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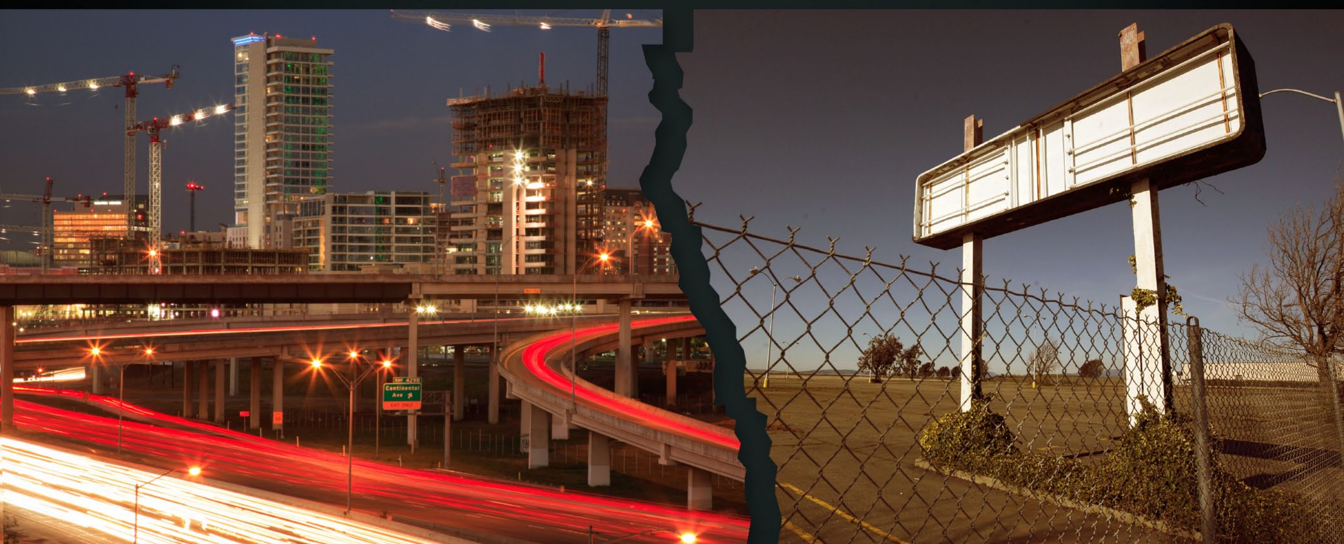
5TH ANNIVERSARY EDITION

RICH STATES, POOR STATES

ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX



DALLAS, TX VALLEJO, CA

ARTHUR B. LAFFER
STEPHEN MOORE
JONATHAN WILLIAMS

FOREWORD BY
GOV. MARY FALLIN

ALEC American Legislative Exchange Council
LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

Rich States, Poor States

ALEC-Laffer State Economic Competitiveness Index

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Dr. Arthur B. Laffer, Stephen Moore,
and Jonathan Williams, Authors

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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 well as Laffer Investments, an institutional investment firm. As a result of 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 Congresses. Laffer served as a member of President Reagan's Economic Policy Advisory Board for both 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 president of the Club for Growth, which raises money for political candidates who favor free-market economic policies. Over the years, Moore has served as a senior economist at 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 fiscal policy. He was also a consultant to the National Economic Commission in 1987 and research director for President Reagan's Commission on Privatization.

JONATHAN WILLIAMS

Jonathan Williams is the director of the Center for State Fiscal Reform and the Tax and Fiscal Policy Task Force at the American Legislative Exchange Council (ALEC), where he works with state policymakers, congressional leaders, and members of the private sector to develop fiscal policy solutions for the states. Prior to joining ALEC, Williams served as staff economist at the nonpartisan Tax Foundation, authoring numerous tax policy studies. Williams's work has appeared in many publications including *The Wall Street Journal, Forbes,* and *Investor's Business Daily.* He has been a contributing author to the Reason Foundation's Annual Privatization Report and has written for the Ash Center for Democratic Governance and Innovation at Harvard's Kennedy School of Government. In addition, Williams was a contributing author of "In Defense of Capitalism" (Northwood University Press, 2010). Williams has testified before numerous legislative bodies and spoken to audiences across America. He is a frequent guest on talk radio shows and has appeared on numerous television outlets, including the PBS NewsHour with Jim Lehrer and Fox Business News. Williams was also the recipient of the prestigious Ludwig von Mises Award in Economics.

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Foreword

Dear ALEC Member,

In 2010, Oklahoma was just starting to climb out of the national recession that cost our state nearly 80,000 jobs. Like people all around the country, many Oklahomans were struggling. Jobs had disappeared in the wake of a financial crisis that was largely out of our control. Tax revenues were down, and the state was facing a budget shortfall of over $500 million. It was with that difficult backdrop that I reached out to our state's legislative leaders to help me build the best, most competitive economic climate possible. We set about reducing government waste and making state government smaller, smarter, and more efficient. Like many times in our state's history, we rose to the challenge.

While many other states were raising taxes in order to close their budget gaps—and driving out jobs in the process—we cut our income tax. We provided relief to working families and spurred economic growth in the private sector. As a result, we have seen a net increase of almost 30,000 jobs in the last 12 months, and our job growth rate ranks in the top 10 among all states. Our unemployment rate continues to be one of the lowest in the country at 6.1 percent. And in 2011, Oklahoma ranked first in the nation for the growth of manufacturing jobs, which grew five times faster than the national average.

All of these successes are the results of the kind of common sense, conservative policies outlined by Dr. Art Laffer, Stephen Moore, and Jonathan Williams in *Rich States, Poor States*. I have been committed to these fundamental principles for years, and we are seeing incredible results because our legislators have had the courage to stand with me in support of conservative governance. Oklahoma's economy is outperforming the national economy, and our success stands in stark contrast to the record of dysfunction, failed policies, and outrageous spending that occurs in Washington, D.C.

Oklahoma could teach Washington a lesson or two about fiscal policy and the proper size and role of government—and so could the tax and fiscal policy reforms espoused by ALEC.

Our growth as a state stands as a testament to the fact that low taxes, limited government, and fiscal discipline are a recipe for job creation. But our work is not done. Based on the success we have enjoyed enacting pro-growth policies like those championed by ALEC, our state is moving forward with a bold tax reform plan that will represent the most significant tax cut in state history and chart a course toward the gradual elimination of the state income tax. It will give Oklahoma one of the lowest overall tax burdens in the entire country, making us a more competitive state for those looking to move jobs here. This is the conservative centerpiece of our pro-jobs agenda that will let working families keep more of their hard-earned money and provide a higher quality of life for all Oklahomans.

My advice to state officials around the country is to get to work enacting these policies, or get ready to help your friends pack as they and their jobs get moving to Oklahoma!

Sincerely,

Mary Fallin

Mary Fallin
Governor of Oklahoma

Executive Summary

Amidst climbing national debt and a dismally slow economic recovery, it's evident that the solution to our economic woes lies outside of the federal government. Many states have taken the lead in identifying and implementing the policies that lead to prosperity, and those states have suffered less as a result of their pro-growth policies.

In this fifth edition of *Rich States, Poor States,* Arthur B. Laffer, Stephen Moore, and Jonathan Williams identify the states that experience prosperity and those that continue to struggle, highlighting the policies that contribute to economic well-being in the 50 states. The authors also provide the 2012 ALEC-Laffer State Economic Competitiveness Index, based on state economic policies. Through the empirical evidence and analysis contained within these pages, discover which policies lead to state economic growth and which policies states should avoid.

In chapter 1, the authors lay the groundwork for understanding what states must do in order to increase growth and become prosperous. First, they set the stage by identifying the biggest winners and losers in the ALEC-Laffer State Economic Competitiveness Index over the past five years. From there, Messrs. Laffer, Moore, and Williams provide a lesson in economics 101, discussing the merits of supply-side economics, the theory of incentives, and the evidence behind taxpayers voting with their feet—very strongly against high taxes. Finally, this chapter highlights the best policies of the states, from pension reform, to closing budget gaps, to pro-business tax reform, and everything in between. Readers should be on the lookout for Oklahoma, Kansas, and Missouri, where the personal income tax may soon become a thing of the past.

Chapter 2 evaluates the influence several policy variables have on state economies. The authors begin with the personal and corporate income taxes, comparing the states with the highest tax rates to the states with the lowest, or in some cases zero, tax rates. The results speak for themselves. The no income tax states outperform their high tax counterparts across the board in gross state product growth, population growth, job growth, and, perhaps shockingly, even tax receipt growth. This chapter allows readers to see the data and decide which policies they think have the greatest effect on state economies.

In chapter 3, the authors delve into one of the most anti-growth tax policies: The unpopular and economically damaging "death tax." From what not to do to where not to die, the authors combine anecdotal evidence with the data to show why the death tax is one of the worst possible taxes for state economies. Less than half the states impose death taxes, and that number is quickly dwindling. Ohio and Indiana are leading the effort to eliminate these growth killing taxes, and we expect others to soon follow in their footsteps.

Finally, chapter 4 is the much anticipated 2012 ALEC-Laffer State Economic Competitiveness Index. The first measure, the Economic Performance Rank, is a historical measure based on a state's income per capita, absolute domestic migration, and non-farm payroll employment—each of which is highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on the economic data.

The second measure, the Economic Outlook Rank, is a forecast based on a state's current standing in 15 equally weighted policy variables, each of which is influenced directly by state lawmakers through the legislative process. In general, states that spend less, especially on 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 following variables are measured in the 2012 ALEC-Laffer State Economic Outlook ranking:

- Highest Marginal Personal Income Tax Rate
- Highest Marginal Corporate Income Tax Rate
- Personal Income Tax Progressivity
- Property Tax Burden
- Sales Tax Burden
- Tax Burden from All Remaining Taxes
- Estate Tax/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes
- Debt Service as a Share of Tax Revenue
- Public Employees per 1,000 Residents
- Quality of State Legal System
- Workers' Compensation Costs
- State Minimum Wage
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

This fifth edition of *Rich States, Poor States* provides 50 unique snapshots from our "laboratories of democracy" for you to evaluate. Study the rankings, read the evidence, and learn about the proven principles that lead to economic growth, job creation, and a higher standard of living for all Americans.

ALEC-Laffer State Economic Outlook Rankings, 2012

Based upon equal-weighting of each state's rank in 15 policy variables

Rank	State
1	Utah
2	South Dakota
3	Virginia
4	Wyoming
5	North Dakota
6	Idaho
7	Missouri
8	Colorado
9	Arizona
10	Georgia
11	Arkansas
12	Tennessee
13	Florida
14	Oklahoma
15	Mississippi
16	Texas
17	Michigan
18	Nevada
19	Louisiana
20	Maryland
21	Alabama
22	Iowa
23	North Carolina
24	Indiana
25	Massachusetts

Rank	State
26	Kansas
27	South Carolina
28	New Hampshire
29	Alaska
30	West Virginia
31	Nebraska
32	Wisconsin
33	Washington
34	Delaware
35	New Mexico
36	Montana
37	Ohio
38	California
39	Kentucky
40	Pennsylvania
41	Minnesota
42	New Jersey
43	Rhode Island
44	Connecticut
45	Oregon
46	Hawaii
47	Maine
48	Illinois
49	Vermont
50	New York

10 Golden Rules of Effective Taxation

1 ***When you tax something more 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 do not care to admit it. Congress and state lawmakers routinely tax things that they consider "bad" to discourage the activity. We reduce, or in some cases entirely eliminate, taxes on behavior that we want to encourage, such as home buying, going to college, 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 a desirable activity. It is wise to keep taxes on work, savings, and investment as low as possible in order not to deter people from participating in these activities.

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 conserving resources so they or their children can consume in the future. A corollary to this is that people do not work to pay taxes—though some politicians seem to think they do.

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 employers pay from the wages employees receive. If a worker pays 15 percent of his income in payroll taxes, 25 percent in federal income taxes, and 5 percent in state income taxes, his $50,000 wage is reduced to roughly $27,500 after taxes. The lost $22,500 of income is the tax wedge, or approximately 45 percent. As 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 a 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 have a more detrimental effect than others.

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 tax wedge and 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. 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 based increasingly on tax considerations as opposed to market efficiency. For example, the incentive to avoid a 40 percent tax, which takes $40 of every $100 earned, is twice as high as the incentive to avoid a 20 percent tax, for which a worker forfeits $20 of every $100 earned.

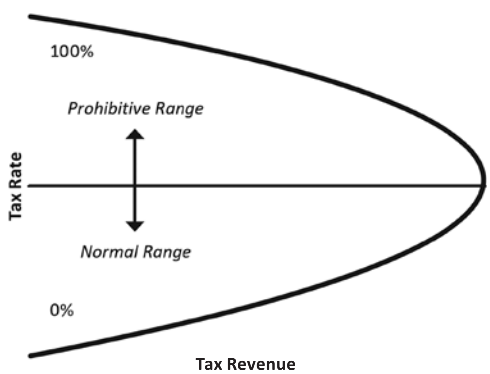
An obvious way to avoid paying a tax is to eliminate market transactions upon which the tax is applied. This can be accomplished through vertical integration: Manufacturers can establish wholesale outlets; retailers can purchase goods directly from manufacturers; companies can acquire suppliers or distributors. 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 example, should not tax the sale of rubber 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 the rubber and wheels are taxed multiple times. Additionally, the tax cost becomes embedded in the price of the product and remains hidden from the consumer.

