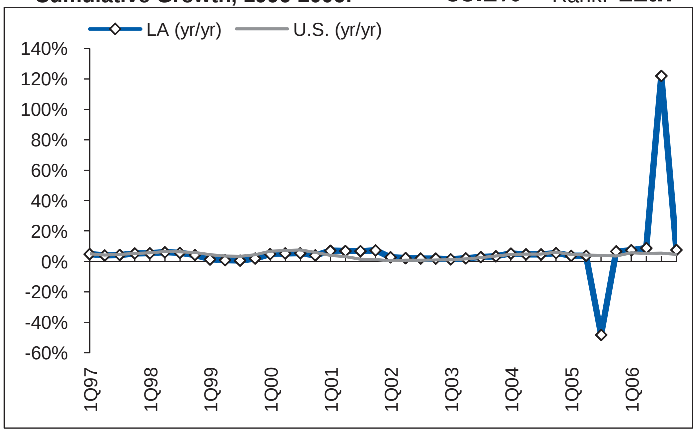


21 Louisiana

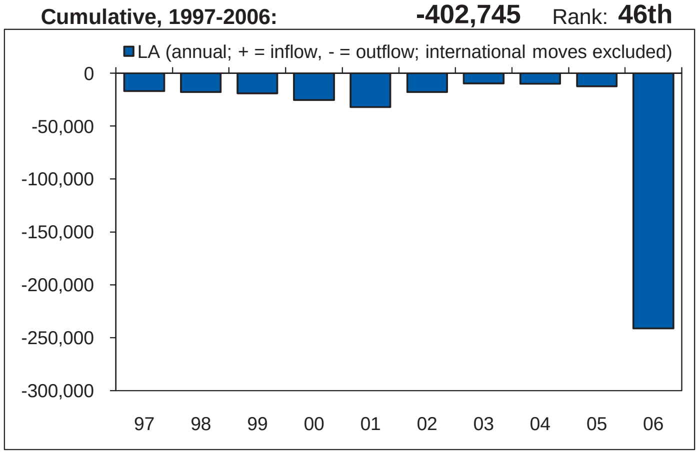
Economic Outlook Rank

Economic Performance Rank 43 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

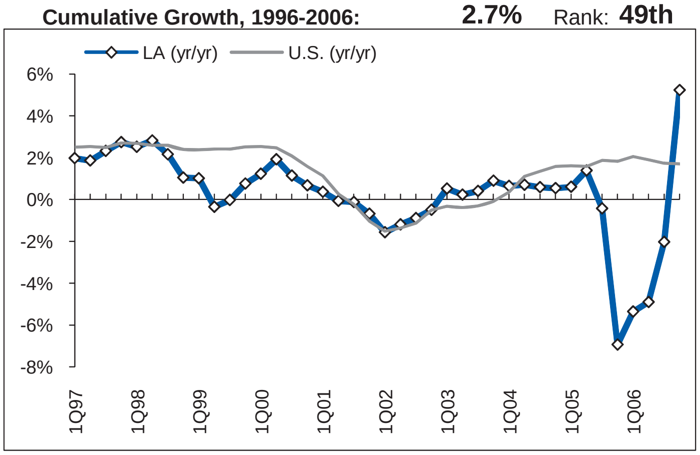
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **55.1%** Rank: **11th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-402,745** Rank: **46th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **2.7%** Rank: **49th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) **Top Marginal Personal Income Tax Rate:** **3.90%** Rank: **11th**

2) **Top Marginal Corporate Income Tax Rate:** **5.20%** Rank: **12th**

3) **Personal Income Tax Progressivity:** (change in tax liability per $1,000 income) **$8.35** Rank: **26th**

4) **Property Tax Burden:** (per $1,000 of personal income) **$19.04** Rank: **7th**

5) **Sales Tax Burden:** (per $1,000 of personal income) **$44.84** Rank: **48th**

6) **Remaining Tax Burden:** (per $1,000 of personal income) **$20.02** Rank: **29th**

7) **Estate/Inheritance Tax Levied?:** **No** Rank: **1st**

8) **Recent Legislated Tax Changes:** (2005 and 2006, per $1,000 of personal income) **-$0.24** Rank: **18th**

9) **Debt Service as a % of Total Tax Revenue:** **10.3%** Rank: **37th**

10) **Public Employees Per 10,000 of Population** (full-time equivalent)**:** **643.2** Rank: **42nd**

11) **State Liability System Survey:** (tort litigation treatment, judicial impartiality, etc.) **47.3** Rank: **48th**

12) **State Minimum Wage:** (federal floor is $5.85) **$5.85** Rank: **1st**

13) **Avg. Workers' Compensation Costs:** (per $100 of payroll) **$3.10** Rank: **40th**

14) **Right-To-Work State?:** (optional joining or supporting of a union) **Yes** Rank: **1st**

15) **Number of Tax Expenditure Limits:** (0=least/worst, 3=most/best) **2** Rank: **4th**

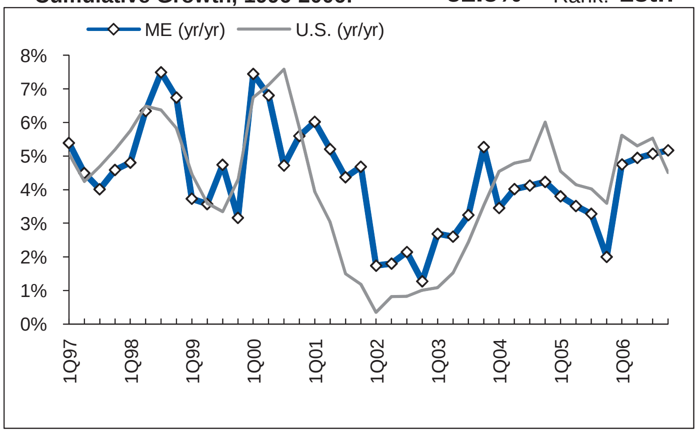
16) **Education Freedom Index Score:** (vouchers, ease of private/home schooling, etc.) **1.84** Rank: **23rd**

44 Maine

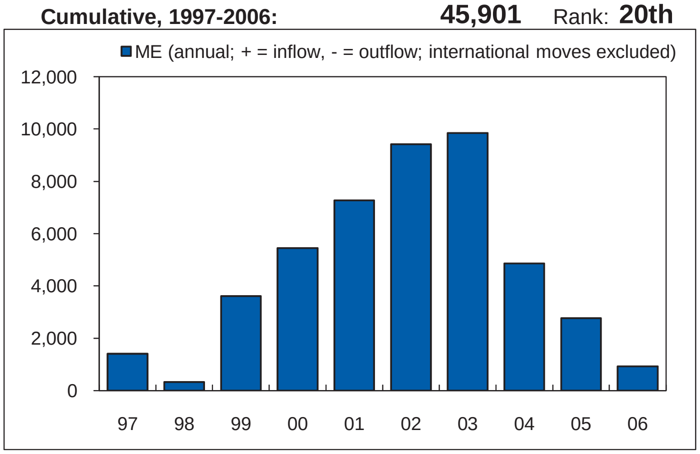
Economic Outlook Rank

Economic Performance Rank 16 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

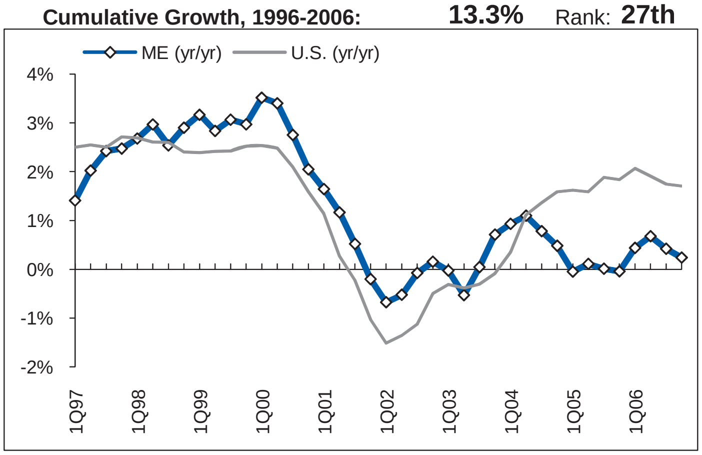
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **52.5%** Rank: **18th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **45,901** Rank: **20th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **13.3%** Rank: **27th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

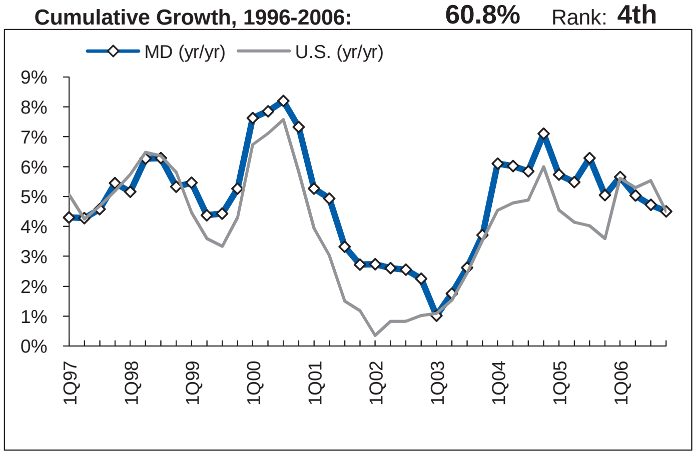
1) **Top Marginal Personal Income Tax Rate:**	**8.50%**	Rank: **44th**
2) **Top Marginal Corporate Income Tax Rate:**	**8.93%**	Rank: **38th**
3) **Personal Income Tax Progressivity:** (change in tax liability per $1,000 income)	**$17.10**	Rank: **46th**
4) **Property Tax Burden:** (per $1,000 of personal income)	**$54.63**	Rank: **49th**
5) **Sales Tax Burden:** (per $1,000 of personal income)	**$23.87**	Rank: **20th**
6) **Remaining Tax Burden:** (per $1,000 of personal income)	**$17.96**	Rank: **21st**
7) **Estate/Inheritance Tax Levied?:**	**Yes**	Rank: **28th**
8) **Recent Legislated Tax Changes:** (2005 and 2006, per $1,000 of personal income)	**$0.16**	Rank: **24th**
9) **Debt Service as a % of Total Tax Revenue:**	**7.6%**	Rank: **14th**
10) **Public Employees Per 10,000 of Population** (full-time equivalent)**:**	**587.2**	Rank: **37th**
11) **State Liability System Survey:** (tort litigation treatment, judicial impartiality, etc.)	**68.9**	Rank: **4th**
12) **State Minimum Wage:** (federal floor is $5.85)	**$6.75**	Rank: **34th**
13) **Avg. Workers' Compensation Costs:** (per $100 of payroll)	**$3.21**	Rank: **43rd**
14) **Right-To-Work State?:** (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) **Number of Tax Expenditure Limits:** (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) **Education Freedom Index Score:** (vouchers, ease of private/home schooling, etc.)	**2.09**	Rank: **15th**

32 | Maryland

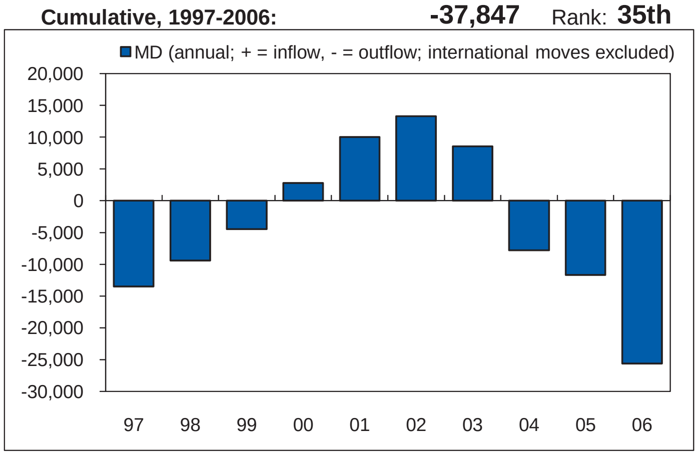
Economic Outlook Rank

Economic Performance Rank 12 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

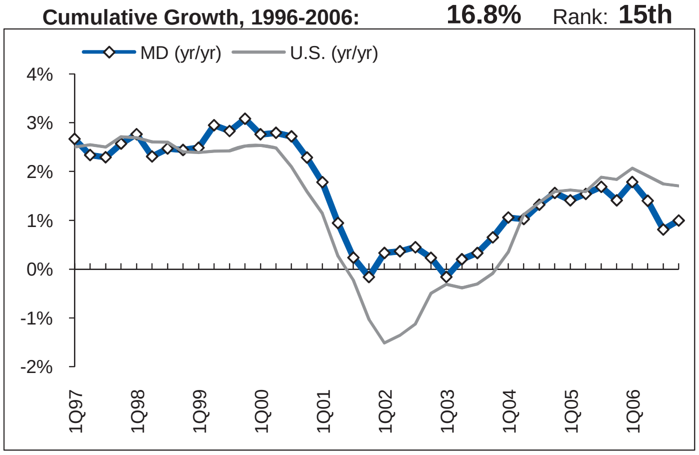
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **60.8%** Rank: **4th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-37,847** Rank: **35th**

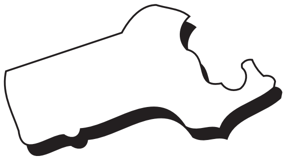


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **16.8%** Rank: **15th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**7.80%**	Rank: **37th**
2) Top Marginal Corporate Income Tax Rate:	**7.00%**	Rank: **24th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$5.28**	Rank: **21st**
4) Property Tax Burden: (per $1,000 of personal income)	**$28.18**	Rank: **16th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$12.68**	Rank: **6th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$21.99**	Rank: **35th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.75**	Rank: **38th**
9) Debt Service as a % of Total Tax Revenue:	**7.0%**	Rank: **9th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**518.4**	Rank: **12th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**61.7**	Rank: **29th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.15**	Rank: **21st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.03**	Rank: **12th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.37**	Rank: **46th**

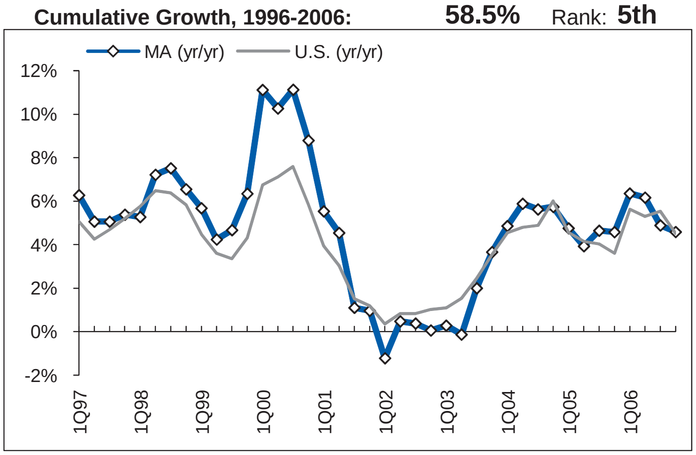


26 Massachusetts

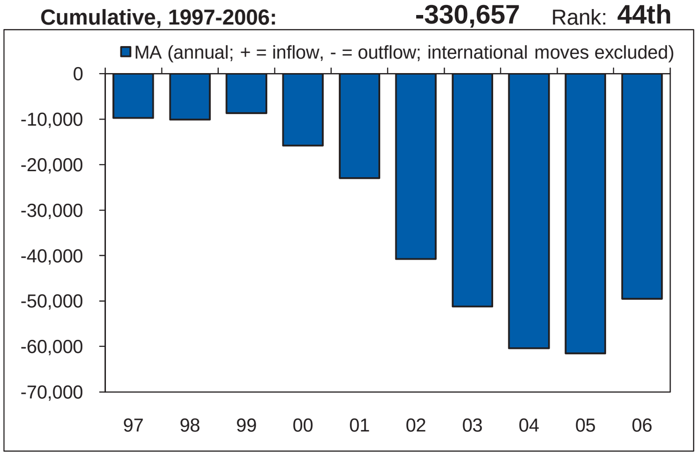
Economic Outlook Rank

Economic Performance Rank 35 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

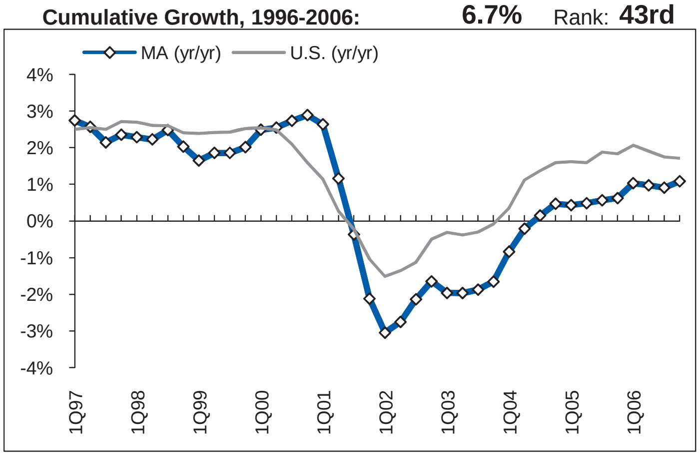
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **58.5%** Rank: **5th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-330,657** Rank: **44th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **6.7%** Rank: **43rd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