5 *If tax rates become too high, they may lead to a reduction in tax receipts. The relationship between tax rates and tax receipts has been described by the Laffer Curve.*

The Laffer Curve (illustrated to the right) summarizes this phenomenon. We start this curve with the undeniable fact that there are two tax rates that generate no tax revenue: a zero tax rate and a 100 percent tax rate. (Remember Golden Rule #2: People don't work for the privilege of paying taxes, so if all their earnings are taken in taxes, they do not work, or at least they do not earn income the government knows about. And, thus, the government receives no revenues.)

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 expands. 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.

The Laffer Curve



Source: Laffer Associates

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 to the jurisdiction of the low tax state.

Economists have observed a clear Laffer Curve effect with respect to cigarette taxes. 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 show this.

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 for a given change in tax rates.***

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 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, when equipment needs servicing, the lower rate of return will discourage further investment, and the plant will eventually move where tax rates are lower.

A study by the American Enterprise Institute has found that high corporate income taxes at the national level are associated with lower growth in wages. 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 decreases the wage rate.

The distinction between initial impact and burden was perhaps best explained by one of our favorite 20th century economists, Nobel winner Friedrich A. Hayek, who makes the point as follows in his classic, *The Constitution of Liberty:*

> *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.*

7 ***Raising tax rates on one source of revenue may reduce the tax revenue from other sources, while reducing the tax rate on one activity may raise the taxes raised from other activities.***

For example, an increase in the tax rate on corporate profits 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, could offset the increase in corporate tax revenues. Conversely, a reduction in corporate tax rates may lead to a less than expected loss in revenues and an increase in tax receipts from other sources.

8 ***An economically efficient tax system has a sensible, broad base and a low rate.***

Ideally, the tax system of a state, city, or country will distort economic activity only minimally. High tax rates alter economic behavior. Ronald Reagan used to tell the story that he would stop making movies during his acting career once he was in the 90 percent tax bracket because the income he received was so low after taxes were taken away. If the tax base is broad, tax rates can be kept as low and nonconfiscatory as possible. This is one reason we favor a flat tax with minimal deductions and loopholes. It is also why more than 20 nations have now adopted a flat tax.

9 ***Income transfer (welfare) payments also create a de facto tax on work and, thus, have a high impact on the vitality of a state's economy.***

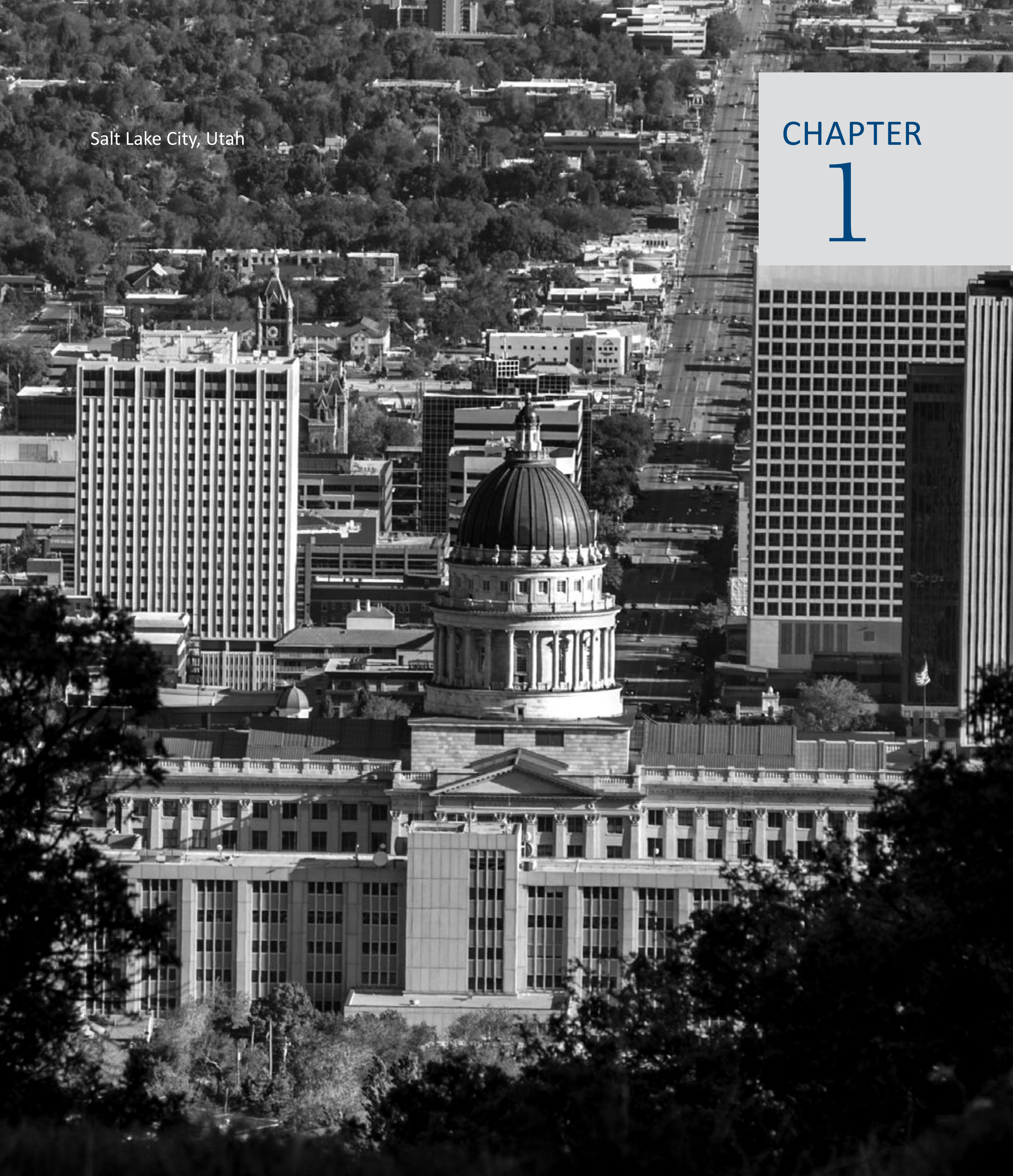
Unemployment benefits, welfare payments, and subsidies all represent a redistribution of income. For every transfer recipient, there is an equivalent tax payment or future tax liability. Thus, income effects cancel. In many instances, these payments are given to people only in the absence of work or output. Examples include food stamps (income tests), Social Security benefits (retirement tests), agricultural subsidies, and, of course, unemployment compensation itself. Thus, the wedge on work effort is growing at the same time that subsidies for not working 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 per hour job (and let us not 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 disincentives to work 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.

In sum, high welfare benefits magnify the tax wedge between effort and reward. As such, output is 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.

Finally, and most important of all for state legislators to remember:

10 ***If A and B are two locations, and if taxes are raised in B and lowered in A, producers and manufacturers will have a greater incentive to move from B to A.***



Salt Lake City, Utah

CHAPTER
1

Paving the Path to Prosperity

Paving the Path to Prosperity

As we write this book, Greece and the entire continent of Europe are engulfed in a devastating financial crisis. Meanwhile, the federal government here in the United States has accumulated a national debt of $15.5 trillion and counting. Additionally, job killing rules and regulations continue to flow from Washington, D.C., to the states with accelerating frequency. The uncertainty revolving around our federal tax code, the Supreme Court's forthcoming ObamaCare decision, and restrictions on energy independence all add to myriad challenges facing state policymakers.

To be sure, states face tremendously long odds to regain their economic footing in the wake of the Great Recession; however, states are beginning to fight back. Relying on Article V of the U.S. Constitution, many states are reasserting their right to rein in a fiscally reckless Congress by proposing the Balanced Budget Amendment.[1] Further, some state legislators are advancing the Freedom of Choice in Health Care Act, which allows patients to pay directly for their health care services and prohibits penalties against patients who choose not to purchase health insurance.[2] Finally, states are fighting back against the federal government's job killing environmental regulations.[3]

The election of many fiscally conservative officials in 2010 has produced real change in the way state governments approach the fundamental issues of taxes and spending. Necessary, if not long overdue, changes are being made across the states, in our 50 "laboratories of democracy." As we will discuss in this chapter, and throughout this publication, numerous states seek to become more competitive in these uncertain economic times.

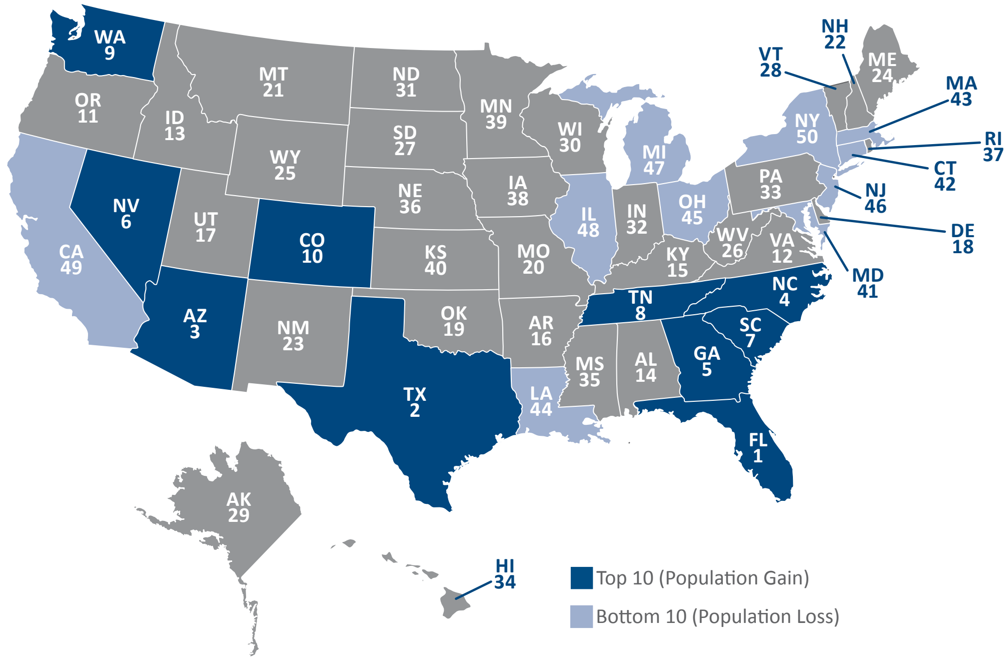
Lessons from the Laboratories

If we had to summarize the findings of this publication and our comparative analysis of state policy in one sentence, it would be this: Be more like Texas and less like California. Of course, California has become the primary example of how not to govern a state. "California Dreamin'" began long before the Mamas and the Papas sang about it in 1965. Even though the dream of success has never wavered, the ability of Californians to fulfill their dreams has. Despite the state's many natural advantages, California is not living up to its reputation as the country's economic leader. All sorts of other treasures are unique to California like the Rose Bowl, the Beach Boys, giant redwoods, and the Reagan Library. California in many ways is special, but it is a shadow of its former self. California has a top marginal personal income tax rate of 10.3 percent, a top marginal corporate income tax rate of 8.84 percent, and the most progressive tax structure in the country. The state that used to be the fifth largest economy in the world has dropped to ninth. California suffered a net loss in domestic migration of 1.5 million people from 2001 to 2010, as well as 2.5 percent non-farm employment loss. Unfortunately for the Golden State, economic decline is unlikely to stop anytime soon.

If California wants to get back on the path to prosperity, then it needs to look to Texas. The Lone Star State has no personal income tax, a favorable business climate, and it's benefiting from this set of policies. Texas had the biggest population growth in

FIGURE 1 | **Net Domestic Migration Rank**

10 Years Cumulative 2001-2010



Source: U.S. Census Bureau

the nation over the past decade, resulting in an additional four congressional seats following the 2010 census. Businesses in California, Illinois, and other high tax states are looking to Texas as a place to call home, and many businesses have already made the move. For example, Waste Connections decided to make the switch from California to Texas, despite the $18 million cost to do so.[4] Though Waste Connections made profits in 2010 and 2011, the company decided to make a long-term investment by moving to a state with a friendlier business climate. Such decisions are adding up to big losses for California, which has lost 2,500 employers and 109,000 jobs because of relocation over the past four years. These businesses are going to Texas, Nevada, and Arizona, among other states. Figure 1 is a stunning picture that encapsulates the consequences of the policy implosion in California. It also shows us that the states with the largest inflows bordered California, which had one of the largest outflows of all 50 states.

One of the key elements of this publication is our economic outlook rankings of the 50 states (found in chapter 4), based on 15 equally weighted factors that drive competitiveness. Over our five editions of this publication, we have seen states rise and fall based on changes in policy—and sometimes dramatically so. One of the great, understated facts of state policy is that states do not enact policy changes in a vacuum. When a state changes policy, for better or for worse, it immediately affects its competitiveness.