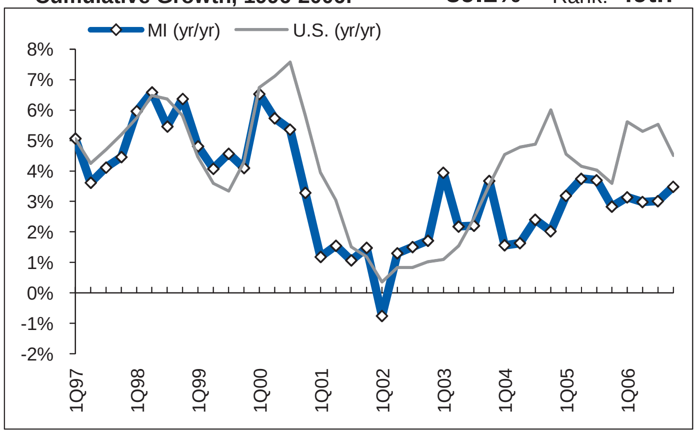
1) Top Marginal Personal Income Tax Rate:	**5.30%**	Rank: **19th**
2) Top Marginal Corporate Income Tax Rate:	**9.50%**	Rank: **44th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$2.53**	Rank: **17th**
4) Property Tax Burden: (per $1,000 of personal income)	**$37.63**	Rank: **35th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$14.35**	Rank: **8th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$12.66**	Rank: **2nd**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.61**	Rank: **10th**
9) Debt Service as a % of Total Tax Revenue:	**12.8%**	Rank: **48th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**515.9**	Rank: **11th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**65.7**	Rank: **17th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.50**	Rank: **44th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.70**	Rank: **5th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.66**	Rank: **36th**

16 Michigan

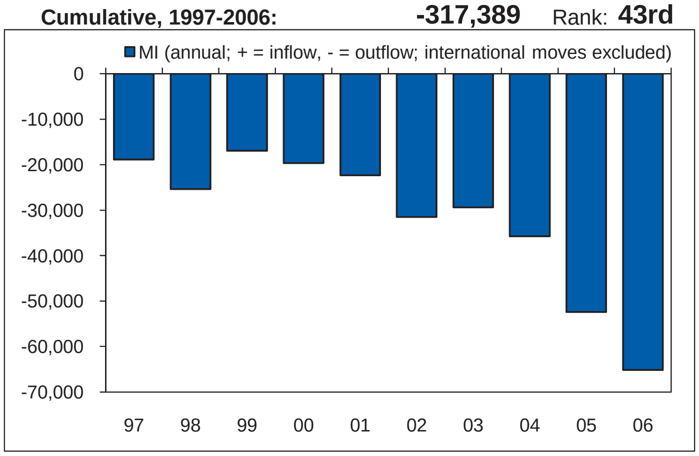
Economic Outlook Rank

Economic Performance Rank 50 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

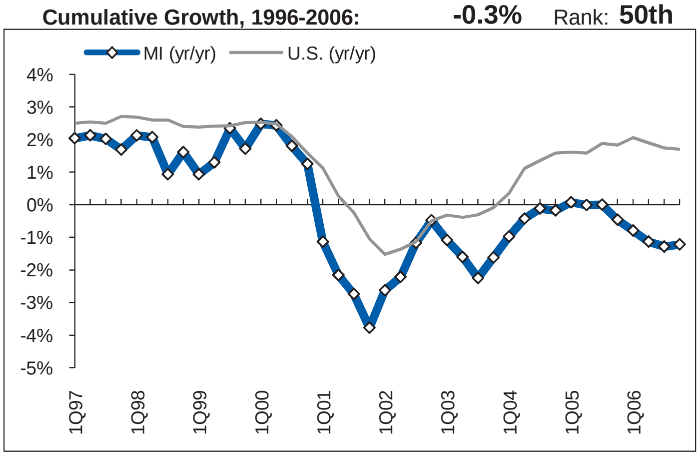
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **39.1%** Rank: **49th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-317,389** Rank: **43rd**

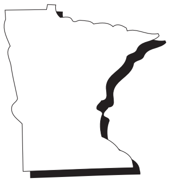


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **-0.3%** Rank: **50th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) **Top Marginal Personal Income Tax Rate:**	**6.40%**	Rank: **27th**
2) **Top Marginal Corporate Income Tax Rate:**	**7.51%**	Rank: **28th**
3) **Personal Income Tax Progressivity:** (change in tax liability per $1,000 income)	**$1.66**	Rank: **16th**
4) **Property Tax Burden:** (per $1,000 of personal income)	**$37.83**	Rank: **36th**
5) **Sales Tax Burden:** (per $1,000 of personal income)	**$24.93**	Rank: **23rd**
6) **Remaining Tax Burden:** (per $1,000 of personal income)	**$16.82**	Rank: **13th**
7) **Estate/Inheritance Tax Levied?:**	**No**	Rank: **1st**
8) **Recent Legislated Tax Changes:** (2005 and 2006, per $1,000 of personal income)	**$0.46**	Rank: **34th**
9) **Debt Service as a % of Total Tax Revenue:**	**8.6%**	Rank: **27th**
10) **Public Employees Per 10,000 of Population** (full-time equivalent)**:**	**482.1**	Rank: **6th**
11) **State Liability System Survey:** (tort litigation treatment, judicial impartiality, etc.)	**64.2**	Rank: **23rd**
12) **State Minimum Wage:** (federal floor is $5.85)	**$7.15**	Rank: **38th**
13) **Avg. Workers' Compensation Costs:** (per $100 of payroll)	**$2.05**	Rank: **13th**
14) **Right-To-Work State?:** (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) **Number of Tax Expenditure Limits:** (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) **Education Freedom Index Score:** (vouchers, ease of private/home schooling, etc.)	**2.26**	Rank: **8th**

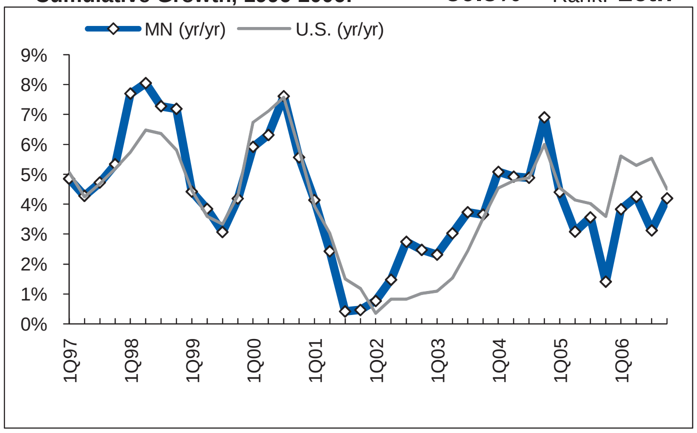


35 Minnesota

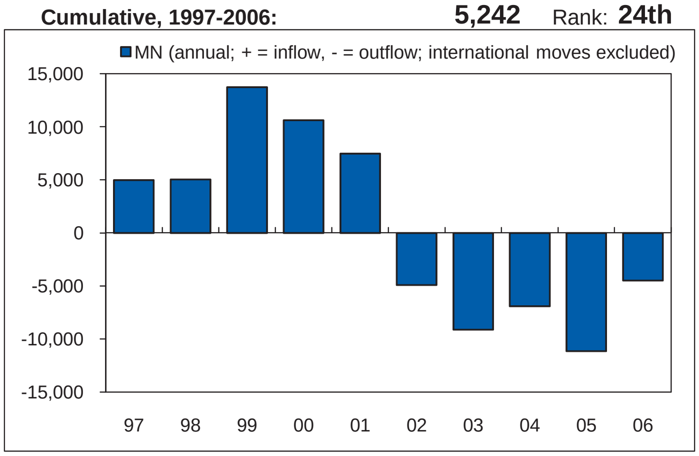
Economic Outlook Rank

Economic Performance Rank 26 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

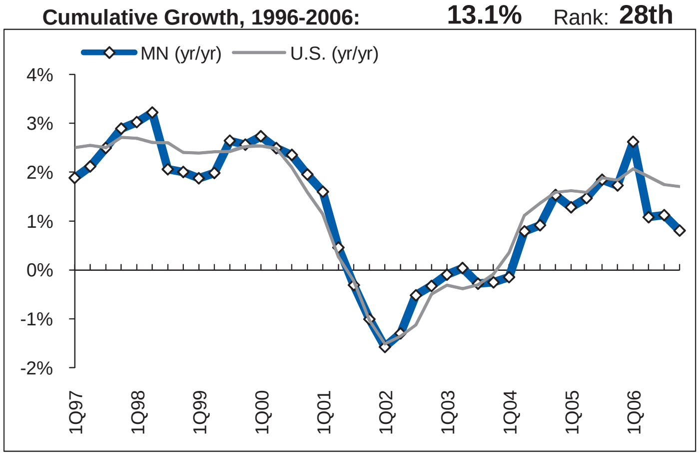
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **50.5%** Rank: **26th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **5,242** Rank: **24th**

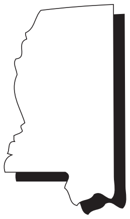


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **13.1%** Rank: **28th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**7.85%**	Rank: **39th**
2) Top Marginal Corporate Income Tax Rate:	**9.80%**	Rank: **45th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$9.06**	Rank: **27th**
4) Property Tax Burden: (per $1,000 of personal income)	**$27.53**	Rank: **15th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$23.11**	Rank: **16th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$22.41**	Rank: **36th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$1.91**	Rank: **43rd**
9) Debt Service as a % of Total Tax Revenue:	**8.8%**	Rank: **29th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**527.2**	Rank: **15th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**70.6**	Rank: **2nd**
12) State Minimum Wage: (federal floor is $5.85)	**$6.15**	Rank: **21st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.69**	Rank: **31st**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.37**	Rank: **5th**

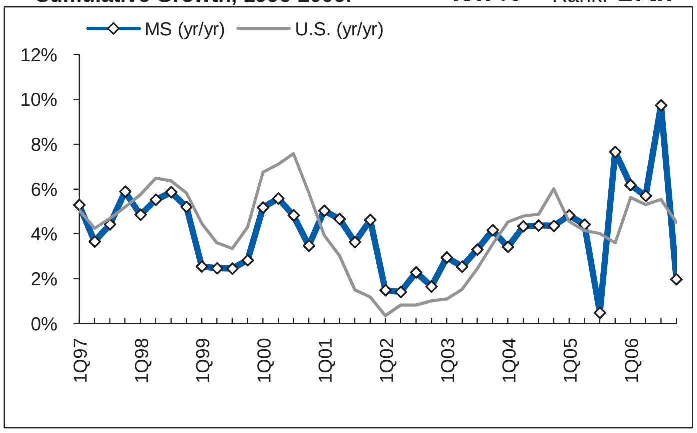


23 Mississippi

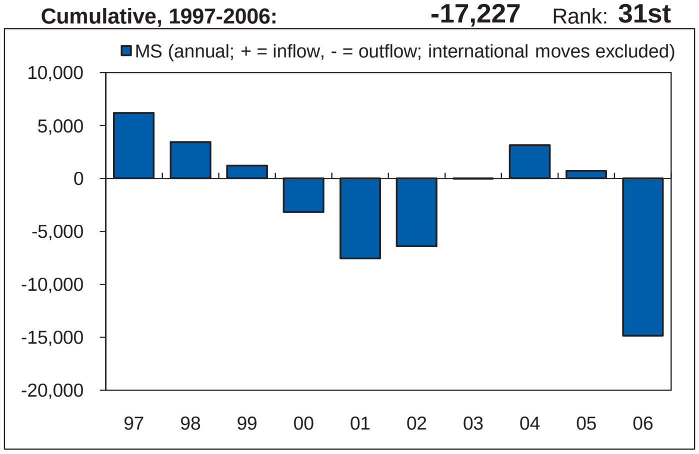
Economic Outlook Rank

Economic Performance Rank 42 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

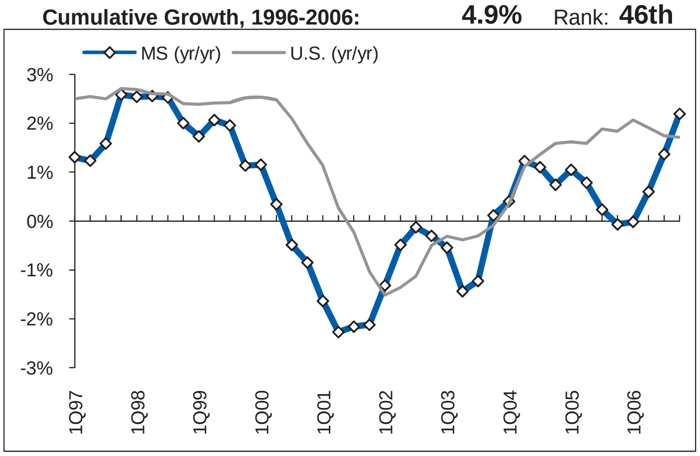
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **49.7%** Rank: **27th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-17,227** Rank: **31st**

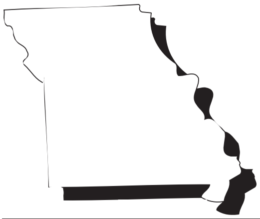


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **4.9%** Rank: **46th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**5.00%**	Rank: **17th**
2) Top Marginal Corporate Income Tax Rate:	**5.00%**	Rank: **9th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$7.53**	Rank: **25th**
4) Property Tax Burden: (per $1,000 of personal income)	**$27.44**	Rank: **14th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$36.65**	Rank: **43rd**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$19.13**	Rank: **27th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.35**	Rank: **32nd**
9) Debt Service as a % of Total Tax Revenue:	**7.6%**	Rank: **15th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**649.0**	Rank: **45th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**46.1**	Rank: **49th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.29**	Rank: **20th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.64**	Rank: **37th**

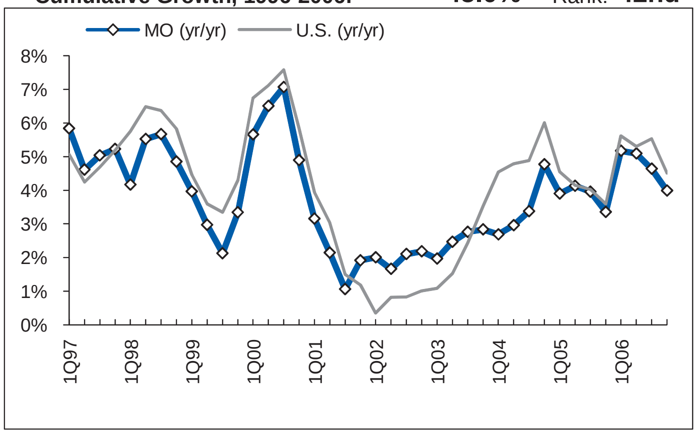


17 Missouri

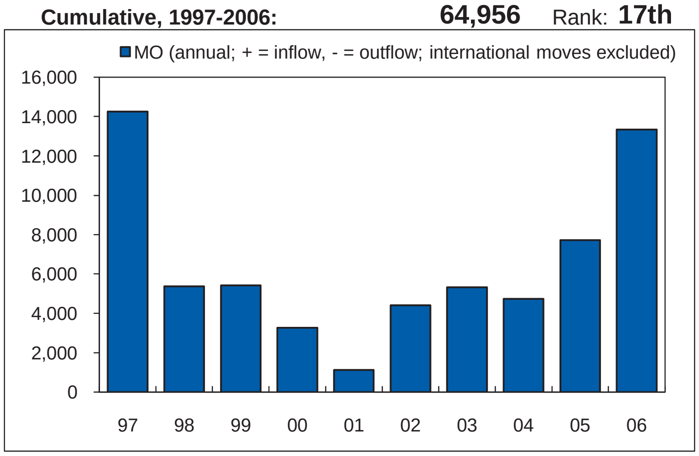
Economic Outlook Rank

Economic Performance Rank 39 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

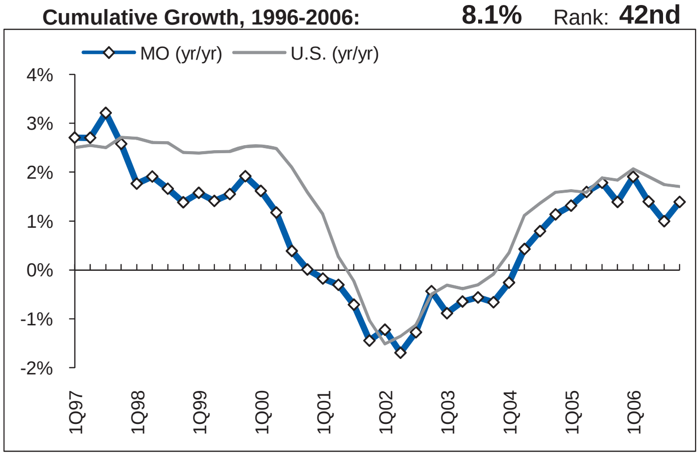
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **45.0%** Rank: **42nd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **64,956** Rank: **17th**