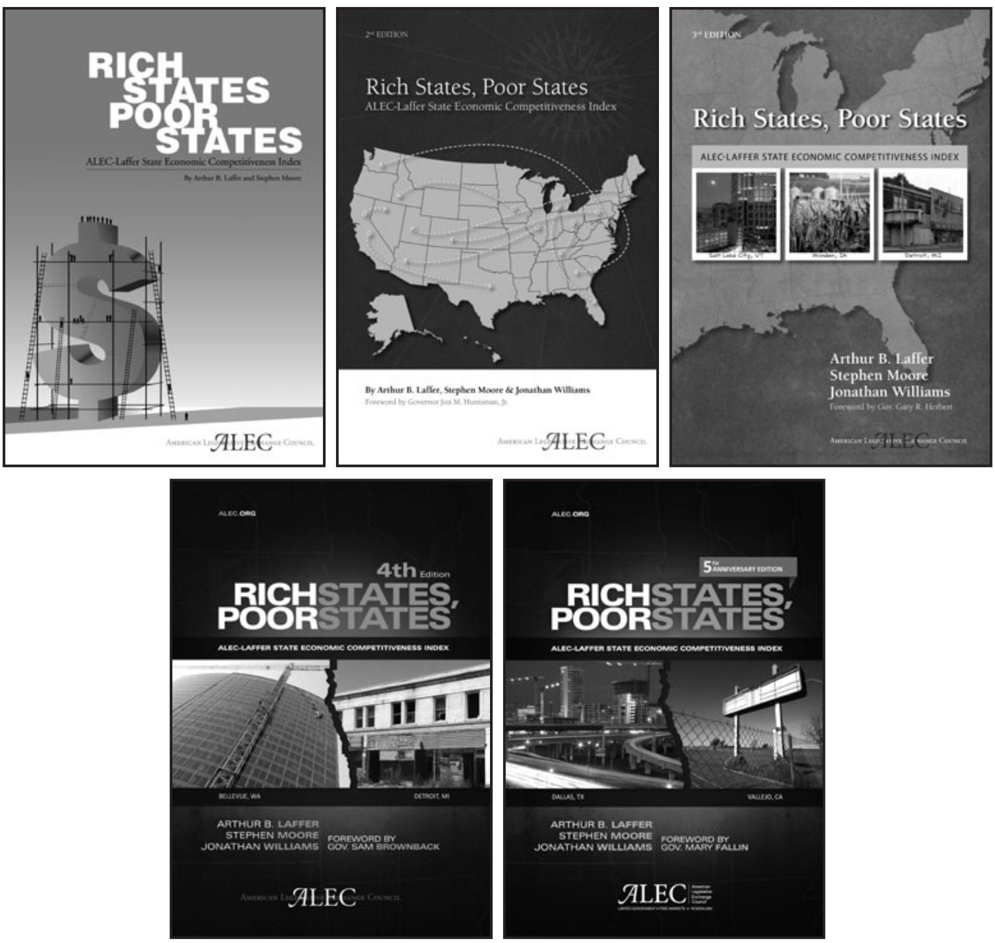
Briefly, let us look to this year's "richest" state and this year's "poorest" state. Congratulations to the great state of Utah for earning the top economic outlook ranking in America. Even more impressive is the fact that the Beehive State has earned that distinction for every one of our five editions. We applaud Gov. Gary Herbert and the Utah Legislature for remaining committed to competitive fiscal policies and job creation. On the other hand, New York ranks dead last for the fourth year in a row by engaging in the same old cronyism and job killing policies that have pushed countless job creators to look for greener pastures. As lawmakers across the country continue the debate on fiscal policy, we encourage them to learn from New York's many mistakes and look to Utah as a model of success.

To commemorate this fifth edition of *Rich States, Poor States*, we wanted to take a look back to see how the states have fared since the initial edition.

We wanted to highlight a few states that stood out from the rest, particularly those proving to be movers and shakers. That is to say, they have shown the most movement in our ALEC-Laffer State Competitiveness Index over the last five years. Since our first edition, the biggest movers and shakers have been Indiana, which dropped 12 spots, and Missouri, which gained 18 spots. However, Indiana did not get the benefit of its corporate income tax reduction or right-to-work legislation as of this publication. Therefore we expect to see it recover from its steep drop in next year's rankings.

Ohio and North Dakota saw significant

FIGURE 2 | *Rich States, Poor States* from the Beginning
2008-2012



Source: *Rich States, Poor States* editions one through five gains with 13 and 10 spots gained, respectively. Maryland, Alaska, and West Virginia are in fourth place, at eight spots gained. Maryland represents a unique case, given its proximity to our nation's capital. The Old Line State is home to federal workers and several federal agencies that support the federal government. Because the federal government is largely insulated from the boom and bust cycle of the economy, Maryland's economy is also insulated from many of the effects of an economic downturn. Though Virginia also borders Washington, D.C., and is also insulated somewhat from the boom and bust cycle, it ranks significantly above Maryland because of its pro-growth policies.

Tax Policy Matters to State Economic Growth

When filing federal tax returns with the U.S. Internal Revenue Service (IRS), taxpayers report a great deal of information, including their adjusted gross income, number of dependents, various deductions, and categories of income. The filer also reports his or her state and county of residence. With all of this data, the IRS is able to track people's state and county location over time, which gives us incredible insight into where people are moving and what role state policy may play in their decisions. This data is an unbiased adjudicator of state actions and tells the story of how people vote with their feet. Coauthor Dr. Laffer voted with his feet and fled from California, not because he didn't enjoy the beautiful beaches or sunny allure of the Golden State, but because of its burdensome taxation, over-regulation, and excessive state and local spending. He relocated to business friendly Tennessee, a right-to-work state and one of nine states without a personal income tax. When tax filers, especially high income earners, leave a state, they not only deprive the state of revenue, but also they buy goods and services and invest their income into another state's economy. The trend of people voting with their feet is clearly shown in Figure 1 on page 3.

As we mentioned in last year's edition, this trend of people voting with their feet and moving from high tax states to low tax states is not new or surprising. As the 2010 Census map on the next page shows, high tax and heavily unionized states such as New York, New Jersey, Illinois, Ohio, Pennsylvania, and Michigan lost congressional seats whereas low tax, right-to-work states such as Texas, Florida, Arizona, Utah, Nevada, Georgia, and South Carolina gained seats.[5]

A recent study from the Left-wing Center on Budget and Policy Priorities (CBPP) concludes, almost laughably, that taxes do not motivate people to leave high tax states.[6] The study's authors argue that weather may have more of an effect on migration patterns than tax rates.

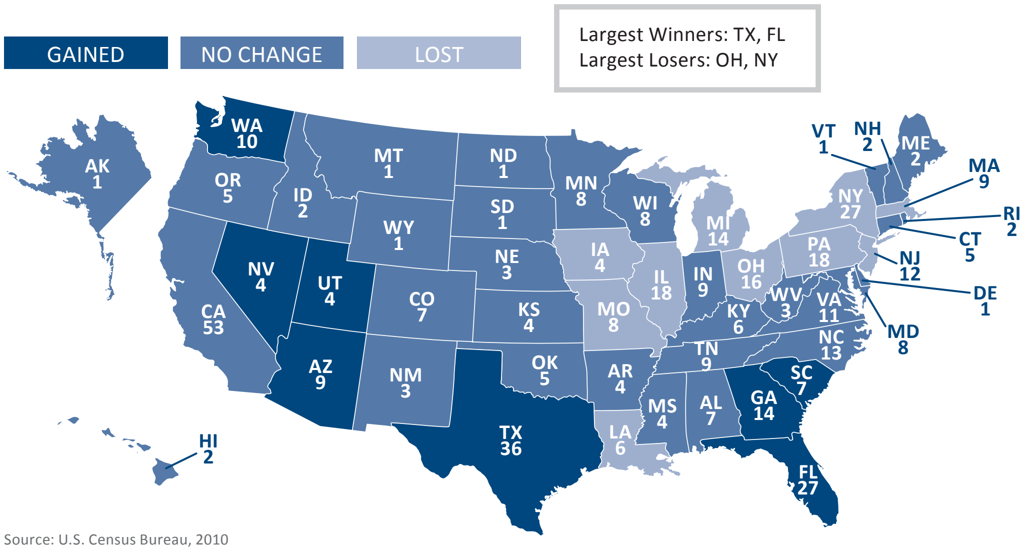
If that were true, wouldn't people be moving to California and Hawaii in droves? Census data shows that this simply isn't happening. Over the last 20 years, 3.6 million more Americans have moved out of California than have moved in, and 130,000 more Americans have moved from Hawaii than to it. Moreover, in 2010, the beautiful state of California did not gain a congressional seat for the first time since 1850. In striking contrast, Texas gained four congressional seats. Additionally, as the Census data shows, Florida gained 2.3 million net residents since 1980.

So how is it that two of the most physically attractive states in the nation could possibly be losing taxpayers while Florida and Texas are steadily gaining them?

The argument that weather matters more than taxes falls flat on its face when you look to Alaska, which has one of the most undesirable climates in the country. The Last Frontier suffered only half the population loss of Hawaii, one of the world's most desirable places to live. If weather matters more than taxes, then why is Alaska performing so well compared to California and Hawaii? We suggest that policy differences are part of the answer. Hawaii now has the highest state income tax in the nation at 11 percent, while Alaska is one of the nine states without personal income taxes on wages.

Census data consistently shows that people choose where to live, engage in commerce, and invest based on economic competitiveness. High tax rates drive many

FIGURE 3 | **Apportionment of the U.S. House of Representatives Based on the 2010 Census**



Source: U.S. Census Bureau, 2010

people and businesses to move to lower tax states, and those people take their tax revenues with them. State tax policies play a significant role in determining which states prosper and which states fall behind in terms of economic performance.

Over the last decade, on net, more than 4.2 million individuals have moved out of the 10 states with the highest state and local tax burdens (measured as a percentage of personal income). Conversely, more than 2.8 million Americans migrated to the 10 states with the lowest tax burdens. Put differently, every day on average—weekends and holidays included—1,265 individuals left the high tax states, nearly one a minute.[7]

The authors of the CBPP study claim there is no proof wealthy people relocate in response to higher tax bills. However, logic, numerous academic studies, and abundant anecdotal evidence say otherwise. For instance, when Maryland enacted a special income tax on millionaires in 2008, it saw a 33 percent decline in tax returns from millionaire households. The authors of the CBPP study attempt to dismiss this exodus as a simple result of the recession, but that argument doesn't hold water. According to a Bank of America Merrill Lynch study of federal tax return data on people who migrated from one state to another, Maryland lost $1 billion of its net tax base in 2008 because of out-migration.[8]

The folks at CBPP and other left-wing tax groups generally attempt to argue that high taxes, especially on the ever-changing category of people known as "the rich," are necessary to promote fairness and collect revenue. However, these dedicated class warriors often forget a very basic fact: Many high income earners are actually small businesses that pay taxes through the individual side of the tax code, so millionaire taxes are often paid by small business owners and operators, making these misguided policies job killers, plain and simple. Taxes never redistribute wealth, but they do redistribute people.

State elected officials obviously have little control over their states' 10-day forecasts, but they do control their states' tax climates. We know tax policy is not the only reason people are motivated to live, invest, or grow a business in a state, but it plays a significant role. State lawmakers should keep this in mind as they shape public policy.

There is a strong correlation between high tax burdens and state outward migration and between low tax burdens and state inward migration. We are pleased to see that some states are beginning to recognize the correlation and are making fundamental reforms.

Fundamental Pension Reform Hits the States

Budget shortfalls plagued almost every state throughout the recession. During the good times, states increased spending and made promises to state employees that are no longer sustainable. Now, states must make the tough choice to reform programs and benefits. Some states, like Wisconsin, have served as models for other states struggling to make the necessary changes to get back on track. Other states, like Illinois, ignore the good examples and continue to enact the same bad policies that got them to where they are in the first place. The good news, however, is that more and more states are recognizing the fiscal reality that their spending and pension habits cannot continue. To see the unfunded pension liability in your state, see Table 1 on page 9.

Wisconsin Braves Pension Reform; Illinois Shuns It

Wisconsin and Illinois, which share a border, have taken contradictory approaches to reforming state spending programs and increasing economic competitiveness. Their divergent paths allow the rest of us to see which approach is more successful.

In 2011, Wisconsin faced a $3.6 billion budget deficit due to overspending, accounting gimmicks, and increases in unfunded pension liabilities. And, after residents and business owners faced years of unfair tax increases, Gov. Scott Walker was in a particularly tough position to either raise taxes again on hardworking taxpayers or find places in government to trim.

Making the decision to put Wisconsin on a path of fiscal sustainability, Gov. Walker reined in government worker benefits by proposing a bold, and indeed controversial, plan to pull the state out of debt: Act 10.

The legislation asked state workers to contribute 12.6 percent to their health insurance premiums and 5.8 percent to preserve their pensions. The state would then match the employee another 5.8 percent. The new law ensured that collective bargaining rights were only extended to matters of salary negotiation. Additionally, salary increases were to be based only on the rate of inflation. What is more, this legislation gave local school boards the power to make executive decisions, to make up for the lessened state funding.[9]

As contentious as Act 10 has been, the results are in and Wisconsin is already reaping the benefits of these legislative changes. As of September 1, 2011, the state had already saved $162 million. Additionally, local school districts have used their new freedom to make decisions locally, saving local taxpayers $300 million. Here are some success stories resulting from Act 10:

- Kaukauna School District turned its $400,000 deficit into a $1.5 million surplus by undergoing contract extensions that require employee contribution to health care and pension costs.[10]
- Appleton School District saved $3.1 million in health care costs alone just by negotiating with the district's health insurance provider for a lower rate.[11]
- Wood County, for the first time in 10 years, will realize a budget surplus.[12]
- Milwaukee taxpayers have saved $25 million just from the increased employee health and pension contributions imposed by the state.[13]

These results are truly remarkable, and we commend Gov. Walker for standing up for Wisconsin taxpayers and putting government on the track of fiscal sustainability.

In stark contrast to Wisconsin's successes, the story in Illinois is not so uplifting. Over the last 10 years, Illinois legislators have continuously ignored the pension burden in their state—so much so that Illinois has one of the worst pension systems in the nation, with an estimated unfunded liability ranging from $54 billion to $192 billion, depending on your actuarial assumptions (see Table 1 on page 9). Furthermore, the official state estimates do not include the $17.8 billion in pension obligation bond payments that are owed.[14] In addition, Illinois policymakers have spent beyond their means, borrowed money they don't have, and made promises to public employee unions that they cannot fulfill. Not only did Illinois face significant unfunded pension liabilities, but also lawmakers had to confront large deficits and potential cuts to state programs.

Kicking the can down the road yet again, Gov. Pat Quinn attempted to solve the problem with a 67 percent increase on personal income taxes and a 46 percent increase on corporate income taxes, putting the burden on taxpayers, rather than the government, to solve the crisis.[15] These tax increases were meant to be coupled with deep budget cuts to get the state back on track once and for all, but unfortunately we have seen this story one too many times—and it doesn't end optimistically.

Because Illinois had promised state pensions to public employees, most of the revenue brought in from the increased taxes went straight to the pension liabilities. And, while legislators slashed some budget items, the growth in spending on other programs canceled out any savings. Further, more than $1 billion in spending was pushed to the next fiscal year in an attempt to hide some of the budget crisis from taxpayers.[17] Unsurprisingly, increased taxes did not prevent Illinois from practicing the same budget gimmicks it has used all along.

Still facing an $8.5 billion deficit, Illinois has suffered a credit downgrade and owes months' worth of backlogged bills. Despite this fact, Gov. Quinn "reportedly wants to pay off more than $6 billion in unpaid bills by borrowing money. And he hopes the General Assembly will approve the plan."[18]

Since the tax increases, Illinois has seen higher unemployment rates, additional residents joining state unemployment programs, and businesses fleeing the state. FatWallet, based in Rockton, moved a short 3.5 miles north to Beloit, Wisconsin "to escape a huge increase in Illinois' business taxes."[19] Another business, Catalyst Exhibits, also moved its booming business across state lines to Wisconsin. "We are really a place that is open for business," said Gov. Walker, who needled his southern neighbor. "Contrast that to Illinois, where they're not only raising taxes, but where they've got a pension system that's less than half-funded. We've got a fully funded pension system. We've got long-term stability."[20] This short case study shows that Wisconsin is on the road to prosperity and Illinois is on the tipping point of delinquency. Lawmakers who are looking to fundamentally improve their state economies should look to the dramatic success in Wisconsin and run as far as they can away from the Illinois model.

Blue State Rhode Island Passes Bipartisan Pension Reform

Perhaps the biggest pension reform success last year came from Rhode Island. This tiny liberal state had a big problem: An estimated unfunded liability ranging from $6.8 billion to more than $15 billion (depending on your actuarial assumptions). Assuming an unfunded pension liability of roughly $15 billion, which is from the estimate that uses generally accepted accounting principles (GAAP) from the private sector, every man, woman and child in Rhode Island owed $14,256. Realizing that the system was unsustainable, Gov. Lincoln Chafee and State Treasurer Gina Raimondo proposed and successfully pushed for the Rhode Island Retirement Security Act of 2011 (RIRSA), which the legislature passed on a bipartisan basis.[21]

While initially many Rhode Islanders didn't take the need for reform seriously, they began to see reality when one city in the state, Central Falls, declared bankruptcy and cut public pension plans by nearly 50 percent.[22] Passing RIRSA wasn't easy and took a lot of input and analysis from employees, retirees, residents, and other groups throughout the state. The plan provides that:

- Reforms apply to existing employees as well as new workers.
- Both employees and taxpayers will share the burden of investment risks.
- Workers are subject to cost-of-living adjustments that take into consideration the pension fund's over or under performance.
- Cost-of-living adjustments are frozen

Table 1 | State Unfunded Pension Liabilities

State	PEW Study	AEI Study	Novy-Marx and Rauh Study
AL	$9,228,918,000	$43,544,880,000	$40,400,000,000
AK	$3,522,661,000	$14,192,229,000	$9,300,000,000
AZ	$7,871,120,000	$45,004,090,000	$48,700,000,000
AR	$2,752,546,000	$20,026,314,000	$15,800,000,000
CA	$59,492,498,000	$398,490,573,000	$370,100,000,000
CO	$16,813,048,000	$71,387,842,000	$57,400,000,000
CT	$15,858,500,000	$48,515,241,000	$4,900,000,000
DE	$129,359,000	$5,688,663,000	$5,100,000,000
FL	($1,798,789,000)*	$98,505,110,000	$8,980,000,000
GA	$6,384,903,000	$58,742,784,000	$57,000,000,000
HI	$5,168,108,000	$18,533,398,000	$16,100,000,000
ID	$772,200,000	$10,022,613,000	$7,900,000,000
IL	$54,383,939,000	$192,458,660,000	$167,300,000,000
IN	$9,825,830,000	$33,756,655,000	$30,200,000,000
IA	$2,694,794,000	$21,266,226,000	$17,000,000,000
KS	$8,279,168,000	$21,827,991,000	$20,100,000,000
KY	$12,328,429,000	$47,016,382,000	$42,300,000,000
LA	$11,658,734,000	$43,797,899,000	$36,400,000,000
ME	$2,782,173,000	$13,227,289,000	$11,800,000,000
MD	$10,926,099,000	$48,199,258,000	$43,500,000,000
MA	$21,759,452,000	$60,476,274,000	$54,200,000,000
MI	$11,514,600,000	$72,187,197,000	$63,600,000,000
MN	$10,771,507,000	$59,354,330,000	$55,100,000,000
MS	$7,971,277,000	$32,225,716,000	$28,700,000,000
MO	$9,025,293,000	$56,760,147,000	$42,100,000,000
MT	$1,549,503,000	$8,633,301,000	$7,100,000,000
NE	$754,748,000	$7,438,589,000	$6,100,000,000
NV	$7,281,752,000	$33,529,346,000	$17,500,000,000
NH	$2,522,175,000	$10,233,796,000	$8,200,000,000
NJ	$34,434,055,000	$144,869,687,000	$124,000,000,000
NM	$4,519,887,000	$27,875,180,000	$23,900,000,000
NY	($10,428,000,000)	$182,350,104,000	$132,900,000,000
NC	$504,760,000	$48,898,412,000	$37,800,000,000
ND	$546,500,000	$4,099,053,000	$3,600,000,000
OH	$19,502,065,000	$187,793,480,000	$166,700,000,000
OK	$13,172,407,000	$33,647,372,000	$30,100,000,000
OR	$10,739,000,000	$42,203,565,000	$37,800,000,000
PA	$13,724,480,000	$114,144,897,000	$100,200,000,000
RI	$4,353,892,000	$15,005,840,000	$13,900,000,000
SC	$12,052,684,000	$36,268,910,000	$43,200,000,000
SD	$182,870,000	$5,982,103,000	$4,700,000,000
TN	$1,602,802,000	$30,546,099,000	$23,200,000,000
TX	$13,781,228,000	$180,720,642,000	$142,300,000,000
UT	$3,611,399,000	$18,626,024,000	$16,500,000,000
VT	$461,551,000	$3,602,752,000	$3,300,000,000
VA	$10,723,000,000	$53,783,973,000	$48,300,000,000
WA	($179,100,000)	$51,807,902,000	$42,900,000,000
WV	$4,968,709,000	$14,378,914,000	$11,100,000,000
WI	$252,600,000	$62,691,675,000	$56,200,000,000
WY	$1,444,353,000	$6,628,204,000	$5,400,000,000
Total U.S.	**$452,195,687,000**	**$2,860,967,583,000**	**$2,485,800,000,000**

*Parentheses indicate surplus in state pension funds. Please see endnote 16.
Source: State Budget Solutions

for current retirees in the defined-benefit plan.[23]

Not only does RIRSA save Rhode Island taxpayers billions of dollars, it also provides public workers with the security that their money will be there when they retire. Rhode Island has proved that the choice is not between Republican or Democrat, Left or Right. Though RIRSA was monumental, Rhode Island still has some work to do.

The initial draft of RIRSA set out not only to reform state pension plans, but municipal ones as well. As it went through the legislature, the municipal aspect of pension reform was removed. This is unfortunate, as other cities in Rhode Island are seriously underfunded and on the verge of delinquency. We anticipate seeing more good reforms from the Ocean State this year and hope they can tackle their pension burden once and for all. Reflecting on the success of pension reform in the Ocean State, Gov. Chafee remarked, "With the passage of the Rhode Island Retirement Security Act, Rhode Island has demonstrated to the rest of the country that we are committed to getting our fiscal house in order. While this is an important step toward comprehensive pension reform, it is not complete. Our job is not done."[24]

Cheerful News from the States

Every year, we like to highlight some of the state policy success stories from around the country. Now more than ever it seems many states are starting to understand what it takes to achieve prosperity.

Oklahoma, Kansas, and Missouri Take Steps to Phase out Personal Income Taxes

In the next chapter, we compare the economies of the nine states without a personal income tax with the nine states with the highest marginal personal income tax rates. Without getting too deep into the data for now, we can tell you that the record of the no income tax states is far better. Some of the leaders of three states in America's heartland understand this fact and are working to repeal their state's personal income tax.

The Oklahoma Council on Public Affairs (OCPA), with Arduin, Laffer & Moore Econometrics, recently released a policy paper that shows the negative effects income taxes have on growth. It also provides a plan to eliminate the personal income tax over time—without raising taxes. By eliminating tax credits, deductions, and exemptions, Oklahoma can start by bringing its income tax down to 3 percent from 5.25 percent, and completely phase it out by 2022. The plan has received significant attention in Oklahoma, and both the Senate and House have passed bills to phase out the income tax.[25] Rep. Leslie Osborn, one of the key sponsors of the bill, said, "Our goal is to transform Oklahoma into the best place to do business, the best place to live, find a quality job, raise a family, and retire in all of the United States. Not just better than average, but the very best."

Meanwhile, Kansas Gov. Sam Brownback has a similar plan to phase out the income tax over the next decade. The first step would be a rate reduction to 4.9 percent from today's 6.45 percent. In order to cover the costs of this plan, Gov. Brownback proposed broadening the tax base. And next door in Missouri, a voter initiative will likely be on the on the ballot this November. It would eliminate the state's personal income tax entirely and replace it with an enhanced consumption tax. Recent studies by the Show-Me Institute, a free-market think tank in Saint Louis, show that eliminating the income tax would significantly benefit Missourians. In a 2009 case study, researchers found that replacing personal and corporate income taxes with a broad, revenue neutral 5.11 percent sales tax would cause the state economy to grow faster.[26]

New Governor Eliminates the Michigan Business Tax

In his first year in office, Michigan Gov. Rick Snyder made drastic changes to improve his state's economic competitiveness. He balanced the budget ahead of schedule without increasing taxes and overhauled the state tax code by eliminating the unfair and job stifling Michigan Business Tax (MBT).[27] The MBT was a combination of a corporate income tax and a gross receipts tax. Corporate profit was taxed at 4.95 percent, all transactions were taxed at 0.8 percent, and there was a 21.99 percent surcharge on the total tax liability.[28] This tax system hurt Michigan businesses because it increased the costs of business-to-business transactions. It even made businesses that failed to make a profit liable for a tax bill. The MBT disproportionately affected companies that sold high volumes of goods but at low profit margins, such as grocery and department stores.

By eliminating the MBT and replacing it with a flat corporate income tax of six percent, Gov. Snyder was able to dramatically improve Michigan's business tax climate. The MBT elimination represented a tax cut of $1.67 billon to job creators.[29] By removing the MBT, Michigan proved it is open for business. Though the state has a long way to go, we commend these efforts and urge other state leaders to follow in Gov. Snyder's footsteps by balancing their budgets without tax increases, and closing loopholes, leveling the playing field, and eliminating unfair tax burdens for job creators.