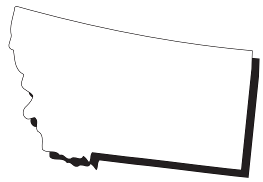


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **8.1%** Rank: **42nd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**7.00%**	Rank: **32nd**
2) Top Marginal Corporate Income Tax Rate:	**5.81%**	Rank: **14th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$12.96**	Rank: **42nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$25.41**	Rank: **12th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$27.44**	Rank: **30th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.44**	Rank: **16th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.29**	Rank: **28th**
9) Debt Service as a % of Total Tax Revenue:	**8.2%**	Rank: **24th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**547.8**	Rank: **26th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**60.0**	Rank: **34th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.50**	Rank: **29th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.50**	Rank: **27th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**3**	Rank: **1st**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.26**	Rank: **8th**

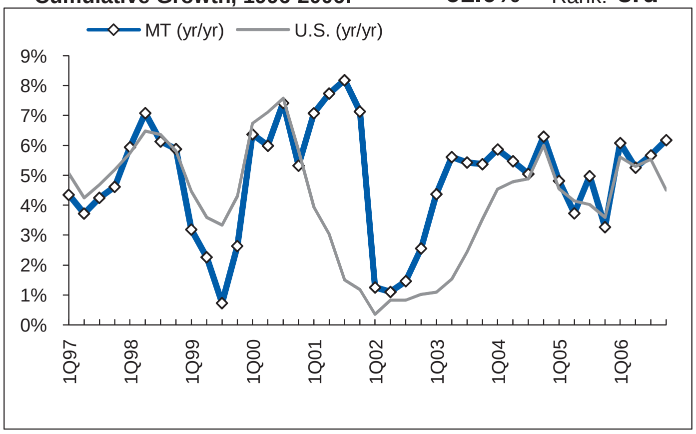


33 Montana

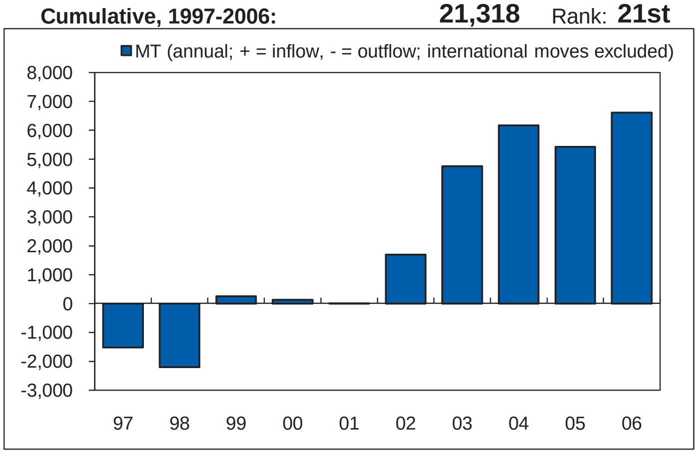
Economic Outlook Rank

Economic Performance Rank 5 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

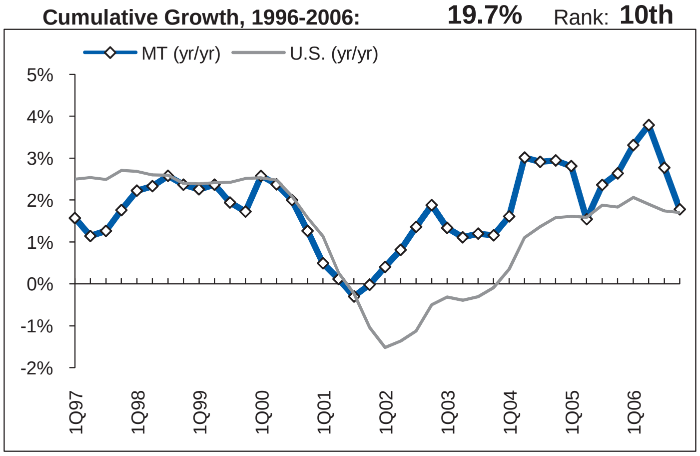
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **61.0%** Rank: **3rd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **21,318** Rank: **21st**

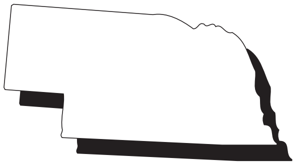


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **19.7%** Rank: **10th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**4.49%**	Rank: **14th**
2) Top Marginal Corporate Income Tax Rate:	**6.75%**	Rank: **21st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$5.16**	Rank: **19th**
4) Property Tax Burden: (per $1,000 of personal income)	**$38.58**	Rank: **37th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$0.00**	Rank: **1st**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$28.75**	Rank: **45th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.29**	Rank: **28th**
9) Debt Service as a % of Total Tax Revenue:	**8.1%**	Rank: **22nd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**573.6**	Rank: **29th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**57.2**	Rank: **40th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.15**	Rank: **21st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.69**	Rank: **46th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.79**	Rank: **28th**

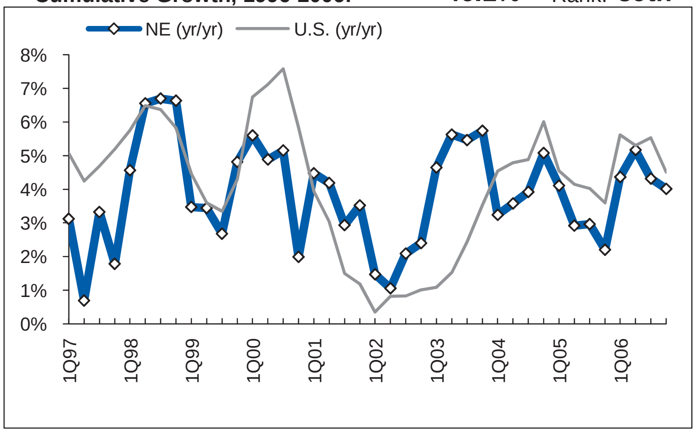


34 Nebraska

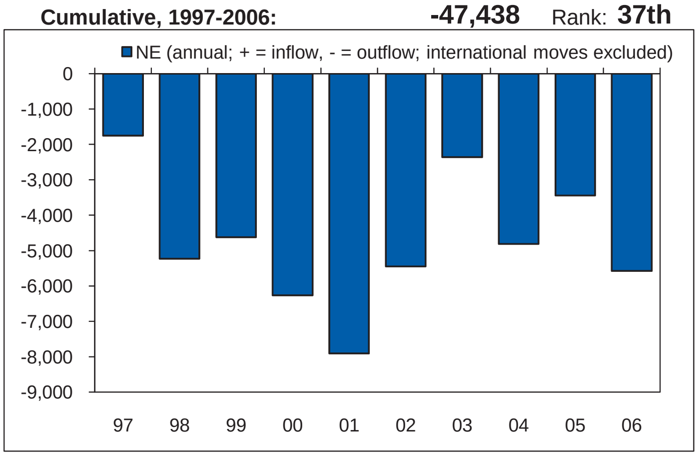
Economic Outlook Rank

Economic Performance Rank 41 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

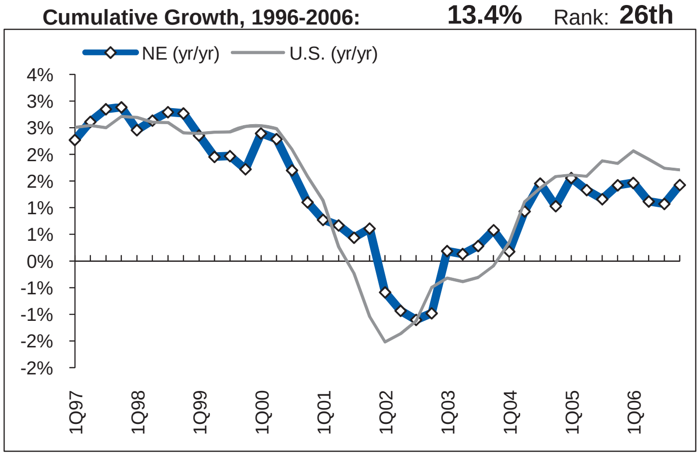
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **46.1%** Rank: **39th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-47,438** Rank: **37th**

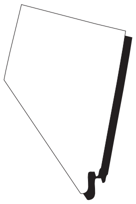


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **13.4%** Rank: **26th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**6.84%**	Rank: **31st**
2) Top Marginal Corporate Income Tax Rate:	**7.81%**	Rank: **31st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$16.05**	Rank: **45th**
4) Property Tax Burden: (per $1,000 of personal income)	**$36.86**	Rank: **34th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$32.32**	Rank: **37th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$20.60**	Rank: **32nd**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.11**	Rank: **23rd**
9) Debt Service as a % of Total Tax Revenue:	**6.4%**	Rank: **5th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**664.4**	Rank: **47th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**70.0**	Rank: **3rd**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.25**	Rank: **19th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.02**	Rank: **18th**

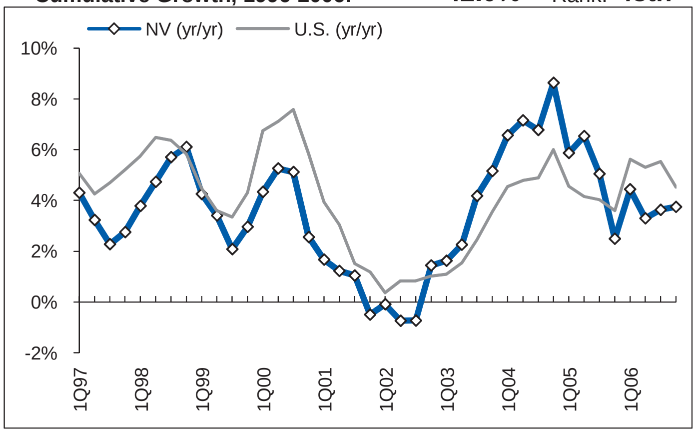


11 | Nevada

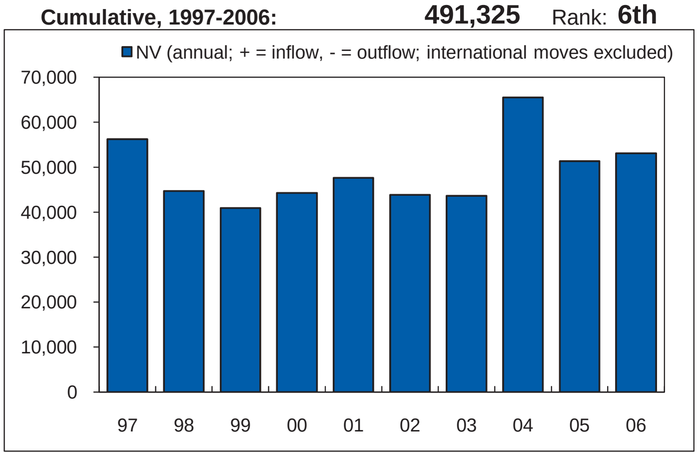
Economic Outlook Rank

Economic Performance Rank 14 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

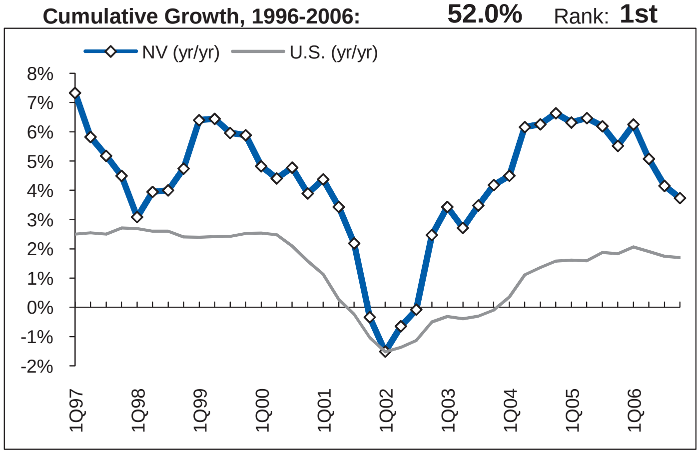
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **42.0%** Rank: **48th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **491,325** Rank: **6th**

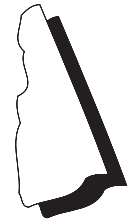


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **52.0%** Rank: **1st**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**0.00%**	Rank: **1st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$28.60**	Rank: **18th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$32.86**	Rank: **39th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$43.51**	Rank: **50th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.17**	Rank: **19th**
9) Debt Service as a % of Total Tax Revenue:	**10.7%**	Rank: **42nd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**414.0**	Rank: **1st**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**62.0**	Rank: **28th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.33**	Rank: **28th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.36**	Rank: **22nd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.40**	Rank: **45th**

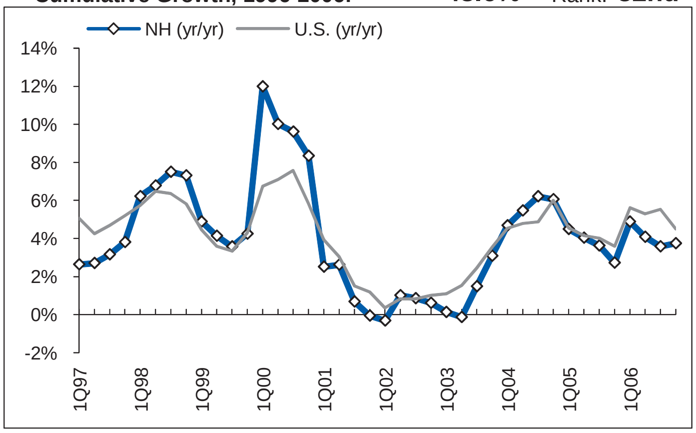


20 New Hampshire

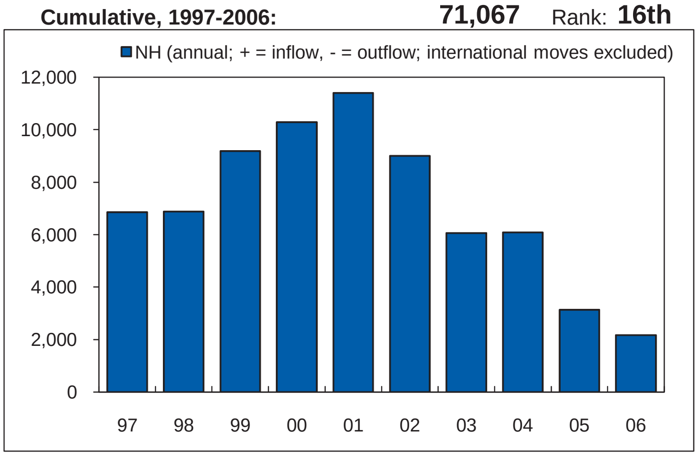
Economic Outlook Rank

***Economic Performance Rank 19 (1=best; 50=worst):** Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

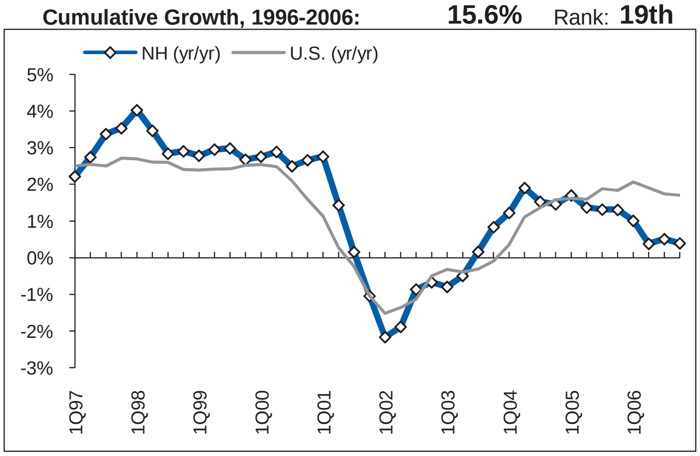
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **48.6%** Rank: **32nd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **71,067** Rank: **16th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **15.6%** Rank: **19th**



***Economic Outlook Rank (1=best; 50=worst):** A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

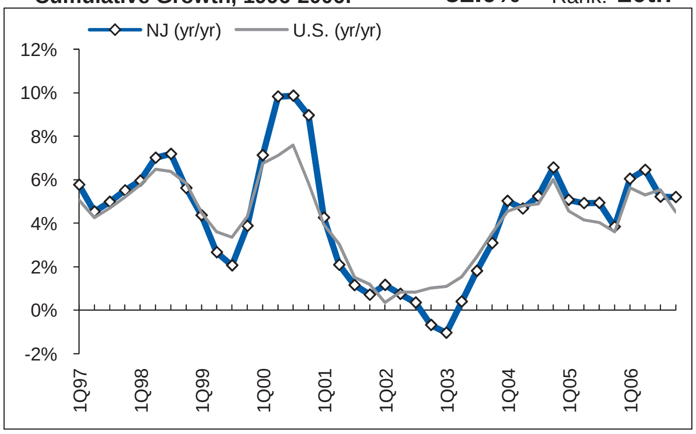
1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**9.25%**	Rank: **42nd**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$54.94**	Rank: **50th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$0.00**	Rank: **1st**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$23.62**	Rank: **40th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$1.31**	Rank: **39th**
9) Debt Service as a % of Total Tax Revenue:	**10.1%**	Rank: **36th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**530.7**	Rank: **17th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**68.2**	Rank: **6th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.75**	Rank: **33rd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.04**	Rank: **17th**