Ohio Closes Largest Shortfall in State History without a Tax Increase

Facing the largest budget shortfall in Ohio state history, newly elected Gov. John Kasich tackled the problem. He reduced the Buckeye State's $8 billion budget gap to zero, without raising taxes, when he signed HB 153 on July 1, 2011.[30] "We can't tax our way to prosperity, but we can't cut our way either," said Gov. Kasich.[31] He made tough decisions about what needed to be cut and put creating jobs at the top of his priority list in 2011. HB 153 expanded charter school and voucher programs, streamlined government by abolishing and reforming various state boards, and reduced some aid to local governments. Most remarkably, it eliminated the death tax, effective in 2013.[32] "We promised Ohioans a new way and a new day, and we're delivering," Gov. Kasich said.[33] We will talk more about death taxes in chapter 3.

North Dakotans Experience Real Tax Relief

North Dakotans started the New Year experiencing the benefits of tax relief. Pro-growth legislation enacted last year resulted in a 17.9 percent reduction in each of the brackets in North Dakota's personal income tax. The corporate income tax went down 19.5 percent in each bracket. Peace Garden State residents also now enjoy $342 million in residential and business property tax relief. Experts estimate that the owner of a home worth $150,000 will save about $500 in taxes each year.[34] "With our state economy strong and growing stronger, it's important that the people of North Dakota see a substantial share of our economic gains reflected in their tax bills," Gov. Jack Dalrymple said.[35]

Nebraska Governor Introduces Fundamental Reform

Gov. Dave Heineman experienced a wake-up call after *Forbes* featured Nebraska in its article "Places Not to Die in 2012."[36] The governor designed a tax reform package to create a more competitive business climate in the Cornhusker State. Under this plan, Nebraska's onerous inheritance tax would be fully repealed (more on this in chapter 3). Not wanting his state to fall behind Kansas and Oklahoma, he also proposes reducing both individual and corporate income taxes. We look forward to seeing the results as Nebraska creates a more competitive business climate.

States Consider Making No Income Tax Status Permanent

New Hampshire and Tennessee are both considering constitutional amendments to ban the personal income tax for good. We have consistently argued that states with no income taxes, both personal and corporate, enjoy higher employment and greater economic growth than states with high income taxes.[37] We are encouraged to see New Hampshire and Tennessee taking steps to ensure that today's children will be able to enjoy a healthy economic climate.

Iowa Legislature Considers Property Tax Cut

In February 2012, the Iowa House passed House File 2274, property tax relief legislation. If this bill passes the Senate, the legislation will provide $417 million in property tax cuts for Iowa homeowners and $602 million for businesses.[38] The plan also promotes predictability for families and employers. This pro-growth policy signals to businesses that Iowa's property tax system is competitive and assures them that they can expand, locate, and hire without worrying about future tax increases.

From Corzine to Christie: A Breath of Fresh Air
Class warfare doesn't have a place in New Jersey under Gov. Chris Christie, a breath of fresh air from the job killing policies of Gov. Jon Corzine. The current administration wants to live within its means and solve budget problems without going back to taxpayers for more. In fact, this session Gov. Christie has proposed a 10 percent personal income tax cut for all taxpayers. New Jersey's recent pension and health care reforms will save about $120 billion over the next 30 years, allowing the state to make the tax reforms necessary for private sector success.[39] Since Gov. Christie took office, New Jersey added 60,000 private sector jobs, while shrinking the size of the government by eliminating 21,000 public sector jobs.[46] Gov. Christie is touting these results across the river in New York, where Gov. Andrew Cuomo just announced a tax increase on the wealthiest taxpayers.

New Governor Trims Taxes in New Mexico
Gov. Susana Martinez understands that in order to tackle budget shortfalls and unemployment, New Mexico must implement pro-business policies. Though the 2012 session was short, Gov. Martinez and the New Mexico legislature had a great success in eliminating the gross receipts tax for businesses earning less than $50,000 a year. During her State of the State address, Gov. Martinez also acknowledged that New Mexico needs to stop the double, and sometimes triple, taxation of business-to-business transactions.[40] On the spending side, Gov. Martinez has said that she will call a special session to address pension reform if the legislature does not do anything about the liability during regular session in 2013.[41]

Components of the ALEC-Laffer State Economic Competitiveness Index
Throughout this book we are going to analyze specific state policies in ways that provide comparisons of what the state in question is doing relative to the policies of the other states. To isolate the impact of a policy change in one state we are going to standardize for what the other states are doing. While a state's policies are important, we need to acknowledge and adjust for factors outside the control of the state. First, each state is part of the whole country and what the country does will affect the state. In general, we would expect this country effect to dominate a state's performance simply because federal policies are broader and more pervasive than state and local policies.

The U.S. corporate income tax rate, for instance, is inescapable at the state level. But if a state levies its own corporate income tax, then it is even less competitive in the international marketplace. For a business to operate in Philadelphia, Pennsylvania, for example, it must pay the federal income tax rate of 35 percent, the Pennsylvania rate of 9.99 percent, and the Philadelphia rate of 6.45 percent—even after deductibility, this is a huge share of the company's income.

Second, each state will be affected by its neighboring states and its competitor states. Where a business chooses to locate depends not only on one state's policies but also upon *each* state's policies. Choice means "A versus B," not just whether A is good or not.

And, when state A employs sound policies and state B does not, the consequences are rarely good for state B. For an example let us again turn to California. For years now, Sacramento has operated as a laboratory of tax-and-spend liberalism. The predictable consequence was not only a mass exodus of Americans leaving California, but also the mass inflows of former Californians in neighboring states.

The focus of this book is on the political economy and especially economic policies as they affect the competitiveness of states. Understanding economics is the key to achieving prosperity, whether we are viewing the entire world, a country, a state, a city, or a family. Therefore, we are going to focus on supply-side economics for the variables we use to evaluate the economies of states across the nation.

Proving Free-Market Policies are the Key to Success

Now that our great state experiment has been underway for more than 200 years, policymakers can look back and see which policies promote prosperity. One of the lessons that we've learned is that states with low tax burdens tend to have stronger economies. Left-wing tax groups attempt to refute this concept, arguing that high taxes are necessary to promote fairness and collect revenue. Most recently, the Institute on Taxation and Economic Policy (ITEP) came out with a study that suggests high tax states outperform low tax states.

So who is right? Answering that question takes us into the realm of research design. Oftentimes it is difficult to demonstrate causation in economics. How do we know if action A (cutting tax rates) causes B (economic growth)? In order to absolutely demonstrate causation, researchers must use a controlled experiment.[42] Unfortunately, we don't have the ability to run controlled (or "double-blind") experiments in a complex economy. It is relatively easy to prove correlation: When we do A, we tend to see B. But as any novice research scientist will tell you, correlation is not the same thing as causation. You may see that B follows A. That fact, though, does not mean that A *causes* B.

So to prove causation, we need to do three things. First, we must show a strong *correlation* between the suspected cause, A, and the effect, B. Next, we must *isolate* the A from everything else that might cause B. Lastly, we *introduce* A into a system or environment that doesn't already have it. Correlation, isolation, and introduction are needed to show causation.

To return to the policy arena, do high tax states fare better than low tax states? The data over the last decade says no. As we explain in the next chapter, low tax states consistently outperform high tax states. Over the last decade, the nine states without an income tax have outperformed the nine states with the highest income tax, by every measure. Low tax states beat the national average, and high tax states fail to live up to it.

The authors of the ITEP study argue that income tax laws do not determine population growth. This statement couldn't be further from the truth. According to Census data from the last decade, the average population growth of no tax states is 13.65 percent, compared to 5.49 percent for the highest tax states' average. As a group, every single year, the nine no tax states gained more residents than they lost. Meanwhile, residents left the high tax states in droves.

In its latest study, ITEP reaches a pro-tax conclusion by deliberately manipulating the data. It focuses on per-capita income instead of absolute income, which hides the economic losses of high tax states. IRS data shows that people who leave high tax states for better opportunities have incomes below the state median. When they move, the median income of their former home states goes up while the median of their new home states goes down. Their former home states have lost economic activity, due to high tax rates that hinder economic opportunity. The person who focuses on per-capita income while ignoring other measurements such as gross state product may (incorrectly) conclude that high tax rates increase income. (After all, per-capita income went up!)

State policymakers should be wary of studies that skew the data to justify overspending, since the data consistently shows that tax burdens affect where people choose to live, work, and invest. High taxes motivate people and businesses to move to lower tax states—and take their tax revenues with them. State policymakers should take note: Tax policies play a big role in determining which states prosper and which states fall behind in terms of economic performance. History tells us that the best way for a state to encourage people to live and work there is by keeping state income tax burdens low.

Throughout the rest of this publication, we are going to examine the relationship between variables that reflect policy choices, such as tax rates and right-to-work laws, and how those measure economic performance. We will look for correlations and then at how strong (robust) those correlations are. If we see patterns repeated across states and over time, we can be more confident that there is a logical connection at work. In other words, it's not only the strength of the correlation that matters, but how widespread it is, or what we call *universality*.

The more information we can assemble on the strength and the universality of, say, a correlation between A and B, the more confident we can be that, in fact, A actually does cause B. Again, correlation doesn't prove causation, but pervasive, universal, strong correlation does allow us to infer causation. If, on the other hand, the correlation is only sporadic at best and unreliably strong, the force of the argument is reduced, if not negated.

The timing of events is another factor to consider. While the timing of two events doesn't prove causation, A won't cause B if it happens after B. The longer the time elapsed between the two events, the more likely the relationship is causal.

In the economics literature of the 1960s and 1970s there was a notion that cause and effect are defined neither by correlation nor by timing. In fact, Yale University Professor James Tobin wrote a classic entitled "Money and Income: Post Hoc Ergo Propter Hoc," which means "after this therefore because of this." Tobin argued that inferring causation from timing is a logical fallacy.[43]

Neither a correlation between A and B nor the fact that A precedes B guarantees that A causes B. But they increase the likelihood that it is so. This fact can be shown through analyzing many examples in macroeconomic policy, such as: How big are the tax cuts or tax increases? How long has the tax cut or tax increase been in place? What types of tax cuts or tax increases were made?

Tax Rates Affect Incentives, Which Affect Economic Performance

At this point a quick digression is in order to show how tax rates affect growth. In the models we use, tax rates don't directly affect economic performance, *per se*; instead, tax rates affect taxpayer incentives, and it is the change in the taxpayer incentives that affects economic performance. People don't work or save for the privilege of paying taxes. Nor do firms invest or hire employees to pay taxes. People work and save to earn real after-tax income. It is that very personal and private incentive that motivates people to quit one job and take another, or to choose work over leisure in the first place.[44]

Firms don't locate their plant facilities as a matter of social conscience. They locate their plant facilities to make an after-tax rate of return for their shareholders. Sometimes firms and individuals will actually choose activities that are higher taxed over other activities that are taxed less because their after-tax returns are higher in the higher taxed activities. Firms and individuals typically choose to set up shop where the after-tax returns are higher. The distinction between tax rates and incentive rates will become important later on.

For instance, in the early 1960s President Kennedy cut the highest tax rate on the highest income earners from 91 percent to 70 percent, which is a 23 percent cut in that rate. He also cut the lowest income earners' highest tax rate from 20 percent to 14 percent, a 30 percent cut. Now look at this from the standpoint of the taxpayer.

In the highest income tax bracket prior to President Kennedy's tax cut the income earner was allowed to keep nine cents on the last dollar earned, and after President Kennedy's tax cut the earner was allowed to keep 30 cents. That is a 233 percent increase in the incentive for the income earner to work that corresponds to the 23 percent cut in that tax rate.

In the lowest income tax bracket prior to President Kennedy's tax cut, the income earner was allowed to keep 80 cents on the last dollar earned. After President Kennedy's tax cut, the earner was allowed to keep 86 cents. That is a 7.5 percent increase in the incentive for that income earner to work, which corresponds to the 30 percent cut in that tax rate. In our analysis we look at how *incentives* are affected rather than how tax *rates* are affected. In the case above, the smaller percentage tax rate cut produced the larger incentive increase.

In mathematics a counter example is sufficient to disprove a theorem; a counter example when it comes to probabilities and likelihood functions is to be expected. The same type of likelihood relationship exists between tax rates and economic growth.

Not every tax cut increases economic growth, because not all tax cuts are created equally. However, reducing tax rates should raise the likelihood of higher economic growth. Showing an example where higher tax rates are associated with higher growth doesn't discredit the theory that tax rate increases reduce the likelihood of higher growth. But consistent, repeated cases of an association between higher tax rates and higher growth would be sufficient to discredit the theory.

In addition to strength, universality, and intensity, we are also going to look at the specificity of the correlations. For example, income taxes should have different effects than estate taxes, capital gains taxes, payroll taxes, or sales taxes. Each of these taxes targets a different activity of an economy. We are going to look at data for specificity, intensity, universality, and strength of correlations. An additional characteristic we will look at is the durability of the tax and economic performance correlation, which is the power and uniformity of a correlation across different groups.