43 New Jersey

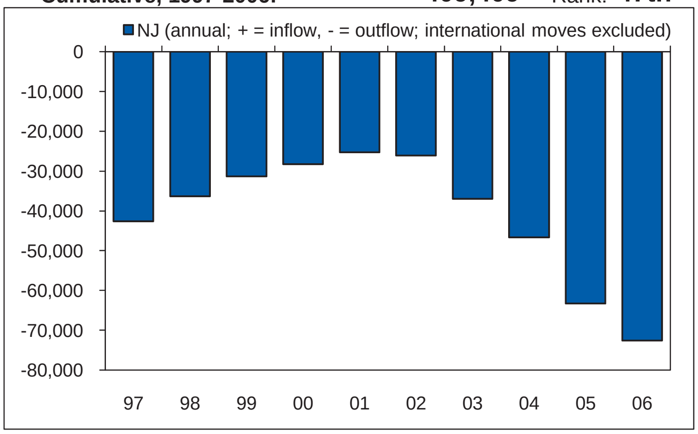
Economic Outlook Rank

Economic Performance Rank 38 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

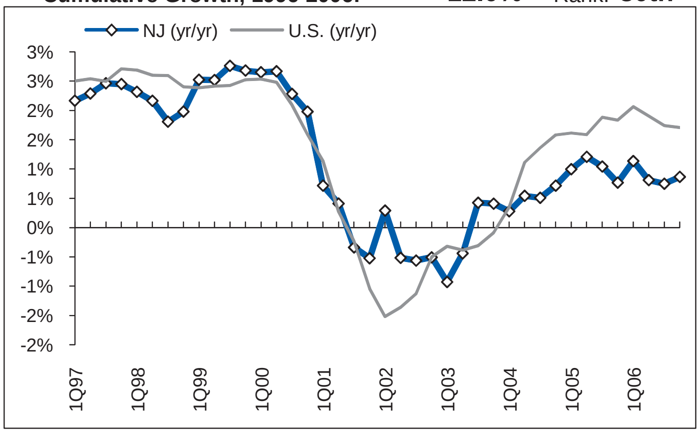
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **52.0%** Rank: **20th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-409,409** Rank: **47th**

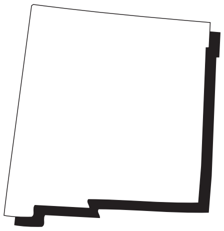


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **12.0%** Rank: **30th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**8.97%**	Rank: **46th**
2) Top Marginal Corporate Income Tax Rate:	**9.00%**	Rank: **39th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$24.81**	Rank: **49th**
4) Property Tax Burden: (per $1,000 of personal income)	**$51.69**	Rank: **48th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$17.76**	Rank: **10th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$15.65**	Rank: **9th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$3.84**	Rank: **50th**
9) Debt Service as a % of Total Tax Revenue:	**6.3%**	Rank: **4th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**586.6**	Rank: **36th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**63.4**	Rank: **26th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.15**	Rank: **38th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.52**	Rank: **29th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.43**	Rank: **2nd**

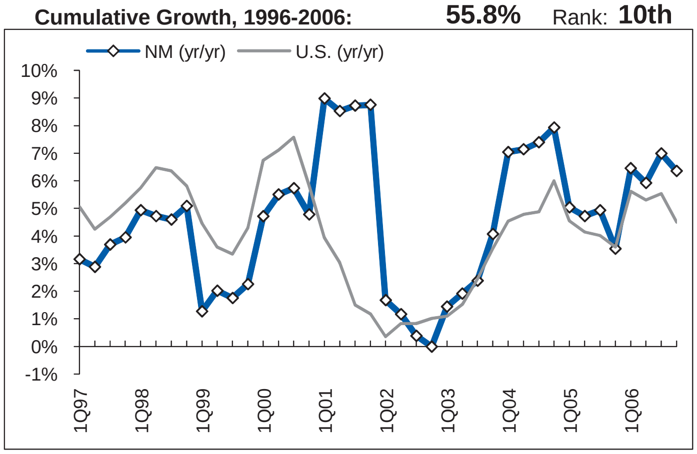


28 New Mexico

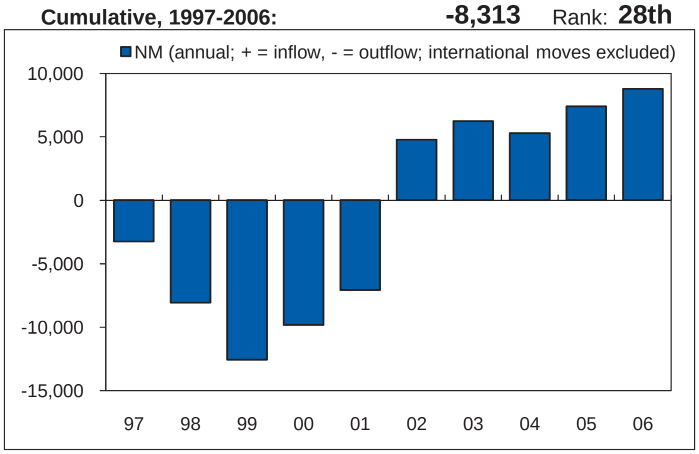
Economic Outlook Rank

Economic Performance Rank 8 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

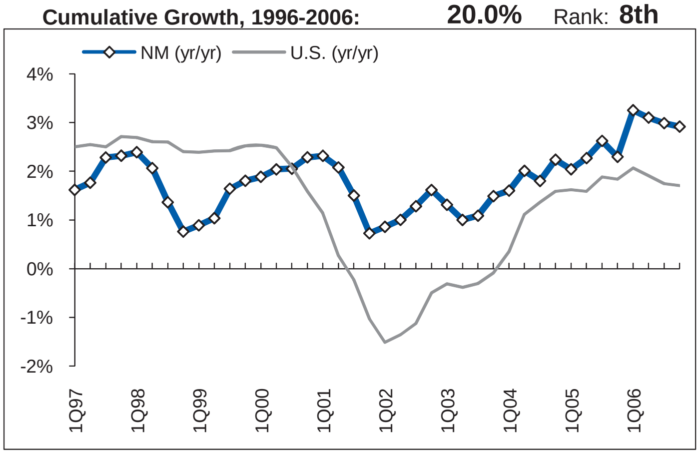
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **55.8%** Rank: **10th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-8,313** Rank: **28th**

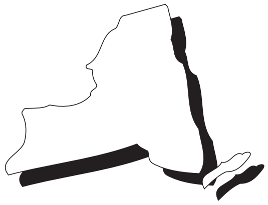


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **20.0%** Rank: **8th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

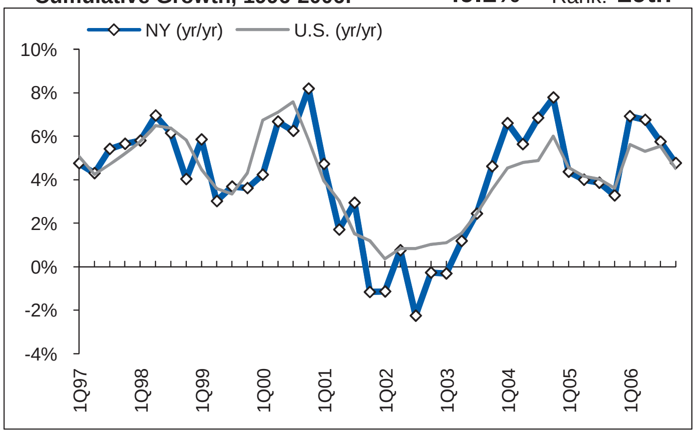
1) Top Marginal Personal Income Tax Rate:	**5.30%**	Rank: **19th**
2) Top Marginal Corporate Income Tax Rate:	**7.60%**	Rank: **29th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$10.37**	Rank: **30th**
4) Property Tax Burden: (per $1,000 of personal income)	**$17.27**	Rank: **5th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$40.19**	Rank: **44th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$18.77**	Rank: **24th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$2.92**	Rank: **4th**
9) Debt Service as a % of Total Tax Revenue:	**7.0%**	Rank: **10th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**654.5**	Rank: **46th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**57.5**	Rank: **39th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.41**	Rank: **25th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.02**	Rank: **18th**



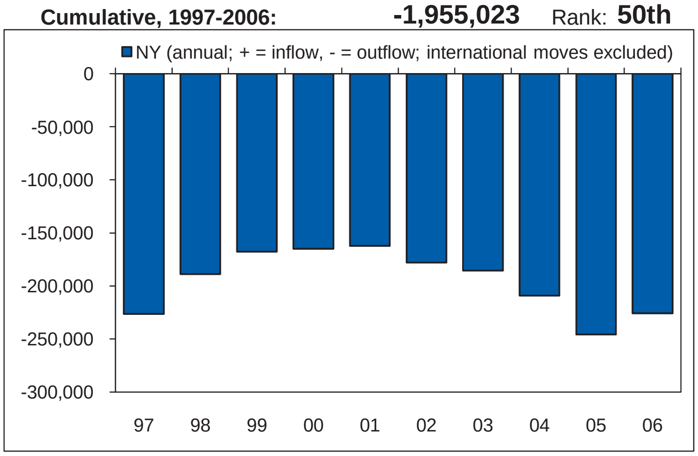
49 New York
Economic Outlook Rank

***Economic Performance Rank 47 (1=best; 50=worst):** Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

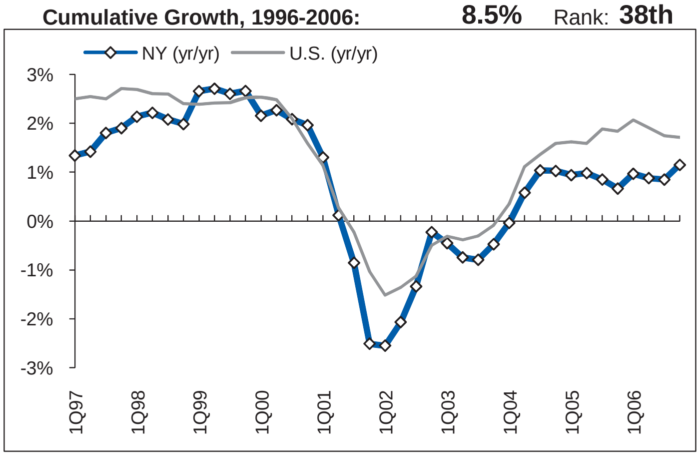
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **49.1%** Rank: **29th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-1,955,023** Rank: **50th**

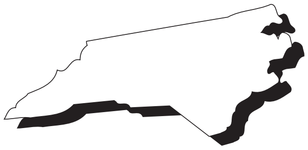


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **8.5%** Rank: **38th**



***Economic Outlook Rank (1=best; 50=worst):** A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**10.50%**	Rank: **50th**
2) Top Marginal Corporate Income Tax Rate:	**17.63%**	Rank: **50th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$12.71**	Rank: **40th**
4) Property Tax Burden: (per $1,000 of personal income)	**$45.26**	Rank: **45th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$27.11**	Rank: **29th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$18.98**	Rank: **26th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.49**	Rank: **11th**
9) Debt Service as a % of Total Tax Revenue:	**9.7%**	Rank: **32nd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**616.5**	Rank: **40th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**65.6**	Rank: **19th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.15**	Rank: **38th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.15**	Rank: **41st**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.75**	Rank: **34th**

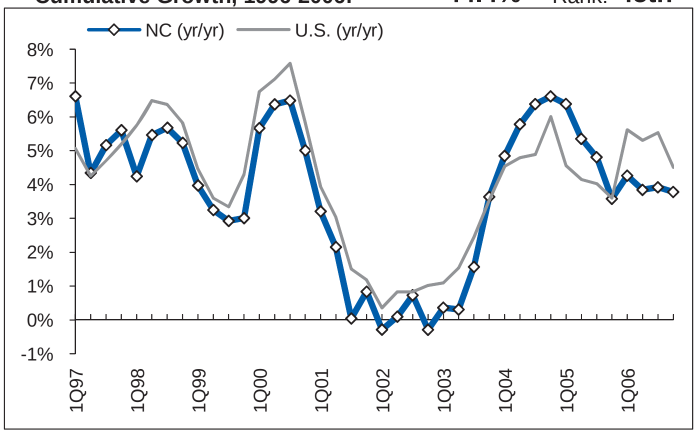


19 North Carolina

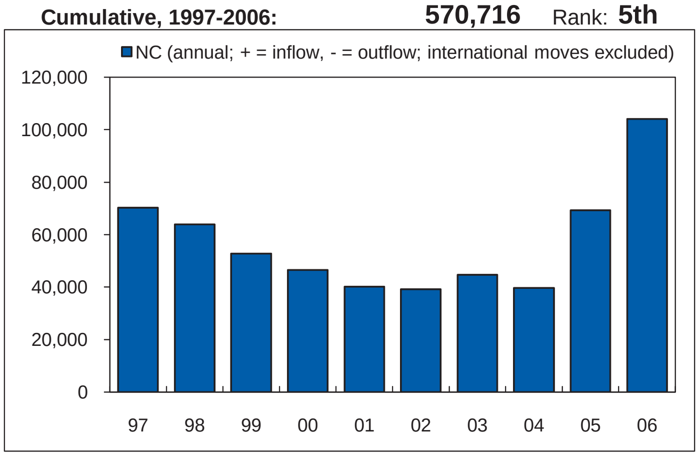
Economic Outlook Rank

Economic Performance Rank 25 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

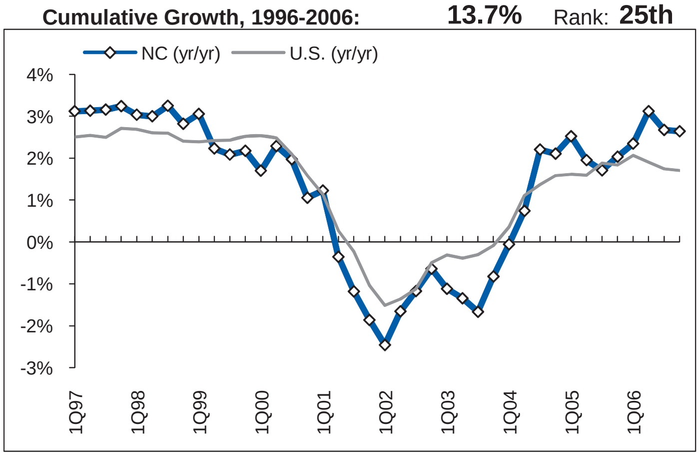
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **44.4%** Rank: **45th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **570,716** Rank: **5th**

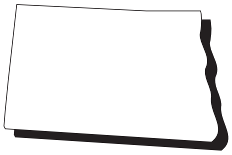


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **13.7%** Rank: **25th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**8.00%**	Rank: **40th**
2) Top Marginal Corporate Income Tax Rate:	**6.90%**	Rank: **22nd**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$10.35**	Rank: **29th**
4) Property Tax Burden: (per $1,000 of personal income)	**$25.08**	Rank: **11th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$24.19**	Rank: **22nd**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.91**	Rank: **20th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$2.66**	Rank: **48th**
9) Debt Service as a % of Total Tax Revenue:	**6.8%**	Rank: **7th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**577.3**	Rank: **32nd**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**65.9**	Rank: **16th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.15**	Rank: **21st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.17**	Rank: **15th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.80**	Rank: **27th**

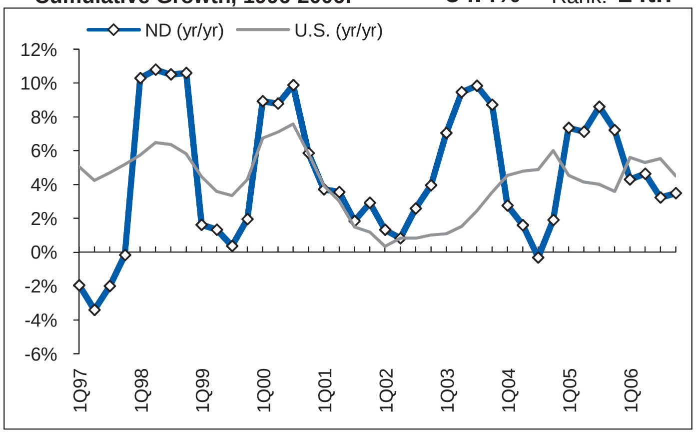


24 North Dakota

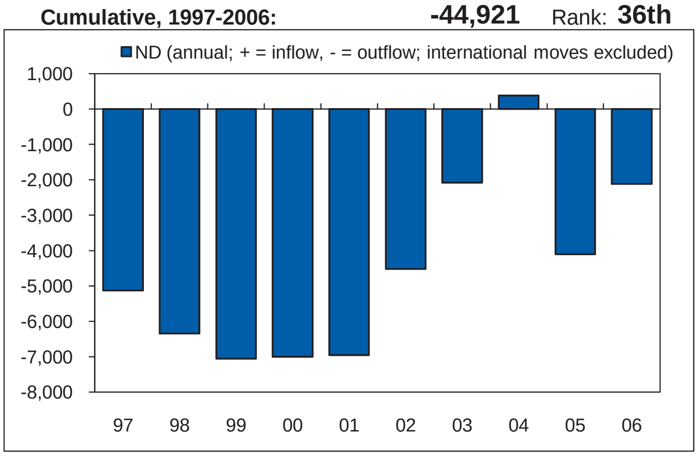
Economic Outlook Rank

Economic Performance Rank 22 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