When it comes to taxation, individuals and businesses have a number of avenues they can choose to follow to reduce the impact of a tax. Of course, the simplest way to reduce the taxes one has to pay is to change the volume of the taxed activity. In the extreme, a person can reduce taxes to zero by going out of business or becoming unemployed. No income, no taxes.[45] But businesses and people also can reduce their tax burden by changing the timing of their income through IRAs (Individual Retirement Accounts), Keogh plans, or 401(k) plans. By smoothing income over time, the incidence of tax can often be lowered. Some people and some businesses can also change the form of their income from high taxed forms such as ordinary income to lower taxed forms such as capital gains or dividends. And finally, people and businesses can change the location of their income by moving from high tax locations to low tax locations, what we like to call voting with their feet.

Supply-Side Economics

Economics is all about incentives. People like doing things they find attractive and are repelled by things they find unattractive. Government policies change the relative attractiveness of activities. For example, taxes make activities less attractive, and subsidies make activities more attractive. When government raises taxes on work, output, and employment and increases subsidies to non-work, leisure, and unemployment, the economy will produce less work, less output, and less employment and will produce more non-work, leisure, and unemployment.

In their classic textbook *Economics,* Bill Nordhaus and Paul Samuelson produced a quote from an anonymous author as follows: "You cannot teach a parrot to be an economist simply by teaching it to say 'supply' and 'demand.'"[46] While Nordhaus and Samuelson are correct, they should have added that if a person fails to understand the basic laws of supply and demand, they will never be a good economist.

In any version of economics, taxes have always played an important role in determining economic growth, the levels of output, employment, and other measures of prosperity. In *incentive economics,* or what people may call *supply-side economics*, tax rates play as much of a separate role in the metrics of prosperity as do overall tax revenues. As a tax rate increases, the incentive to spend less time working and more time in leisure is greater. If a worker pays 15 percent of his income in payroll taxes, 25 percent in federal income taxes, and 5 percent in state income taxes, his $50,000 wage is reduced to roughly $27,500 after taxes. The lost $22,500 of income is the tax wedge, or approximately 45 percent of his gross pay. In other words, the tax rate drives a wedge between what the worker takes home and the salary paid by the employer.

Tax rates also drive a wedge between one set of goods and another set of goods, between one time period and another, or between one location and another. Tax rates are prices, pure and simple. Without properly functioning price signals, economics would probably be no better than Professor Samuelson's parrot. Understanding the logic of how tax rates and government spending affect the economy is probably the premier logical step in the development of the field of growth economics.

Although tax rates and other tax variables are extremely important tools of government, they aren't the only ones. Government spending is also important. In the most fundamental sense, government spending ***is*** taxation. The bottom line is governments don't create resources; they redistribute resources. Whenever the government bails someone out of trouble they put someone else in trouble. Every resource given to someone by the government represents a resource being taken away from someone else by the government.

Government spending is in fact taxation. Understanding this logic clearly requires a simplification of the framework, so that the essence of what is economics can easily be seen. It is difficult for anyone to follow cause and effect in the U.S. economy with more than 310 million people acting within it. All of the added complications that comprise a modern big economy are terribly confusing, but only stand to obfuscate careful analysis. However, if the principles of economics are true, then those principles should be just as true in a two-person world as they are in a complicated world with seven billion people. The nice feature of a two-person world is that one is able to better understand just what the actual implications are.

For example, imagine that we have a world with only two farmers. There is farmer A and farmer B and no one else in the world. If farmer B gets unemployment benefits, who do you think pays for those unemployment benefits? If you guessed farmer A, you're right.

Government spending is taxation nonstop. But taxation may be substantially greater than all of government spending. Taxation is always equal to or greater than government spending, but never less.[47] For example, there is always what we learned from children's fables—the famous "toll for the troll." The government receives a lot less in taxes than the taxpayers actually pay. While all government spending is tax, all tax isn't limited to government spending. There's always the "toll for the troll." In other words, the government always retains taxpayer dollars for itself before spending money on the programs it promotes.

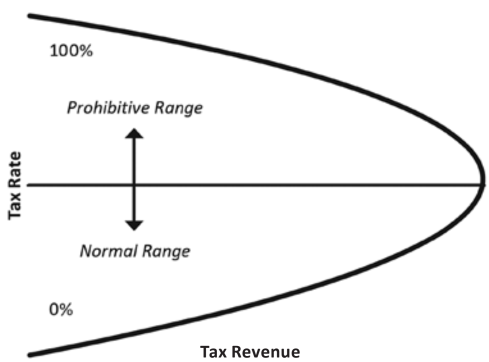
Tax rates, independent of the level of government spending, can also be important in determining an economy's tax burden. To see this point, again imagine famer A and farmer B, but this time consider that there are 100 percent tax rates on everything each farmer produces. Tax rates in this example would be so high that no matter how much each farmer works, that farmer still receives nothing for his or her total production. In this case there would be no work, no output, and no government spending, because there would be no tax revenue. Tax rates would be so high that no one would want to produce taxable income. Even though the government spends nothing, the tax burden on the two farmers is enormous. Tax rates are so high that they destroy all output. This is exactly how the Laffer Curve works, as we explain on the next page.

There are also all sorts of inefficiencies encountered by the tax codes where people and businesses choose inefficient instruments and production technologies purely for tax reasons. As we mentioned earlier in this chapter, there are often expenses incurred by the taxpayer and the overall tax system. These expenses either add to the tax burden on the taxpayer without providing any revenue to the taxing authority or are a direct expense to the taxing authority reducing the amount of funds available to the government for other purposes. Our study of these costs using IRS data showed that roughly $30 of additional out of pocket expenses is incurred for every $100 of income taxes paid.[48]

The Laffer Curve

The Laffer Curve is a model that shows how lower tax rates sometimes result in greater tax revenue. When it was sketched out on a napkin, it started a tax policy revolution. The Laffer Curve shows when tax rates are too high, they prohibit growth and reduce the incentive to work, save, and invest. Policymakers can increase the incentives by cutting tax rates, which results in more economic growth and more revenue. As the Laffer Curve illustrates, there are two tax rates that will produce no revenue: zero and 100 percent. When tax rates are at 100 percent, a person has no incentive to work and therefore contributes nothing to the government. Who would work for the privilege of paying 100 percent of their earnings to the government? Essentially, tax rates can be so high they cause the government to lose revenue. This fact holds true at all levels of government. The ideal tax rate is that which produces the most growth, though this is often well below the revenue maximizing rate. For states, the growth maximizing income tax rate is zero.

FIGURE 4 | **The Laffer Curve**



Source: Laffer Associates

The Laffer Curve does not work only on a blackboard or a paper napkin. Figure 4 shows that decreases in tax rates result in increased revenues to the federal government. The same results hold true at the state level. In the 1980s, the federal government's total tax revenues doubled—even as tax rates were cut by more than half. Though often maligned, the Bush tax cuts created jobs at a near record pace. Reduced tax rates for employers and investors created incentives for job creation, and businesses responded. In contrast, increasing tax rates slows the pace of job creation.

After the Bush tax cuts were enacted, employment soared as the unemployment rate dropped to 4.61 percent.[49] Unfortunately, many of these gains were wiped away by the financial crisis. In order to get employment back on track, the economy needs another supply-side stimulus. President Obama and Congress extended the Bush tax cuts for another two years in December 2010, but the cuts are scheduled to expire after 2012. Raising tax rates on an already hurting base would be catastrophic for the U.S. economy. If tax rates return to what they were prior to the Bush tax cuts, then taxes as a share of GDP will reach an all-time high. Because federal taxpayers are also state taxpayers, the more money Washington takes from taxpayers, the harder it will be for states to balance their budgets.

Conclusion

Because of the wisdom of our founding fathers, we have essentially a 50 state free trade zone where individuals and businesses are able to conduct commerce and trade. States can, in part, affect their own destinies by the policies they choose. The actual performance of any one state depends on many factors, not just on what that specific state does.

States do not enact policies in a vacuum. When states like Kansas, Missouri, and Oklahoma want to eliminate their personal income taxes, it's no surprise that the debate spreads to Idaho, Maine, Nebraska, New Jersey, and Ohio.[50]

The beauty of the American experiment is that it allows states to choose which path they will follow. We hope this publication will give lawmakers ample evidence to support pro-growth policies that bring about state economic recovery and prosperity for their citizens. Let us be very clear: The choice is not a partisan one. As the great Ronald Reagan would say, the choice is not about Republican versus Democrat; the choice is between up or down for the future of our states.

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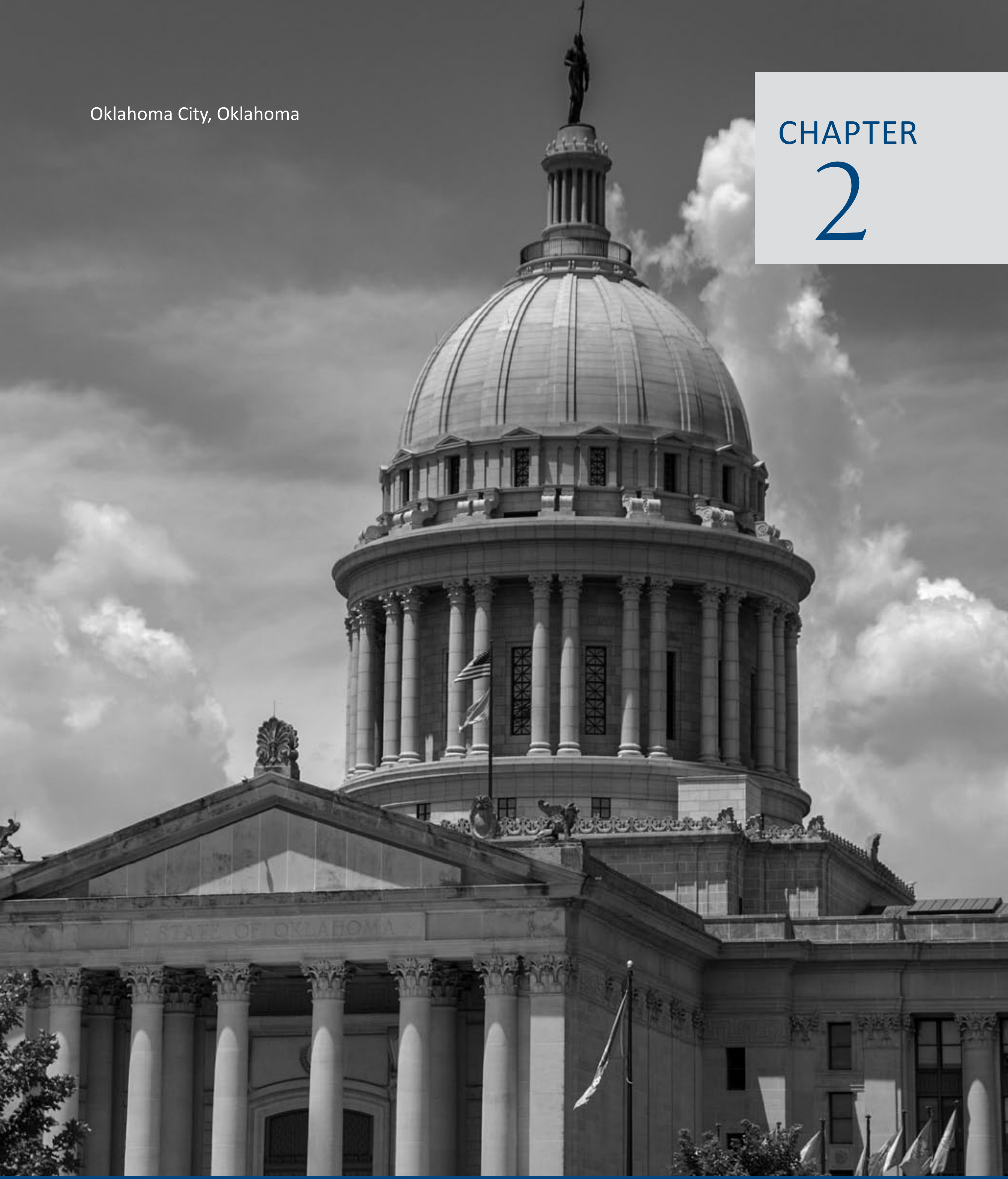
CHAPTER 2



Oklahoma City, Oklahoma

Policies for Growth

Policies for Growth

States provide a special environment to evaluate the effects of public policy on economic performance. Each state is subject to the same federal policies and, because of our founding fathers' wisdom, it exists in a virtually perfect free trade zone with all the other states. On the other hand, each state also has a great deal of autonomy in policymaking. Its leaders are free to enact all sorts of policies, subject only to their own electorate. The result is, to paraphrase Justice Louis Brandeis, 50 "laboratories of democracy."[1]

Given the great variability of state policies over the years there exists a huge reservoir of data that allows us to explore what works and what doesn't. Not only do we have a plethora of state data, we also have a fascinating interaction of state data with federal data. In this chapter we will use both sets to explore how a variety of policies affect economic growth. The repository of information and experiences should prove invaluable for state policymakers as they decide which policies to implement, remove, or expand during their legislative sessions. Wishful thinking and political pandering should not be allowed a place at the table. Our analysis is not about Republican versus Democrat; it's about what produces good policy versus bad policy. Untried and untested ideas and policies are exceptionally dangerous at a time of economic distress. It's worse yet to enact policies that have been proved to fail in other states.