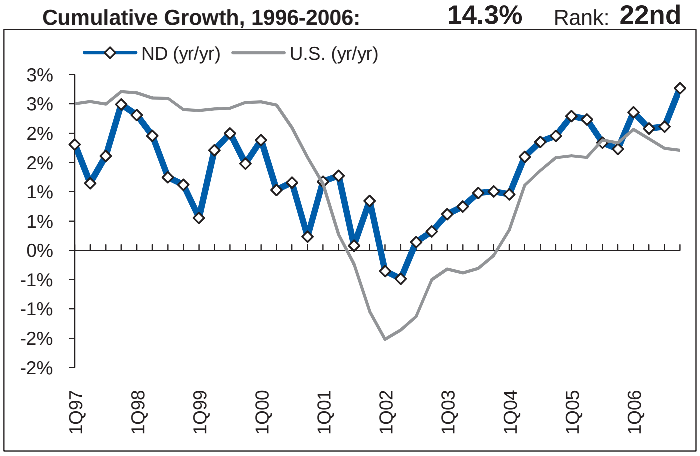
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **54.4%** Rank: **14th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-44,921** Rank: **36th**

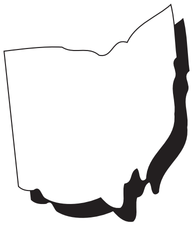


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **14.3%** Rank: **22nd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**5.54%**	Rank: **22nd**
2) Top Marginal Corporate Income Tax Rate:	**4.55%**	Rank: **7th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$9.56**	Rank: **28th**
4) Property Tax Burden: (per $1,000 of personal income)	**$31.86**	Rank: **27th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$23.48**	Rank: **19th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$24.32**	Rank: **41st**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.75**	Rank: **37th**
9) Debt Service as a % of Total Tax Revenue:	**8.4%**	Rank: **25th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**647.5**	Rank: **44th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**65.4**	Rank: **20th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.10**	Rank: **1st**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.43**	Rank: **44th**

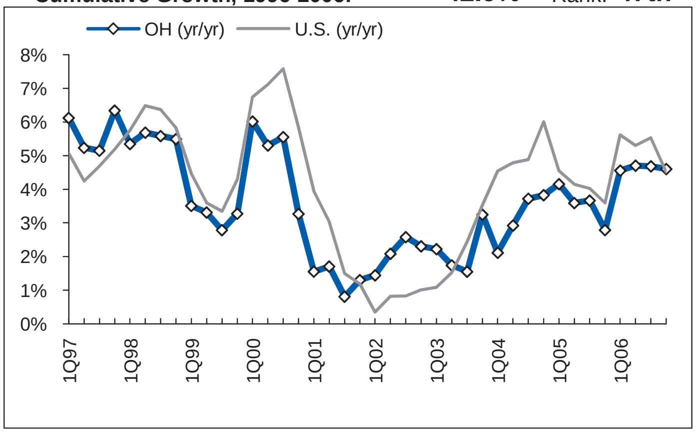


47 Ohio

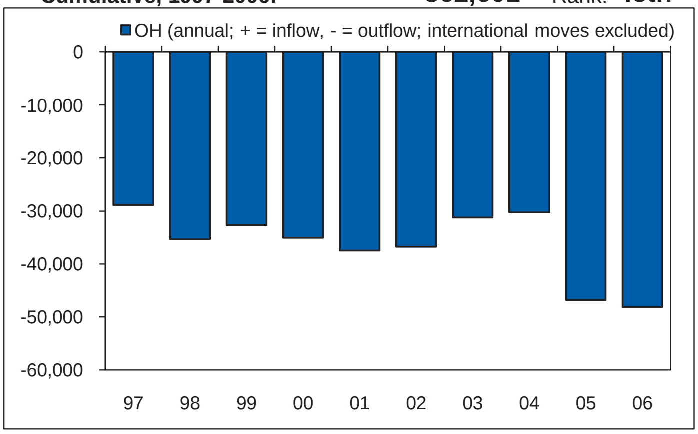
Economic Outlook Rank

Economic Performance Rank 49 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

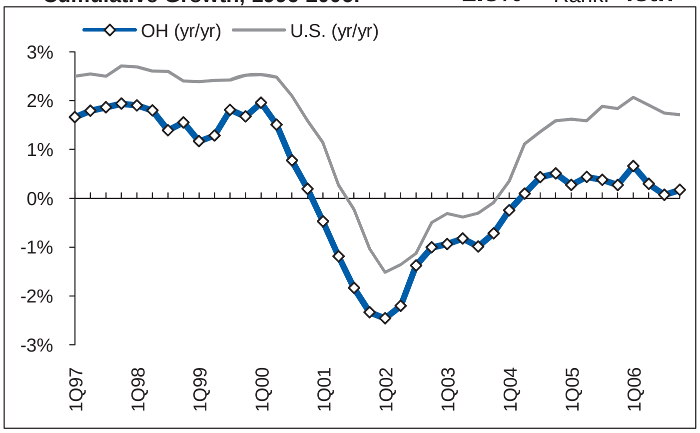
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **42.9%** Rank: **47th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-362,601** Rank: **45th**

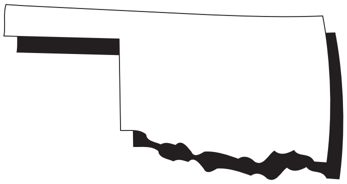


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **2.8%** Rank: **48th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**8.87%**	Rank: **45th**
2) Top Marginal Corporate Income Tax Rate:	**10.50%**	Rank: **48th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$15.92**	Rank: **44th**
4) Property Tax Burden: (per $1,000 of personal income)	**$32.52**	Rank: **29th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$26.80**	Rank: **28th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$14.80**	Rank: **4th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$3.15**	Rank: **49th**
9) Debt Service as a % of Total Tax Revenue:	**7.7%**	Rank: **16th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**537.3**	Rank: **22nd**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**63.9**	Rank: **24th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.85**	Rank: **36th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.00**	Rank: **39th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.82**	Rank: **26th**

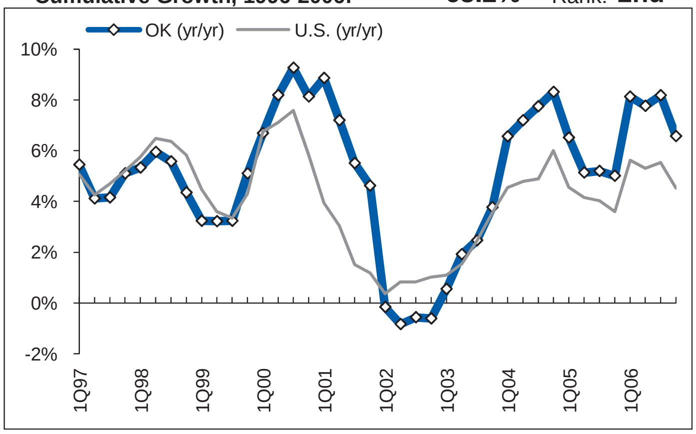


13 Oklahoma

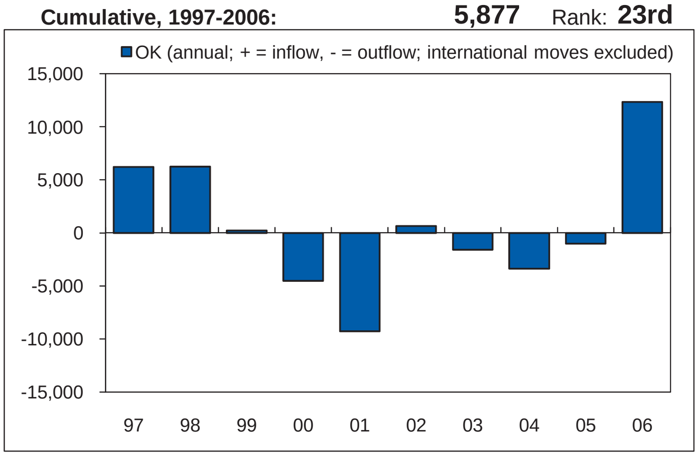
Economic Outlook Rank

Economic Performance Rank 9 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

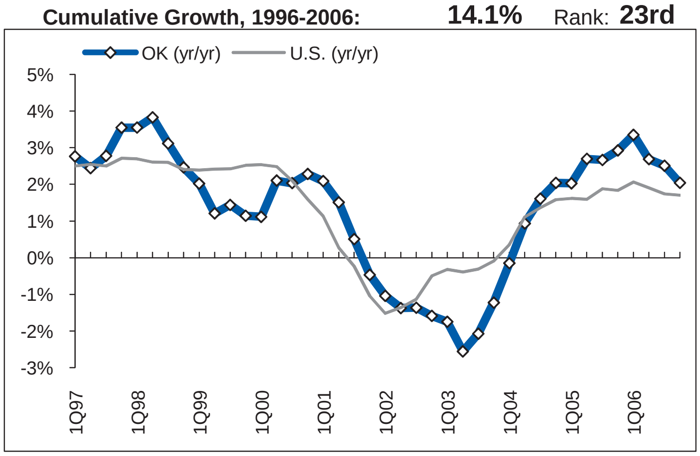
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **63.2%** Rank: **2nd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **5,877** Rank: **23rd**

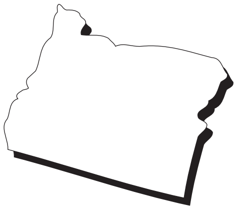


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **14.1%** Rank: **23rd**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**6.25%**	Rank: **26th**
2) Top Marginal Corporate Income Tax Rate:	**6.00%**	Rank: **15th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$6.52**	Rank: **23rd**
4) Property Tax Burden: (per $1,000 of personal income)	**$17.06**	Rank: **4th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$29.00**	Rank: **35th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$19.44**	Rank: **28th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$6.05**	Rank: **1st**
9) Debt Service as a % of Total Tax Revenue:	**7.6%**	Rank: **13th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**598.9**	Rank: **39th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**57.7**	Rank: **38th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.96**	Rank: **38th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.23**	Rank: **10th**

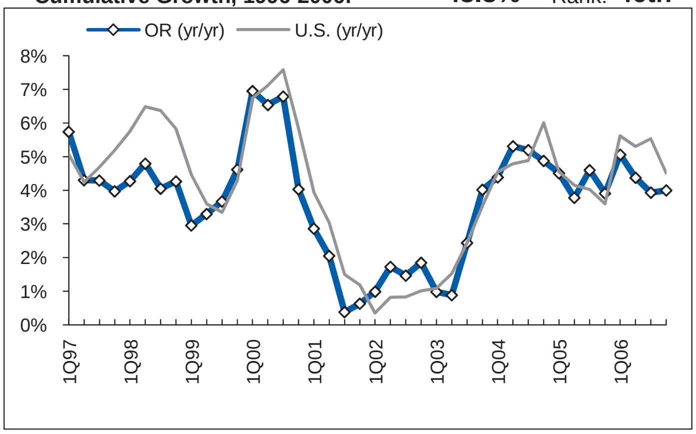


36 Oregon

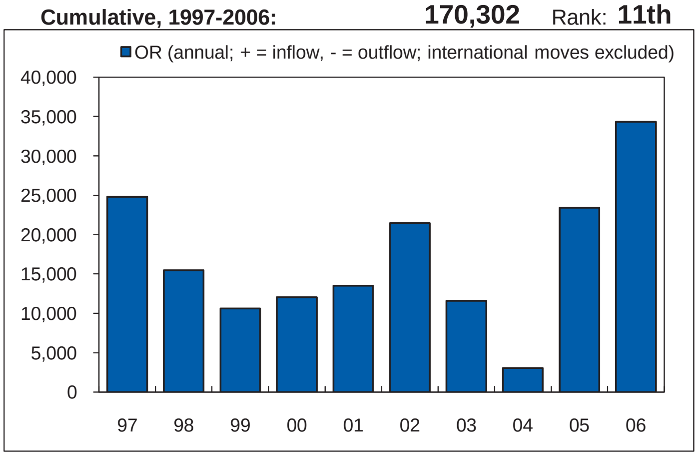
Economic Outlook Rank

***Economic Performance Rank 28 (1=best; 50=worst):** Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

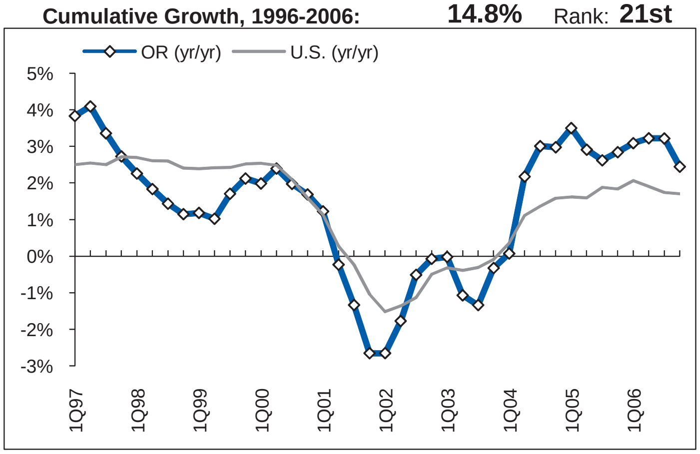
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **43.8%** Rank: **46th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **170,302** Rank: **11th**

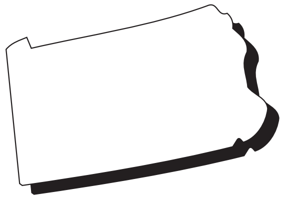


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **14.8%** Rank: **21st**



***Economic Outlook Rank (1=best; 50=worst):** A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**9.00%**	Rank: **47th**
2) Top Marginal Corporate Income Tax Rate:	**10.25%**	Rank: **47th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$12.74**	Rank: **41st**
4) Property Tax Burden: (per $1,000 of personal income)	**$32.16**	Rank: **28th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$0.00**	Rank: **1st**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$21.41**	Rank: **34th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.26**	Rank: **27th**
9) Debt Service as a % of Total Tax Revenue:	**9.7%**	Rank: **33rd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**491.0**	Rank: **7th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**65.7**	Rank: **17th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.80**	Rank: **49th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.97**	Rank: **10th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**2**	Rank: **4th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.06**	Rank: **16th**

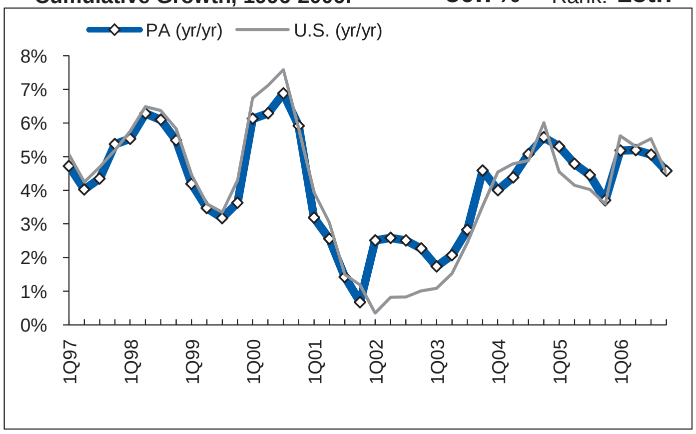


37 Pennsylvania

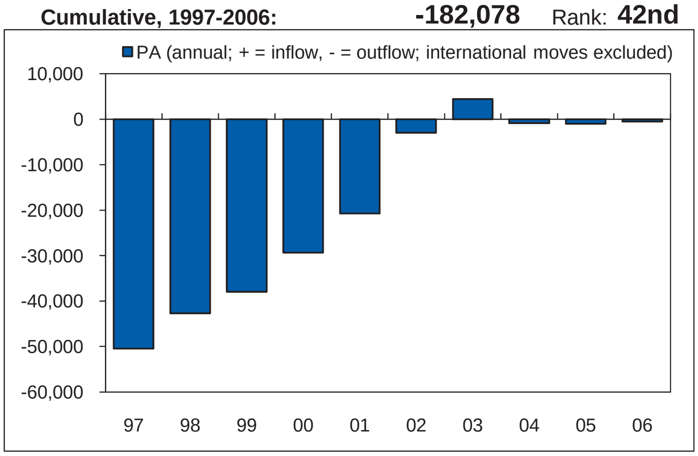
Economic Outlook Rank

Economic Performance Rank 44 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