Every year, our analysis ranks the states on economic competitiveness by using 15 fiscal and regulatory policy variables. Throughout the years we have constructed the ALEC-Laffer State Economic Competitiveness Index, several of those variables have consistently stood out as the most important in predicting where jobs will be created and incomes will rise. In this chapter, we discuss five of those: The personal income tax, the corporate income tax, the sales tax, the total tax burden, and right-to-work laws or their absence. We will begin our study with perhaps the most egregious of all state tax policies: The personal income tax.

To set the stage for our discussion, we bring back the Laffer Curve and the theory of incentives. Remember from the first chapter that incentives matter—people don't work for the privilege of paying taxes. The data shows that people will vote with their feet by moving from the states with the highest tax burdens to the states with the lowest tax burdens.

States lose revenue when the tax rate becomes a disincentive to continue earning income. Keep this in mind as we discuss how state policy affects growth. Whether the policy in question is the personal income tax, right-to-work laws, or anything else, we observe its effects through the following measurements:

- Gross State Product Growth
- Non-farm Payroll Employment Growth
- Population Growth
- Growth of Total State & Local Tax Receipts.

These measurements allow us to see how the states are affected given a particular policy. We will begin by looking at the effects different tax policies have on state growth and then move on to non-tax policies.

Policy #1: The Personal Income Tax

To illustrate the effects of the personal income tax (PIT), we compare the nine states without a personal income tax to the nine states with the highest marginal rates. Only nine states forgo a tax on earned income, but the record of the two groups accentuates the differences that result from different policies.[2]

The numbers in Table 2 are truly striking. When it comes to growing gross state product (GSP), the no PIT states have, on average, outperformed those states with the highest rates by 39.2 percent over the past decade. They have also outperformed the U.S. average by 25.6 percent.[3] Additionally, not even one state in the high tax rate group performed as well as the average no PIT state.

A significant amount of the growth advantage for no PIT states comes from higher population growth and higher employment growth. And, here again the high tax states have been trailing the rest of our sample by a significant amount.

For the no PIT states, average population growth over the past decade was about

TABLE 2 | **The Nine States with the Lowest and the Highest Marginal Personal Income Tax (PIT) Rates**

10-Year Economic Performance (2001-2010 unless otherwise noted)

State	Top PIT Rate*	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth	State & Local Tax Revenue Growth***
Alaska	0.00%	77.0%	12.2%	12.1%	175.1%
Florida	0.00%	47.7%	0.2%	15.0%	63.6%
Nevada	0.00%	58.9%	6.1%	28.9%	74.0%
New Hampshire	0.00%	35.2%	-0.7%	4.7%	52.1%
South Dakota	0.00%	58.5%	6.4%	7.3%	47.2%
Tennessee	0.00%	38.6%	-2.8%	10.3%	43.9%
Texas	0.00%	57.7%	8.7%	17.9%	65.1%
Washington	0.00%	47.8%	3.0%	12.3%	44.0%
Wyoming	0.00%	105.6%	15.2%	14.3%	168.8%
9 States with no PIT**	0.00%	58.54%	5.36%	13.65%	81.53%
U.S. Average**	5.70%	46.61%	0.51%	8.63%	51.04%
9 States with Highest Marginal PIT Rate**	9.90%	42.06%	-1.68%	5.49%	44.88%
Ohio	8.43%	24.8%	-9.3%	1.2%	28.4%
Maine	8.50%	35.4%	-2.5%	3.4%	32.6%
Maryland	8.70%	50.9%	1.7%	7.4%	47.5%
Vermont	8.95%	36.1%	-1.6%	2.2%	54.9%
New Jersey	9.97%	33.7%	-3.6%	3.6%	55.1%
California	10.30%	42.1%	-4.8%	8.0%	41.2%
Oregon	10.59%	55.0%	-0.3%	10.4%	32.5%
Hawaii	11.00%	57.4%	5.7%	11.7%	55.8%
New York	12.70%	43.1%	-0.4%	1.5%	56.0%

*Highest marginal state and local personal income tax rate imposed as of 1/1/2012 using the tax rate of each state's largest city as a proxy for the local tax. The deductability of federal taxes from state tax liability is included where applicable.
New Hampshire and Tennessee tax some investment forms of income only.
**Equal-weighted averages
***2000-2009
Source: Laffer Associates

13.7 percent, or 148.6 percent higher than the average of those high tax states, and 58.2 percent higher than the U.S. average. Furthermore, for non-farm payroll employment growth, the average difference was remarkably more than 7 percentage *points* higher (5.4 percent versus -1.7 percent) for the no PIT states. Looking at state population growth, the evidence is clear that people are voting with their feet. Not one of the high tax states had population growth as high as the average of the no PIT states.

You may be surprised to learn that the growth premium of the no PIT states also benefits the public treasury. The average growth of all state and local tax revenues over the past decade was 51 percent. Interestingly enough, the no PIT states saw their state revenue grow 81.7 percent faster than that of the nine highest PIT states. Clearly, private sector growth matters a great deal for government revenues. Leaders of states with the highest rates ought to reconsider: If the rates don't result in more money (relative to the no PIT states), then why are they so high?

High personal income tax rates also have detrimental effects on small businesses. Class warriors in the high tax states often forget that many high income earners are actually small businesses filing through subchapter S Corporations (S Corps), Limited Liability Partnerships (LLPs), and other "pass-through" entities. In fact, these small businesses make up more than 90 percent of all businesses, employ more than 50 percent of American workers, and pay more than 40 percent of all business taxes.[4]

Despite the data and analysis we have discussed above, there has been considerable criticism of proposals to eliminate the personal income tax, as we recently have seen in the debate in Oklahoma, Kansas, and Missouri. For those looking for additional resources on why eliminating the personal income tax is good for state growth, please see "State Income Taxes and Economic Growth" by Barry W. Poulson and Jules Gordon Kaplan,[5] "Business Location Decisions in the United States" by Timothy Bartik,[6] and "The Influence of Taxes on Employment and Population Growth" by Stephen T. Mark, Therese J. McGuire, and Leslie E. Papke.[7] These are just three of numerous academic studies on the negative effects of the income tax.

Personal Income Tax: Does the Trend Continue Beyond 10 Years?

A possible criticism of the above analysis would be that while it is true over the past 10 years, perhaps there is something unique about this time period. To dispel this criticism we evaluated the economic performance of the no PIT states back to 1971.[8] What happens if we compare the economies of the two groups of states over a longer time?

Going back to 1971 did present some methodological challenges. First of all, the group of states without an income tax today is not the same group of states without an income tax then, though the two are similar. In 1971, 11 states, rather than nine, did not levy an income tax, and Alaska, which currently does not have an income tax, did then. Since 1971, three states chose to impose an income tax, while Alaska eliminated its PIT in 1980.

Another methodological challenge of going back to 1971 is that we had to adjust for a break in the GSP data collected by the Bureau of Economic Analysis. As a result, we switched our measure of economic activity from GSP to personal income.[9]

This new analysis also accounts for the changing composition of the states that did not levy an income tax, as well as the changing composition of the states that levied the highest rates. For each year, we categorize every state into the no income tax category, the highest income tax rate category, or in-between. It is the most recent year's data that determines to which category, if any, a state belongs. We then calculate the average personal income growth rate over the previous 10 years for each category.

We must make some adjustments to account for the changing composition of the state categories. Since Alaska levied an income tax until 1980, we classify Alaska as a no income tax state starting in 1981. Even though we count Alaska as a no income tax state, it did have an income tax during some of the time we analyzed. A similar dynamic applies to the states that became members of the highest income tax rate states during that period. Because economic performance changes in anticipation of a policy change, however, it is not clear what the "correct" timing should be for classifying states. For simplicity's sake, and because anticipatory effects are transitory, we use the implementation date to guide the classification. We believe the conclusions we draw are not materially impacted by our date selections.

To smooth out yearly fluctuations of personal income, we compare the 10-year growth rates for the no income tax states to the 10-year growth rates for the states with the highest marginal rates. As illustrated in Figure 5, the long-term growth rates of the no PIT states are consistently higher than the long-term growth rates of the high tax states.

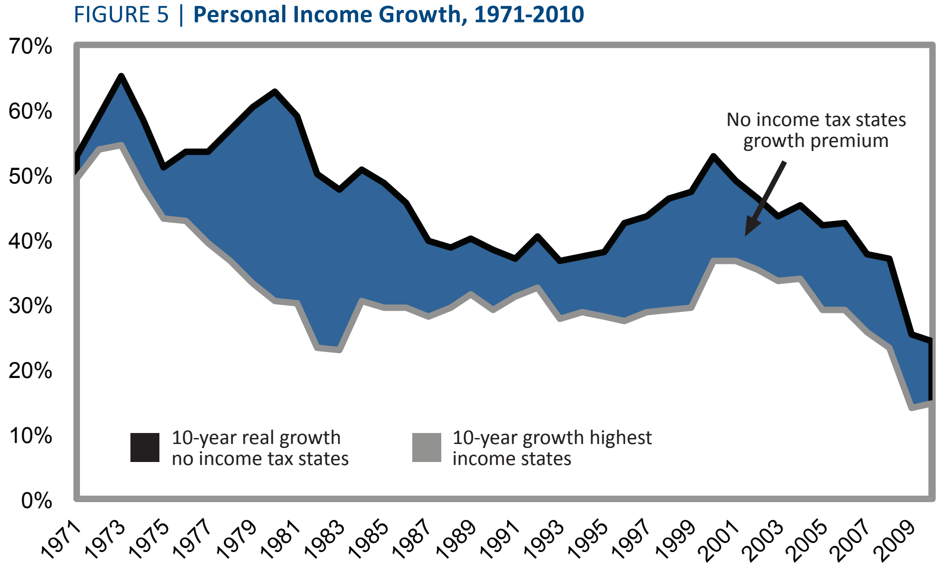
The consistency and persistence of these results are overwhelming. Year in and year out, the states with the highest tax rates are the losers and the no income tax rate states are the winners.

And, persistently higher growth rates make a large aggregate difference over all states and over time due to the magic of compound interest. Let's just compare the nine states that currently have no PIT to the nine states that had the highest PIT rates from 1971 to 2010. Personal income in the first group grew 55 percent more than personal income in the second. To say this another way, imagine that both groups of states started off in 1971 with an average of $100 of personal income. In 2010, the highest personal income tax rate states would have $303.92 of personal income, but the no PIT states would have $470.54. Clearly, the lesson is that the right tax system matters, and it matters a lot. Poverty and prosperity are both cumulative.

Do States Rich in Natural Resources Skew the Results?

Is our analysis undermined by the fact that some states might be able to shift some of their tax burden to other states? If a state has a sizable mining sector, it might be able to use severance taxes to make other states pay for its own upkeep. But severance taxes, or taxes on the removal of non-renewable resources such as oil and coal, are an insignificant tax revenue source for most states. Across the 50 states, total severance tax revenues accounted for approximately one percent of total state and local tax revenues between 1977 and 2008. However, for some states, severance taxes are indeed a very important revenue source, just as mining can be an important component of gross state product.

FIGURE 5 | **Personal Income Growth, 1971-2010**



Source: Laffer Associates

Figure 6 illustrates that although severance taxes are generally an unimportant revenue source nationally, for two states—Alaska and Wyoming—severance taxes account for one-quarter of total tax revenues or more. In seven other states—North Dakota, New Mexico, Oklahoma, Montana, West Virginia, Louisiana, and Texas—severance taxes account for between three percent and 12 percent of total tax revenues. Similar comments could also be made with respect to mining's contribution to each state's GSP.

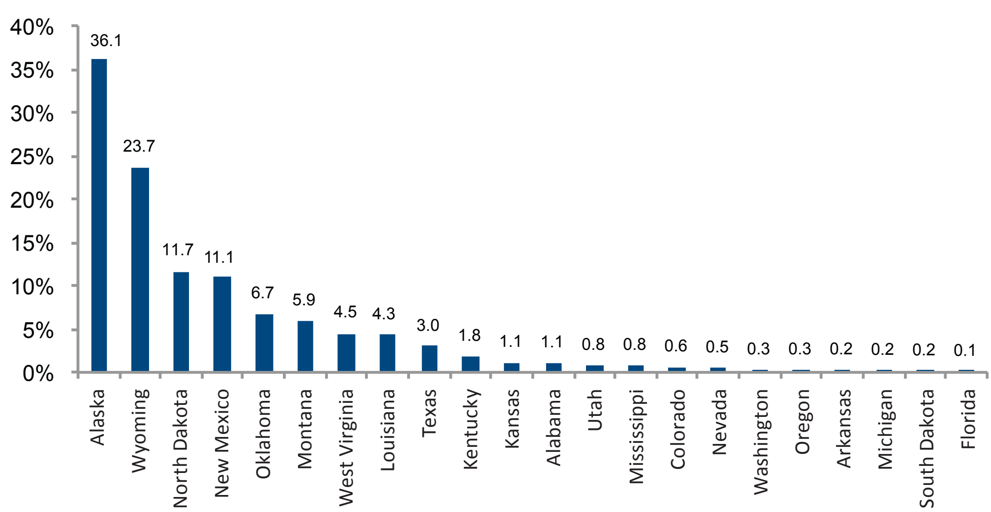
Do Alaska and Wyoming, which draw a significant portion of their revenue from severance taxes, and lack a personal income tax, skew our results, especially when oil and other raw materials rise in price? Some people argue that being blessed with an abundance of oil, coal, or other natural resources is a necessary prerequisite for having no income tax. But while the existence of oil, gas, and other natural resources clearly makes things easier for a state's government, they do not negate the impact of a state's income tax.