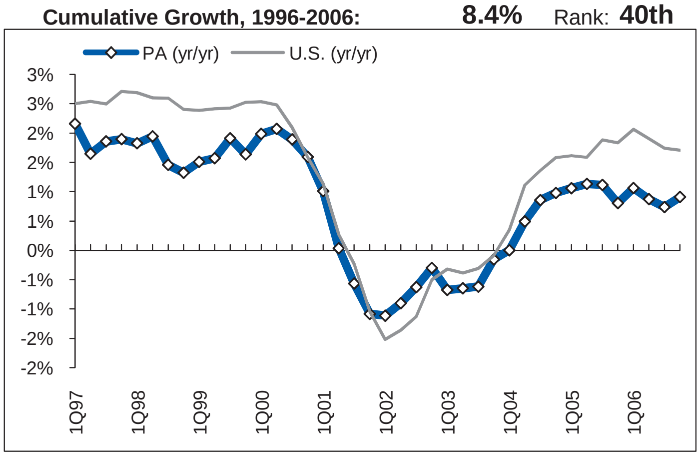
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **50.7%** Rank: **25th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-182,078** Rank: **42nd**

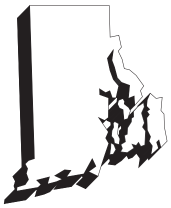


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **8.4%** Rank: **40th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**7.37%**	Rank: **36th**
2) Top Marginal Corporate Income Tax Rate:	**14.29%**	Rank: **49th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$31.11**	Rank: **26th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$19.78**	Rank: **12th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$23.52**	Rank: **39th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$2.13**	Rank: **5th**
9) Debt Service as a % of Total Tax Revenue:	**11.4%**	Rank: **45th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**456.9**	Rank: **2nd**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**60.8**	Rank: **32nd**
12) State Minimum Wage: (federal floor is $5.85)	**$6.25**	Rank: **26th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.80**	Rank: **34th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.86**	Rank: **22nd**

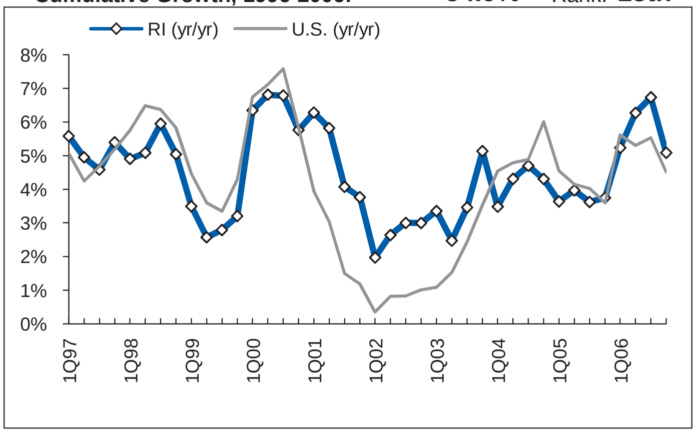


48 Rhode Island

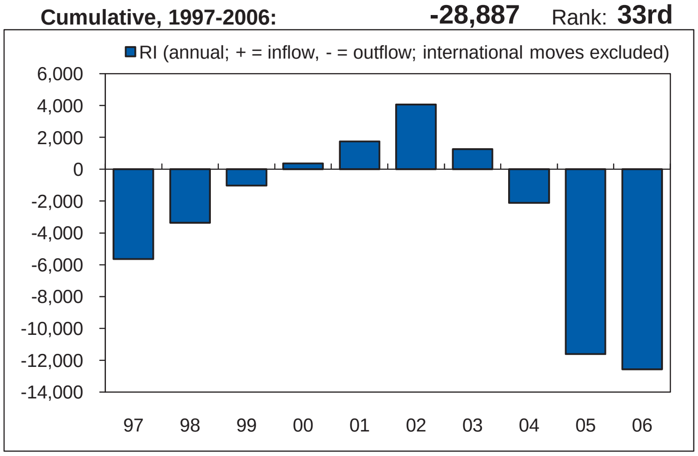
Economic Outlook Rank

Economic Performance Rank 24 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

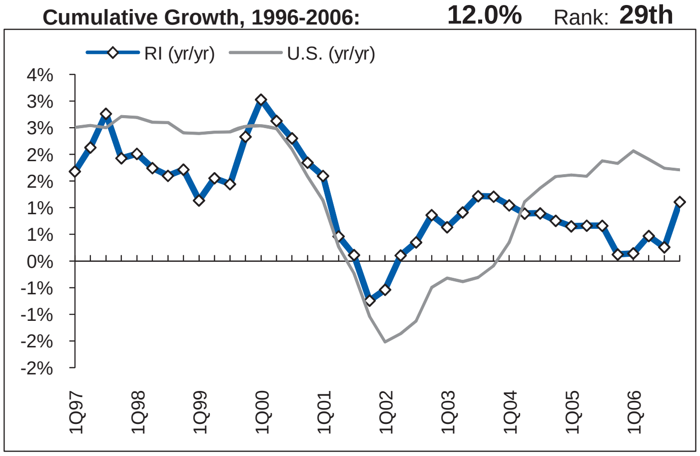
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **54.9%** Rank: **13th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-28,887** Rank: **33rd**

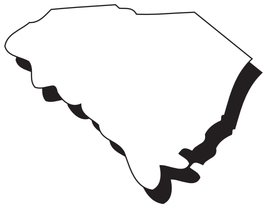


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **12.0%** Rank: **29th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**8.00%**	Rank: **40th**
2) Top Marginal Corporate Income Tax Rate:	**9.00%**	Rank: **39th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$24.32**	Rank: **48th**
4) Property Tax Burden: (per $1,000 of personal income)	**$49.12**	Rank: **46th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$22.47**	Rank: **14th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$18.57**	Rank: **23rd**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$2.19**	Rank: **45th**
9) Debt Service as a % of Total Tax Revenue:	**7.8%**	Rank: **18th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**479.9**	Rank: **5th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**58.5**	Rank: **35th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.40**	Rank: **43rd**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.68**	Rank: **30th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.35**	Rank: **48th**

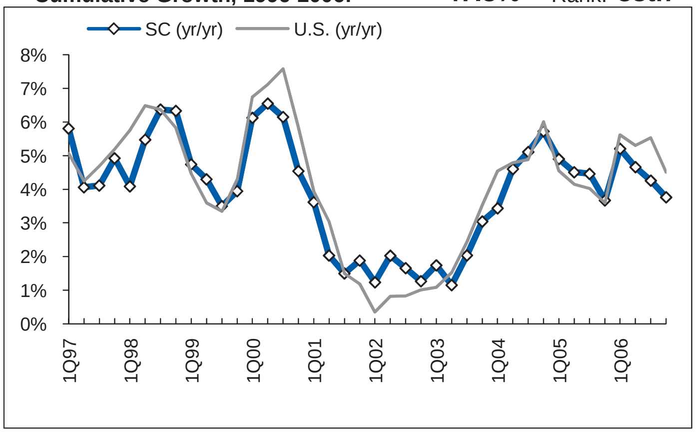


25 | South Carolina

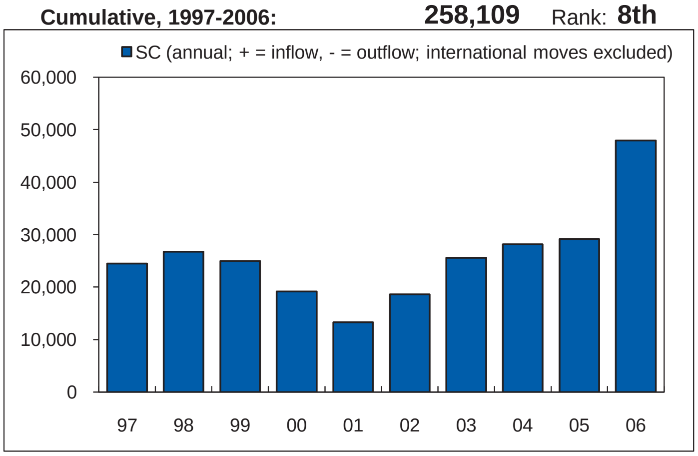
Economic Outlook Rank

Economic Performance Rank 21 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

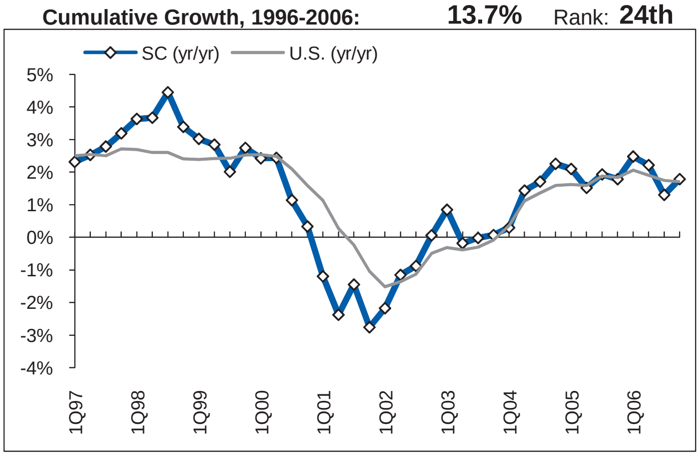
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **47.3%** Rank: **38th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **258,109** Rank: **8th**

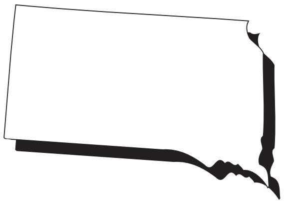


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **13.7%** Rank: **24th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**7.00%**	Rank: **33rd**
2) Top Marginal Corporate Income Tax Rate:	**5.00%**	Rank: **9th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$4.97**	Rank: **18th**
4) Property Tax Burden: (per $1,000 of personal income)	**$33.67**	Rank: **31st**
5) Sales Tax Burden: (per $1,000 of personal income)	**$25.84**	Rank: **24th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.46**	Rank: **17th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.00**	Rank: **22nd**
9) Debt Service as a % of Total Tax Revenue:	**12.4%**	Rank: **47th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**576.1**	Rank: **31st**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**58.1**	Rank: **37th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.50**	Rank: **27th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.59**	Rank: **39th**

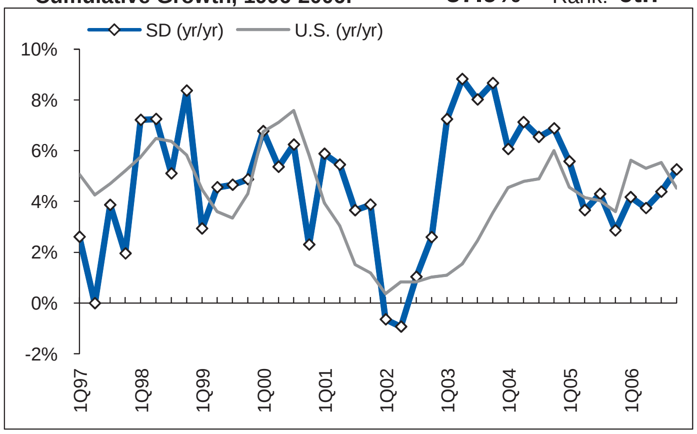


3 South Dakota

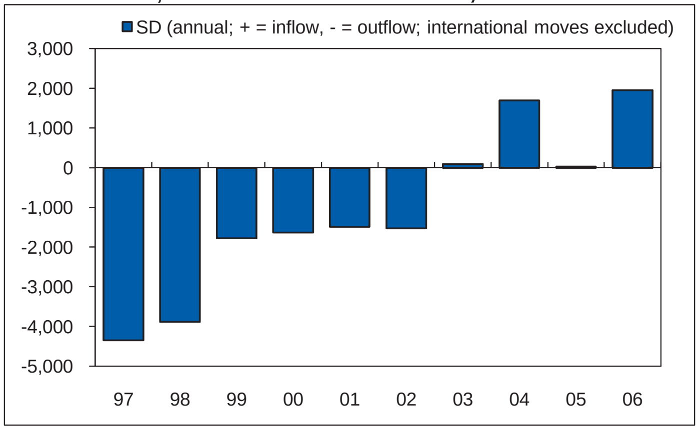
Economic Outlook Rank

Economic Performance Rank 13 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

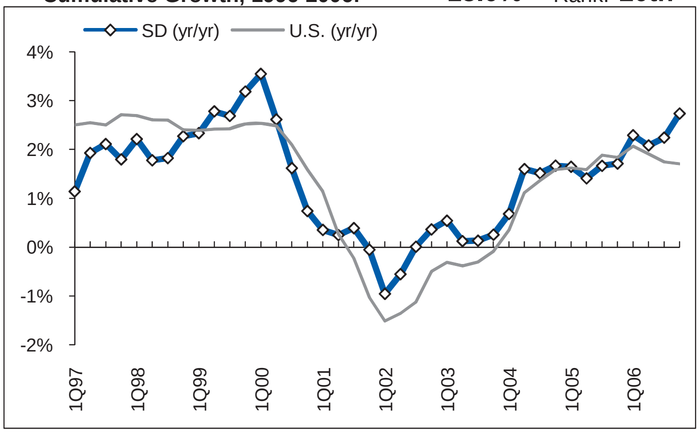
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **57.9%** Rank: **6th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-10,901** Rank: **29th**

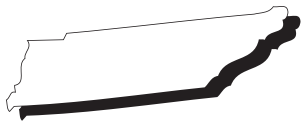


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **15.0%** Rank: **20th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**0.00%**	Rank: **1st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$30.30**	Rank: **22nd**
5) Sales Tax Burden: (per $1,000 of personal income)	**$33.83**	Rank: **41st**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$20.27**	Rank: **30th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$1.67**	Rank: **41st**
9) Debt Service as a % of Total Tax Revenue:	**8.0%**	Rank: **20th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**577.9**	Rank: **33rd**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**67.0**	Rank: **11th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.83**	Rank: **8th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.78**	Rank: **31st**

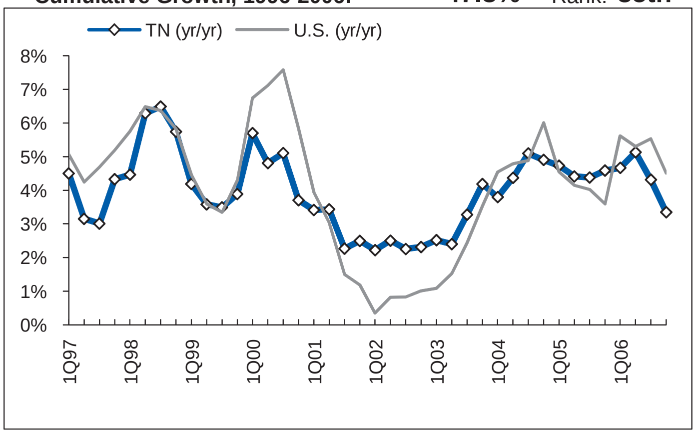


5 Tennessee

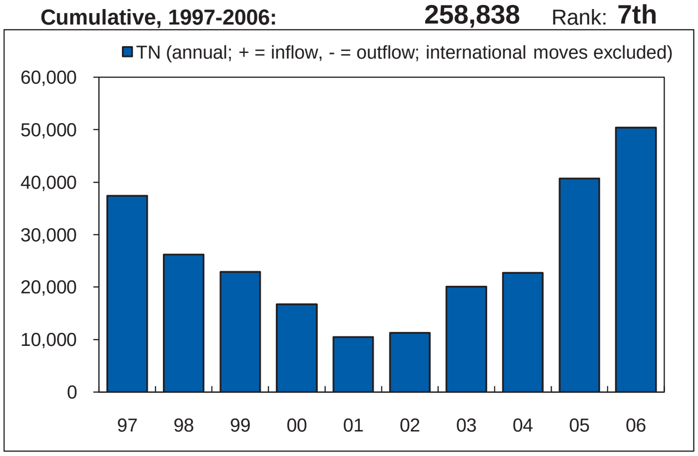
Economic Outlook Rank

Economic Performance Rank 27 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

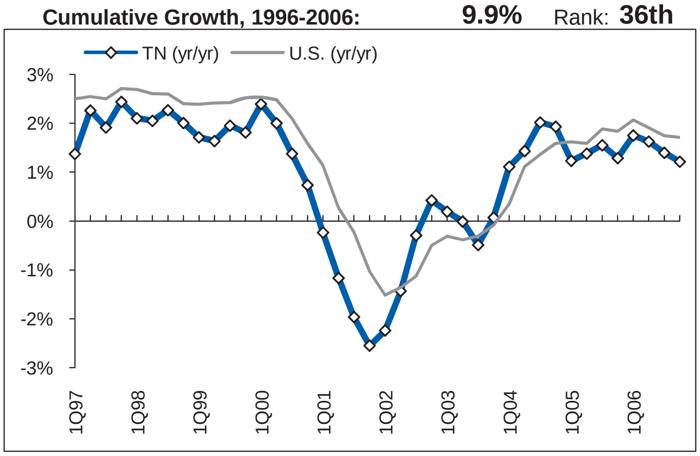
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **47.8%** Rank: **35th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **258,838** Rank: **7th**

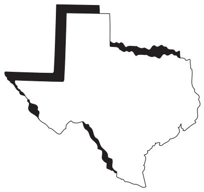


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **9.9%** Rank: **36th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**6.50%**	Rank: **19th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$21.13**	Rank: **9th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$41.72**	Rank: **47th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.33**	Rank: **15th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.40**	Rank: **33rd**
9) Debt Service as a % of Total Tax Revenue:	**7.1%**	Rank: **12th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**536.0**	Rank: **19th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**68.2**	Rank: **6th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.48**	Rank: **26th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.53**	Rank: **40th**

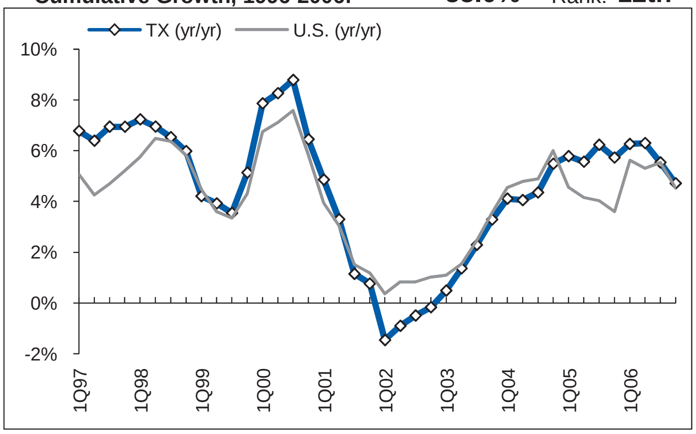


10 Texas

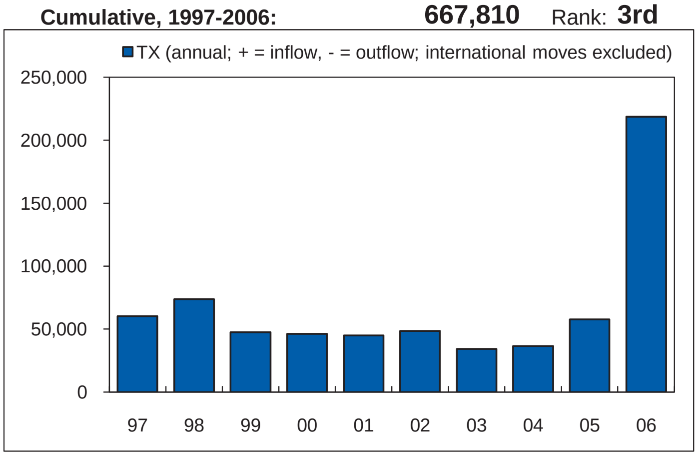
Economic Outlook Rank

Economic Performance Rank 1 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

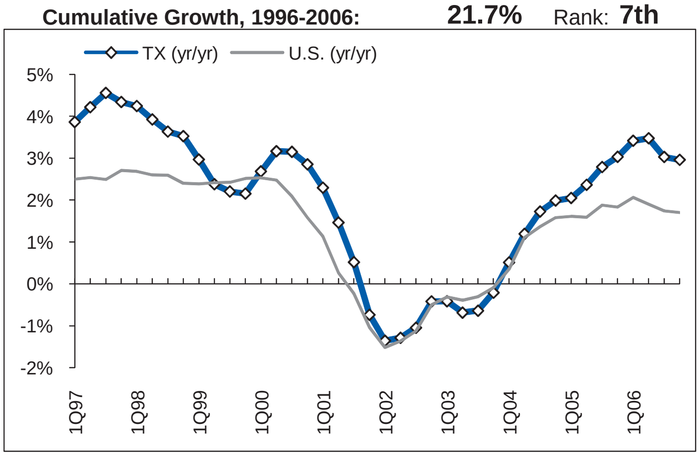
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **55.0%** Rank: **12th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **667,810** Rank: **3rd**

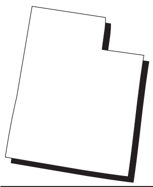


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **21.7%** Rank: **7th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**4.50%**	Rank: **6th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$42.13**	Rank: **42nd**
5) Sales Tax Burden: (per $1,000 of personal income)	**$28.64**	Rank: **34th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$20.36**	Rank: **31st**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$4.35**	Rank: **3rd**
9) Debt Service as a % of Total Tax Revenue:	**10.7%**	Rank: **41st**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**559.4**	Rank: **27th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**54.3**	Rank: **44th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.84**	Rank: **35th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.32**	Rank: **7th**

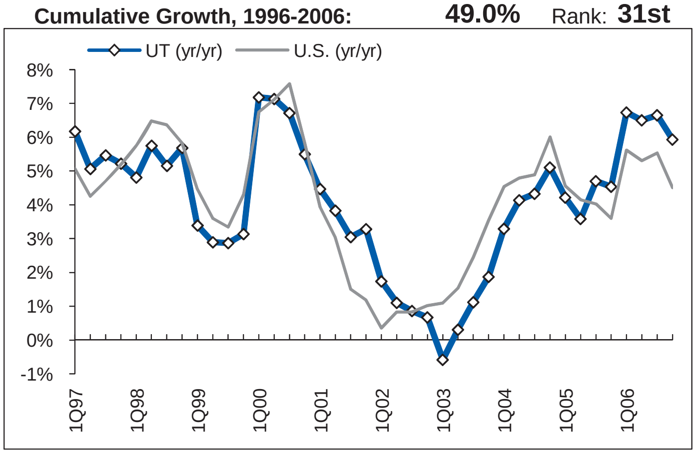


1 Utah

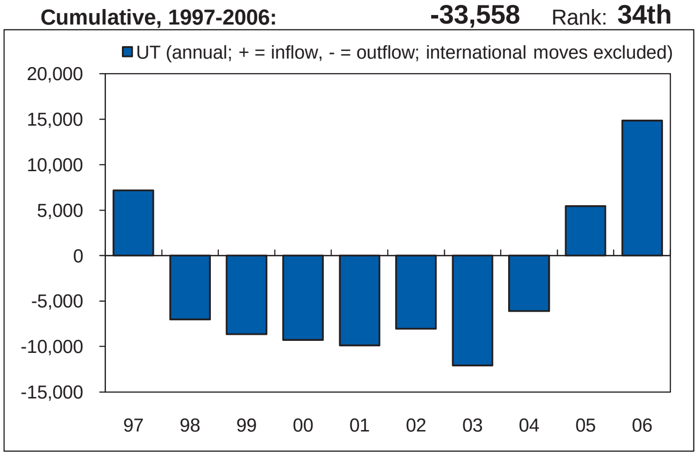
Economic Outlook Rank

Economic Performance Rank 20 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

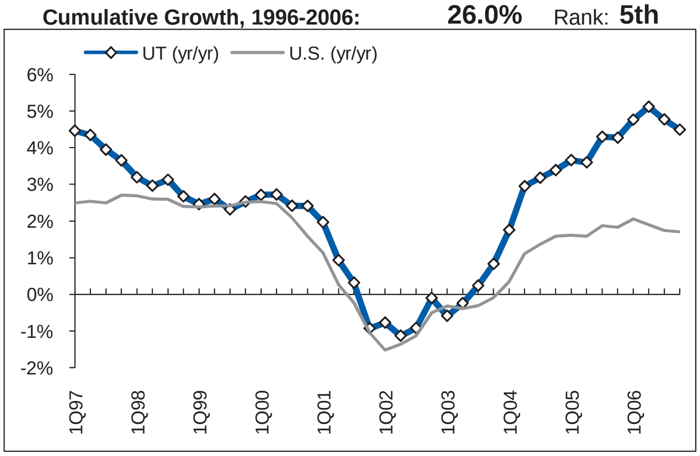
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **49.0%** Rank: **31st**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-33,558** Rank: **34th**

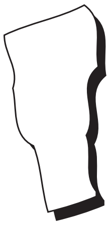


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **26.0%** Rank: **5th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**5.35%**	Rank: **21st**
2) Top Marginal Corporate Income Tax Rate:	**5.00%**	Rank: **9th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$27.30**	Rank: **13th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$32.61**	Rank: **38th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.47**	Rank: **18th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$1.91**	Rank: **7th**
9) Debt Service as a % of Total Tax Revenue:	**10.3%**	Rank: **38th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**505.0**	Rank: **10th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**67.7**	Rank: **9th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.06**	Rank: **14th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**1**	Rank: **13th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.34**	Rank: **24th**

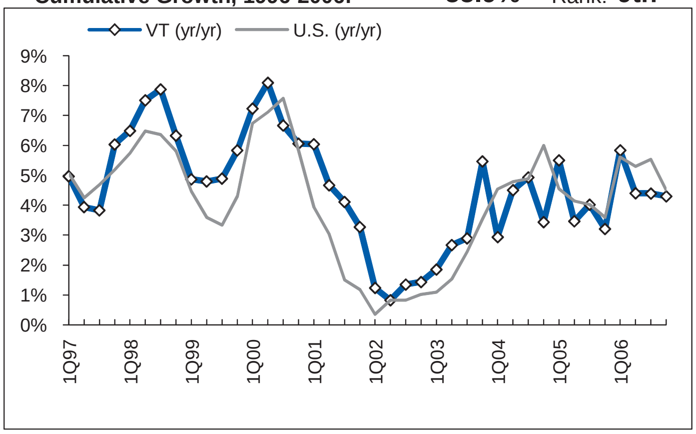


50 | Vermont

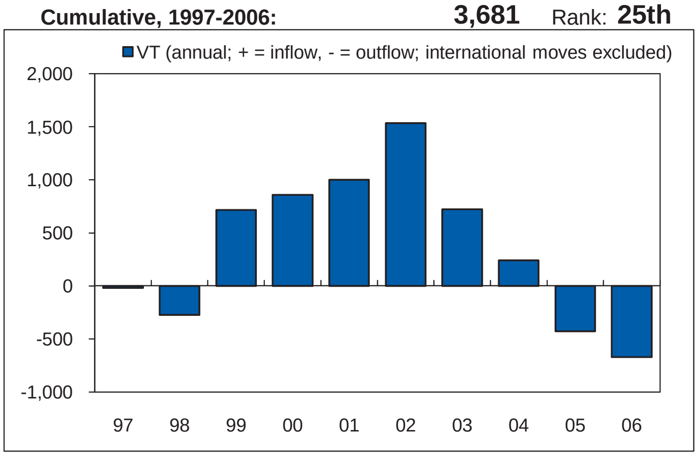
Economic Outlook Rank

Economic Performance Rank 17 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

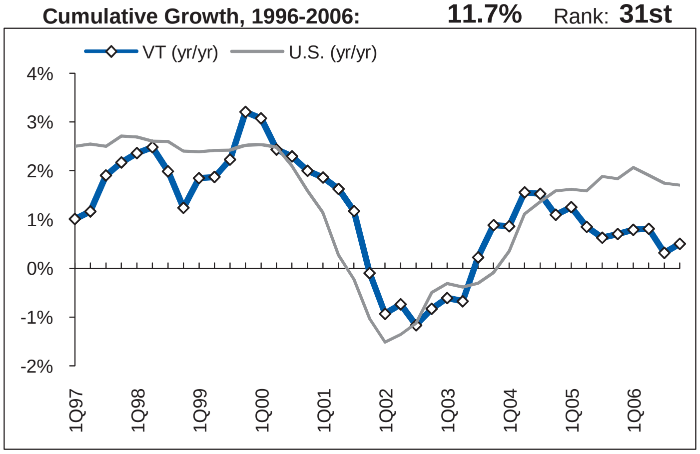
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **55.9%** Rank: **9th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **3,681** Rank: **25th**

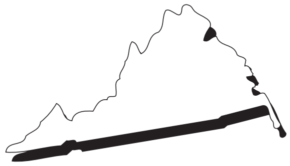


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **11.7%** Rank: **31st**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**9.50%**	Rank: **48th**
2) Top Marginal Corporate Income Tax Rate:	**8.90%**	Rank: **37th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$21.28**	Rank: **47th**
4) Property Tax Burden: (per $1,000 of personal income)	**$49.68**	Rank: **47th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$13.55**	Rank: **7th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$30.31**	Rank: **47th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$1.79**	Rank: **42nd**
9) Debt Service as a % of Total Tax Revenue:	**7.9%**	Rank: **19th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**643.4**	Rank: **43rd**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**62.5**	Rank: **27th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.53**	Rank: **47th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$3.24**	Rank: **44th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.83**	Rank: **25th**

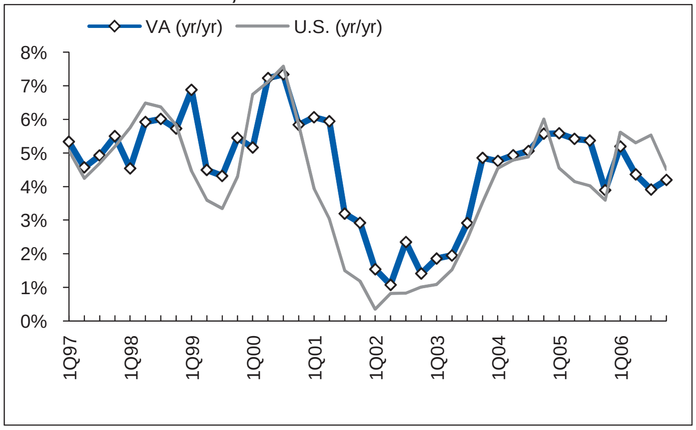


6 Virginia

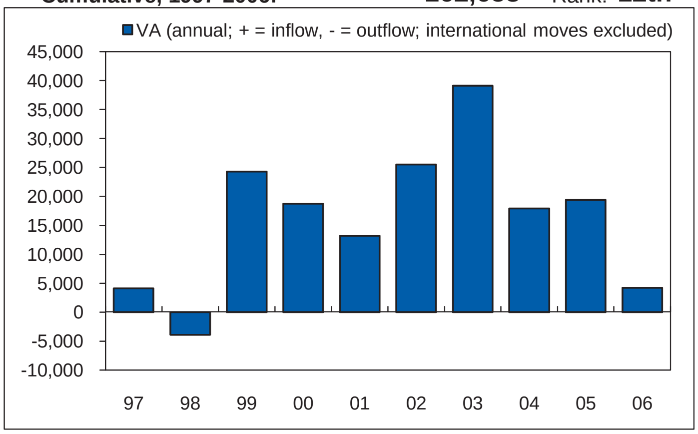
Economic Outlook Rank

Economic Performance Rank 4 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

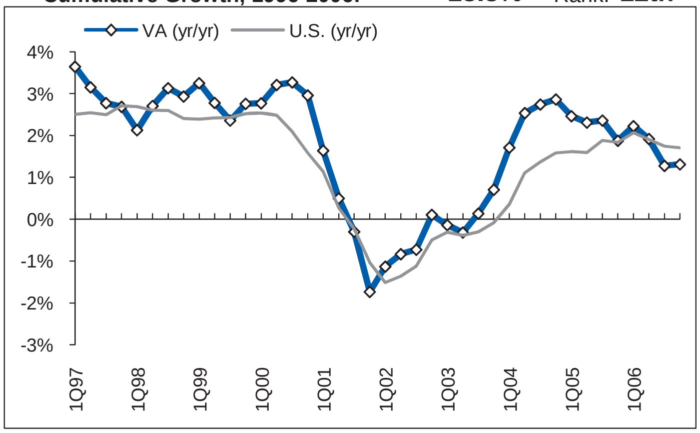
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **56.4%** Rank: **7th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **162,653** Rank: **12th**

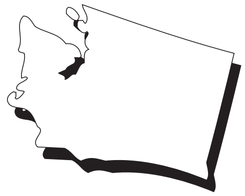


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **18.8%** Rank: **12th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**5.75%**	Rank: **23rd**
2) Top Marginal Corporate Income Tax Rate:	**6.00%**	Rank: **15th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$6.42**	Rank: **22nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$29.85**	Rank: **20th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$15.00**	Rank: **9th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$21.35**	Rank: **33rd**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.37**	Rank: **14th**
9) Debt Service as a % of Total Tax Revenue:	**7.8%**	Rank: **17th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**563.4**	Rank: **28th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**66.9**	Rank: **12th**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$1.52**	Rank: **3rd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.47**	Rank: **42nd**

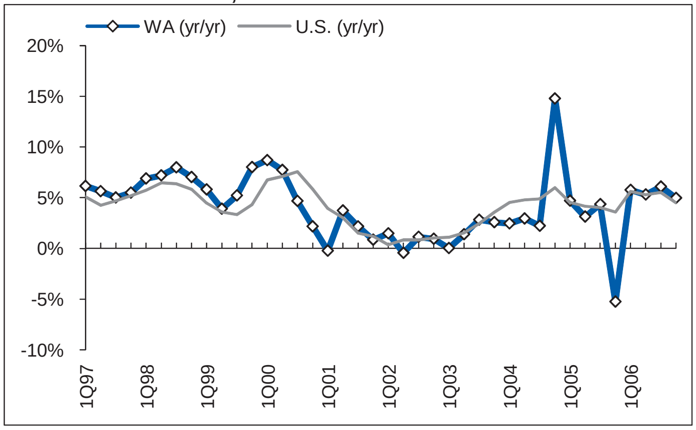


31 Washington

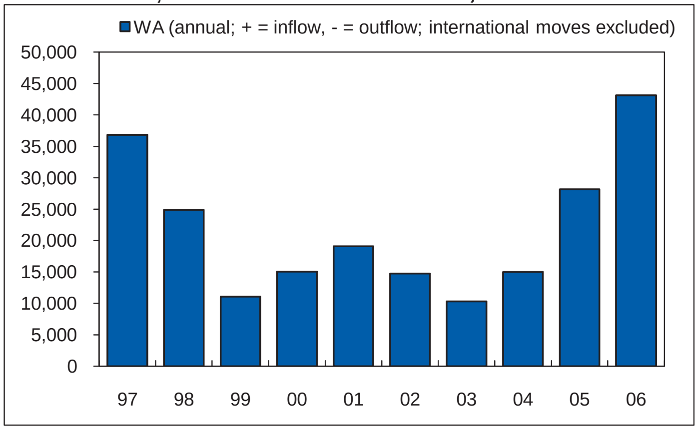
Economic Outlook Rank

__Economic Performance Rank 11 (1=best; 50=worst):__ Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

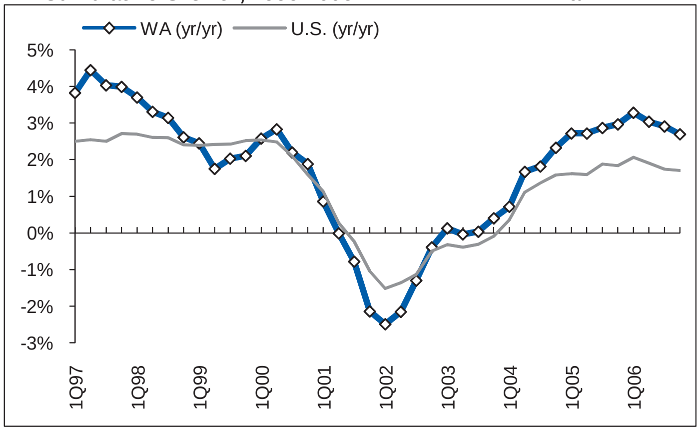
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **49.3%** Rank: **28th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **218,304** Rank: **10th**

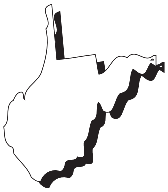


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **18.4%** Rank: **13th**



__Economic Outlook Rank (1=best; 50=worst):__ A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**0.00%**	Rank: **1st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$31.10**	Rank: **25th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$47.66**	Rank: **49th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$25.29**	Rank: **44th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$1.62**	Rank: **40th**
9) Debt Service as a % of Total Tax Revenue:	**11.1%**	Rank: **43rd**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**521.0**	Rank: **14th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**63.7**	Rank: **25th**
12) State Minimum Wage: (federal floor is $5.85)	**$7.93**	Rank: **50th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.17**	Rank: **15th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**3**	Rank: **1st**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.79**	Rank: **28th**

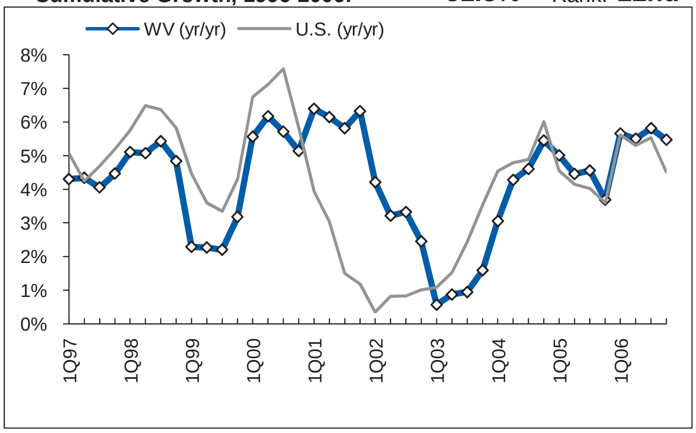


40 West Virginia

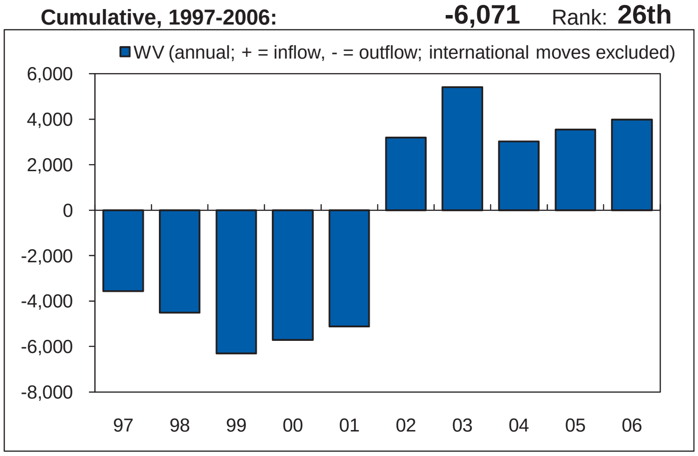
Economic Outlook Rank

***Economic Performance Rank 34 (1=best; 50=worst):** Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

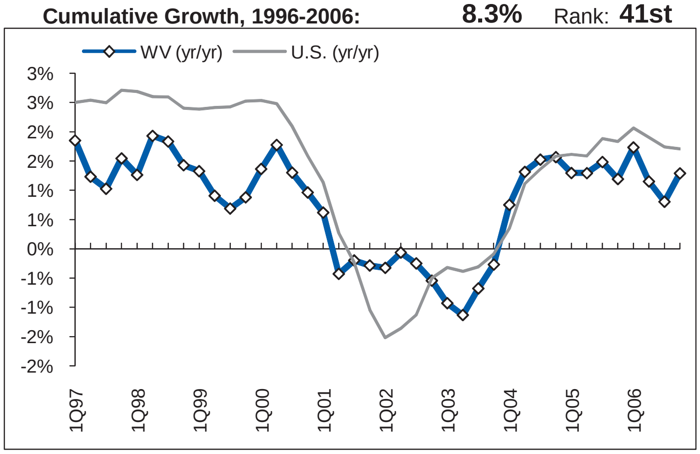
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **51.3%** Rank: **22nd**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-6,071** Rank: **26th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **8.3%** Rank: **41st**



***Economic Outlook Rank (1=best; 50=worst):** A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

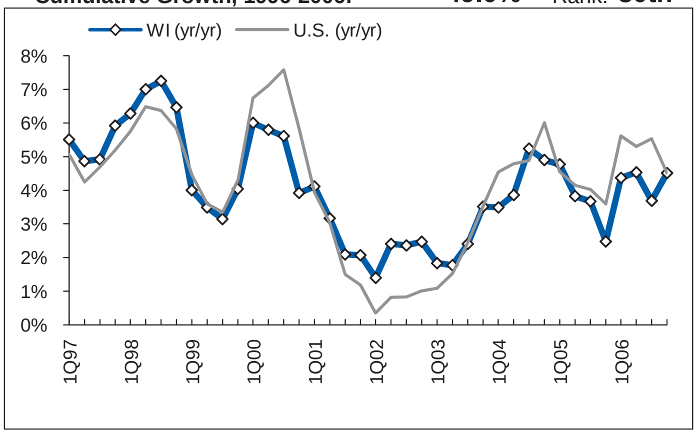
1) Top Marginal Personal Income Tax Rate:	**6.50%**	Rank: **29th**
2) Top Marginal Corporate Income Tax Rate:	**8.75%**	Rank: **35th**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$15.53**	Rank: **43rd**
4) Property Tax Burden: (per $1,000 of personal income)	**$22.18**	Rank: **10th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$23.13**	Rank: **17th**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$34.09**	Rank: **49th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$0.39**	Rank: **13th**
9) Debt Service as a % of Total Tax Revenue:	**8.5%**	Rank: **26th**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**535.6**	Rank: **18th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**38.0**	Rank: **50th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.55**	Rank: **31st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.20**	Rank: **18th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.36**	Rank: **47th**

30 Wisconsin

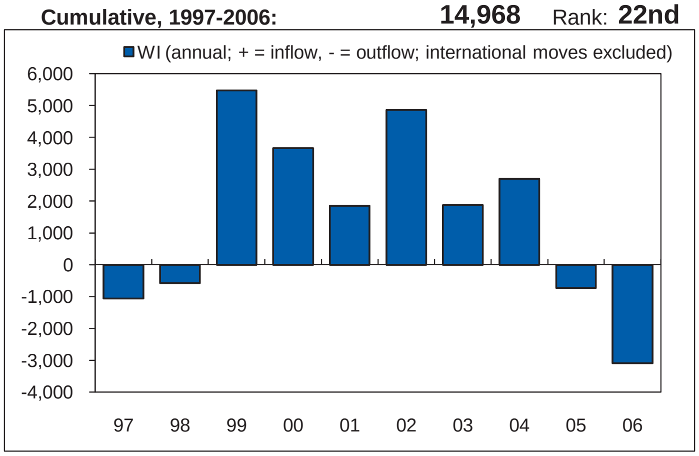
Economic Outlook Rank

Economic Performance Rank 33 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

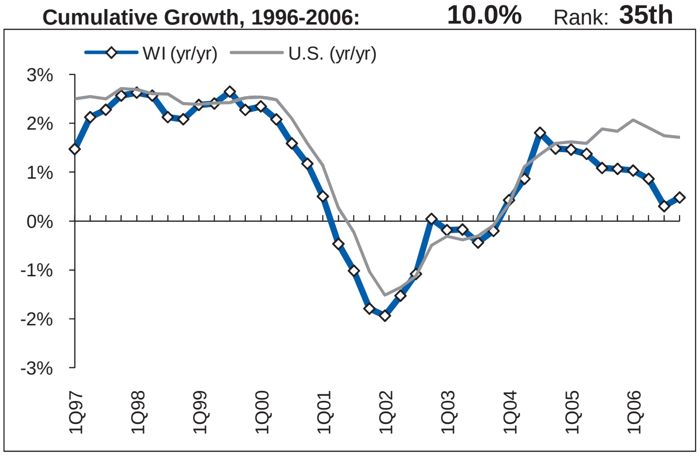
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **49.0%** Rank: **30th**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **14,968** Rank: **22nd**

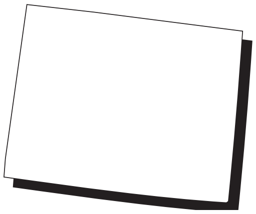


3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **10.0%** Rank: **35th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**6.75%**	Rank: **30th**
2) Top Marginal Corporate Income Tax Rate:	**7.90%**	Rank: **32nd**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$10.50**	Rank: **31st**
4) Property Tax Burden: (per $1,000 of personal income)	**$43.23**	Rank: **43rd**
5) Sales Tax Burden: (per $1,000 of personal income)	**$24.09**	Rank: **21st**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$17.00**	Rank: **14th**
7) Estate/Inheritance Tax Levied?:	**Yes**	Rank: **28th**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**$0.24**	Rank: **26th**
9) Debt Service as a % of Total Tax Revenue:	**8.0%**	Rank: **21st**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**518.4**	Rank: **13th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**67.5**	Rank: **10th**
12) State Minimum Wage: (federal floor is $5.85)	**$6.50**	Rank: **29th**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.18**	Rank: **17th**
14) Right-To-Work State?: (optional joining or supporting of a union)	**No**	Rank: **23rd**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**2.36**	Rank: **6th**

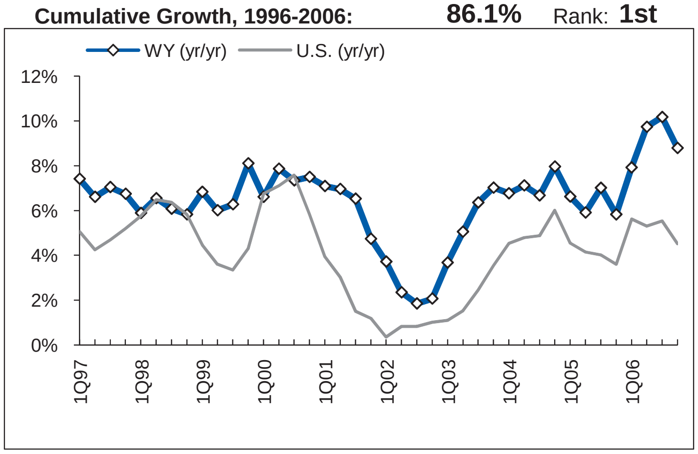


4 | Wyoming

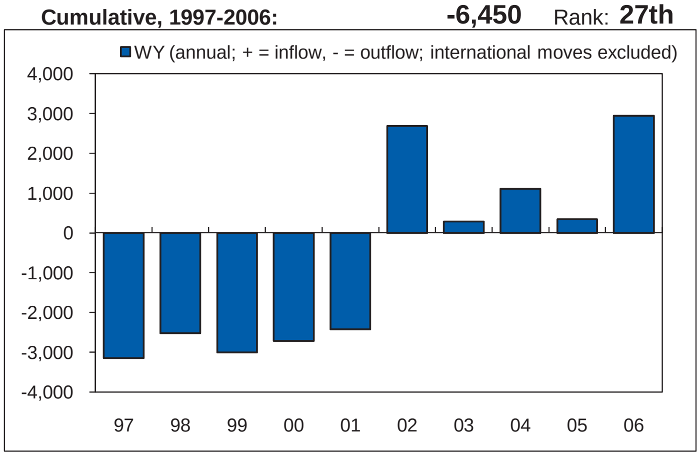
Economic Outlook Rank

Economic Performance Rank 6 (1=best; 50=worst): *Based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.*

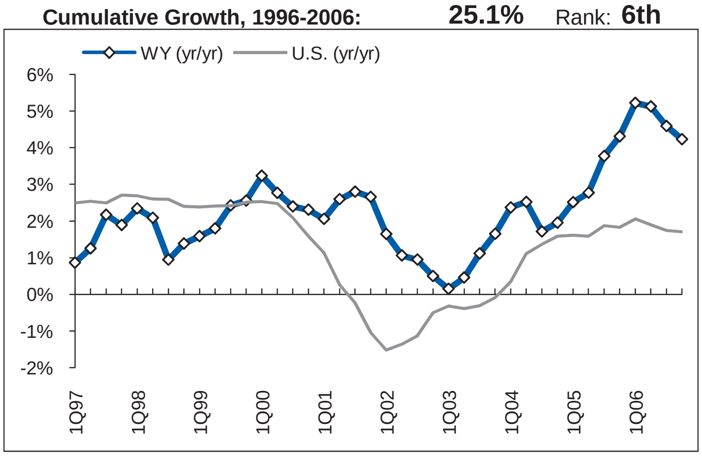
1) Personal Income Per Capita Cumulative Growth, 1996-2006: **86.1%** Rank: **1st**



2) Absolute Domestic Migration, Cumulative, 1997-2006: **-6,450** Rank: **27th**



3) Non-farm Payroll Employment Cumulative Growth, 1996-2006: **25.1%** Rank: **6th**



Economic Outlook Rank (1=best; 50=worst): *A forward-looking forecast based on the state's standing (equal-weighted average) in the 16 important state policy variables shown below. Data reflect state+local rates and revenues and any effect of federal deductability.*

1) Top Marginal Personal Income Tax Rate:	**0.00%**	Rank: **1st**
2) Top Marginal Corporate Income Tax Rate:	**0.00%**	Rank: **1st**
3) Personal Income Tax Progressivity: (change in tax liability per $1,000 income)	**$0.00**	Rank: **2nd**
4) Property Tax Burden: (per $1,000 of personal income)	**$40.13**	Rank: **40th**
5) Sales Tax Burden: (per $1,000 of personal income)	**$35.53**	Rank: **42nd**
6) Remaining Tax Burden: (per $1,000 of personal income)	**$15.62**	Rank: **8th**
7) Estate/Inheritance Tax Levied?:	**No**	Rank: **1st**
8) Recent Legislated Tax Changes: (2005 and 2006, per $1,000 of personal income)	**-$1.98**	Rank: **6th**
9) Debt Service as a % of Total Tax Revenue:	**4.7%**	Rank: **1st**
10) Public Employees Per 10,000 of Population (full-time equivalent)**:**	**889.4**	Rank: **50th**
11) State Liability System Survey: (tort litigation treatment, judicial impartiality, etc.)	**64.7**	Rank: **22nd**
12) State Minimum Wage: (federal floor is $5.85)	**$5.85**	Rank: **1st**
13) Avg. Workers' Compensation Costs: (per $100 of payroll)	**$2.40**	Rank: **23rd**
14) Right-To-Work State?: (optional joining or supporting of a union)	**Yes**	Rank: **1st**
15) Number of Tax Expenditure Limits: (0=least/worst, 3=most/best)	**0**	Rank: **29th**
16) Education Freedom Index Score: (vouchers, ease of private/home schooling, etc.)	**1.79**	Rank: **28th**

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