There are several reasons why no PIT states still have a competitive advantage, even if Alaska and Wyoming enjoy income from severance taxes. First of all, six of the no income tax states receive basically no revenues from severance taxes, and even Texas, the other no PIT state with noticeable severance tax revenue, receives only three percent of its tax revenues from severance taxes. Second, and perhaps more importantly, a no PIT state does not need severance taxes to outperform states with high marginal personal income tax rates. Admittedly, having significant severance tax revenues does reduce the pressure on other tax revenue sources. But still, a zero income tax is a zero income tax, with the economic advantage that it brings. On the next page, Table 3 reproduces Table 2, but omits Alaska and Wyoming. Even without a strong stream of severance taxes, no PIT states outperform the country, as well as the nine states with the highest marginal rates.

The adjusted group of no PIT states still grows faster than the highest income tax rate states (49.2 percent versus 42.1 percent), still experiences stronger employment growth (3.0 percent versus -1.7 percent), still experiences faster population growth (13.8 percent versus 5.5 percent), and still has faster

FIGURE 6 | **Severance Taxes as a Percentage of Total State and Local Tax Revenue**

22 states with highest average severance tax revenues as a percentage of total tax revenues, 1999-2008



Source: Laffer Associates

Table 3 | **The Seven States with No Personal Income Tax and Minimal Severance Tax Revenues versus the Nine States with the Highest Marginal Personal Income Tax (PIT) Rates**

10-Year Economic Performance (2001-2010 unless otherwise noted)

State	Top PIT Rate*	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth	State & Local Tax Revenue Growth***
Florida	0.00%	47.7%	0.2%	15.0%	63.6%
Nevada	0.00%	58.9%	6.1%	28.9%	74.0%
New Hampshire	0.00%	35.2%	-0.7%	4.7%	52.1%
South Dakota	0.00%	58.5%	6.4%	7.3%	47.2%
Tennessee	0.00%	38.6%	-2.8%	10.3%	43.9%
Texas	0.00%	57.7%	8.7%	17.9%	65.1%
Washington	0.00%	47.8%	3.0%	12.3%	44.0%
7 States with no PIT**	0.00%	49.18%	2.98%	13.76%	55.70%
U.S. Average**	5.70%	46.61%	0.51%	8.63%	51.04%
9 States with Highest Marginal PIT Rate**	9.90%	42.06%	-1.68%	5.49%	44.88%
Ohio	8.43%	24.8%	-9.3%	1.2%	28.4%
Maine	8.50%	35.4%	-2.5%	3.4%	32.6%
Maryland	8.70%	50.9%	1.7%	7.4%	47.5%
Vermont	8.95%	36.1%	-1.6%	2.2%	54.9%
New Jersey	9.97%	33.7%	-3.6%	3.6%	55.1%
California	10.30%	42.1%	-4.8%	8.0%	41.2%
Oregon	10.59%	55.0%	-0.3%	10.4%	32.5%
Hawaii	11.00%	57.4%	5.7%	11.7%	55.8%
New York	12.70%	43.1%	-0.4%	1.5%	56.0%

*Highest marginal state and local personal income tax rate imposed as of 1/1/12 using the tax rate of each state's largest city as a proxy effect of deductibility for the local tax. The deductibility of federal taxes from state tax liability is included where applicable. New Hampshire and Tennessee tax some investment forms of income.
**Equal-weighted averages
***2000-2009
Source: Laffer Associates

government revenue growth (55.7 percent versus 44.9 percent). These states even generate greater tax revenue growth than the nation as a whole (55.7 percent versus 51 percent), and they do so by growing the overall economy rather than imposing a higher marginal burden on income earners. This is the Laffer Curve effect at work. A rising tide really does raise all boats!

Policy #2: The Corporate Income Tax

The relationship between the corporate income tax and economic growth is the same as the relationship between the personal income tax and economic growth. The states with the lowest tax rates are associated with above average rates of growth while the states with the highest rates are associated with below average growth. Table 4 on the next page presents the economic record of the past 10 years for the eight states with the lowest marginal corporate income tax rates and the eight states with the highest marginal rates. Though nine states do not have a personal income tax, only three (Nevada, South Dakota, and Wyoming) lack a corporate income tax. Therefore the lowest tax rate states don't have the same competitive advantage over the highest tax rate states as in our personal income tax comparison. And yet, those states with the lowest corporate income tax rates still significantly outperformed the states with the highest marginal rates. It is noteworthy to mention that a mining/severance tax adjustment makes almost no difference in the results for the corporate tax comparisons as well—pulling out Wyoming and Alaska does not change the results.

On average, the eight states with the lowest marginal corporate income tax rates saw their GSP grow 23.8 percent more than states with the highest rates. They did better in other ways, too: Employment growth was a stunning 523.3 percent higher and population growth was 79.6 percent higher. Tax revenue growth exceeded the high tax states by 19.8 percent for the eight lowest corporate income tax rate states—even with oil rich (and corporate tax levying) Alaska included in the list of high rate states. Further, tax revenue in the low tax states grew 35.8

Table 4 | The Eight States with the Lowest and the Highest Marginal Corporate Income Tax (CIT) Rates

10-Year Economic Performance (2001-2010 unless otherwise noted)

State	Top CIT Rate*	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth	State & Local Tax Revenue Growth***
Nevada	0.00%	58.9%	6.1%	28.9%	74.0%
South Dakota	0.00%	58.5%	6.4%	7.3%	47.2%
Wyoming	0.00%	105.6%	15.2%	14.3%	168.8%
North Dakota	3.35%	81.5%	13.7%	5.7%	87.4%
Ohio	3.69%	24.8%	-9.3%	1.2%	28.4%
Alabama	4.23%	43.7%	-2.1%	7.1%	41.8%
Texas	4.56%	57.7%	8.7%	17.9%	65.1%
Colorado	4.63%	42.4%	-0.3%	13.4%	41.9%
8 States with Lowest Marginal CIT Rate**	2.56%	59.13%	4.80%	11.98%	69.32%
8 States with Lowest Marginal CIT Rate excluding WY**	2.92%	52.49%	3.32%	11.65%	55.11%
U.S. Average**	7.17%	46.61%	0.51%	8.63%	51.04%
8 States with Highest Marginal CIT Rate excluding AK**	11.92%	43.57%	-1.64%	5.89%	41.13%
8 States with Highest Marginal CIT Rate**	11.61%	47.75%	0.09%	6.67%	57.87%
Alaska	9.40%	77.0%	12.2%	12.1%	175.1%
Illinois	9.50%	33.8%	-6.4%	2.6%	41.0%
Minnesota	9.80%	39.5%	-1.9%	6.4%	32.2%
Iowa	9.90%	51.7%	0.2%	4.0%	47.0%
Delaware	9.98%	41.9%	-1.6%	13.0%	37.3%
Oregon	11.25%	55.0%	-0.3%	10.4%	32.5%
New York	15.95%	43.1%	-0.4%	1.5%	56.0%
Pennsylvania	17.09%	40.1%	-1.2%	3.3%	41.9%

*Highest marginal state and local corporate income tax rate imposed as of 1/1/12 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.
**Equal-weighted averages.
***2000-2009
Source: Laffer Associates

percent faster than the U.S. average.

The results are overwhelming. Lower corporate tax rates are associated with higher GSP growth, more rapid employment growth, and increased population growth, all without any (let alone catastrophic) revenue shortfall growth. Once again, common sense economics is confirmed overwhelmingly by the facts. The lesson is clear: Low corporate income tax rates encourage economic growth while high marginal corporate income tax rates discourage growth. If low rates do anything to tax revenues, they enhance them.

How Implementing an Income Tax Affects Growth

One could question the reliability of the comparisons we made of no or low tax states and the states with the highest marginal rates on personal or corporate income taxes. What about differences in the two samples of states, even aside from policies on the income tax? In cliché form, are we really comparing apples with apples? In this section we compare the before and after performance of states that have implemented a state income tax. In this case, the before and the after pictures are 180 degrees reversed of those of weight loss advertisements. The states that introduced an income tax performed much worse after they put in the income tax than they did before.

Eleven states have enacted personal income taxes within the last 50 years.[10] They are: Connecticut (1991), New Jersey (1976), Ohio (1971), Rhode Island (1971), Pennsylvania (1971), Maine (1969), Illinois (1969), Nebraska (1967), Michigan (1967), Indiana (1963), and West Virginia (1961).

Table 5 on the next page examines the economic consequences of the income tax. Each of the 11 states is measured by three key metrics:

- The state's share of total U.S. GDP
- The state's share of U.S. population
- The state's share of total state tax revenue collected across all 50 states

What we find astonishing is how the size of the economy in each one of these states has declined as a share of the total U.S. economy compared with a time just prior to when each state introduced its income tax. Some of the declines are quite large. Ohio, for example, accounted for 5.42 percent of total U.S. GDP before it instituted the income tax. In 2010, it had dropped to only 3.28 percent. Rhode Island and Pennsylvania respectively went from 0.44 percent and 5.72 percent of U.S. GDP from 1966 to 1970 to 0.34 percent and 3.91 percent in 2010. Illinois had a pre-tax share of U.S. GDP of 6.52 percent from 1964 to 1968, but dropped to 4.48 percent in 2010.

A similar pattern also holds for these states' share of the national population: Each state has a smaller portion of the U.S. population now than it did before it enacted an income tax. What is perhaps even more surprising is that states that introduced income taxes usually saw their share of all states revenue decline, not increase. And, unfortunately in most cases once states enact a personal income tax, it is rare for them to lower it.

It's more than depressing to realize just how many opportunities the citizens of these 11 states have lost following the adoption of an income tax. Of course, there are many other factors impacting the economies of these states. For example, the woes of the auto industry help explain Michigan's decline. In the same manner, growth in agriculture helps explain Nebraska's steady share of U.S. GDP. But then again, state leaders cannot be held blameless, given their power to shape tax and other policies such as right-to-work. From this perspective, the introduction of a personal income tax is associated with declining relative economic growth.

Each and every state that has instituted a personal income tax has failed to reap the projected increase in tax revenues. Moreover, as we saw earlier in our income tax tables, tax revenue growth is less in the highest marginal PIT rate states than in the states without a personal income tax. In each case the state's economy has become a smaller portion of the overall U.S. economy and the state's citizens have seen their prosperity reduced. And the people of each of these states have given their state government a sign by

Table 5 | **Introducing a Personal Income Tax: Effects on State Growth**

State***		Economic Performance			Top PIT	
		% of U.S. GDP	% of U.S. Population	State Tax Revenues % of U.S.	Introduced	Current
Connecticut	5 Years Prior	1.74%	1.33%	1.70%	1.50%	6.50%
	2010	1.63%	1.16%	1.81%		
	Change	-0.11%	-0.17%	0.11%		
New Jersey	5 Years Prior	3.66%	3.47%	2.77%	2.50%	8.97%
	2010	3.35%	2.85%	3.79%		
	Change	-0.31%	-0.62%	1.02%		
Ohio	5 Years Prior	5.42%	5.25%	3.61%	3.50%	5.93%
	2010	3.28%	3.74%	3.35%		
	Change	-2.14%	-1.51%	-0.26%		
Rhode Island	5 Years Prior	0.44%	0.46%	0.47%	5.25%	5.99%
	2010	0.34%	0.34%	0.36%		
	Change	-0.10%	-0.12%	-0.11%		
Pennsylvania	5 Years Prior	5.72%	5.88%	5.59%	2.30%	3.07%
	2010	3.91%	4.11%	4.21%		
	Change	-1.81%	-1.77%	-1.38%		
Maine	5 Years Prior	0.39%	0.51%	0.43%	6.00%	8.50%
	2010	0.35%	0.43%	0.49%		
	Change	-0.04%	-0.08%	0.06%		
Illinois	5 Years Prior	6.52%	5.53%	4.64%	2.50%	5.00%
	2010	4.48%	4.16%	4.09%		
	Change	-2.04%	-1.37%	-0.55%		
Nebraska	5 Years Prior	0.67%	0.75%	0.45%	2.60%	6.84%
	2010	0.62%	0.59%	0.54%		
	Change	-0.05%	-0.16%	0.09%		
Michigan	5 Years Prior	5.08%	4.34%	5.03%	2.00%	4.35%
	2010	2.64%	3.20%	3.18%		
	Change	-2.44%	-1.14%	-1.85%		
Indiana	5 Years Prior	2.61%	2.55%	2.09%	2.00%	3.40%
	2010	1.89%	2.10%	2.08%		
	Change	-0.72%	-0.45%	-0.01%		
West Virginia*	5 Years Prior	0.79%	0.97%	1.01%	5.40%**	6.50%
	2010	0.48%	0.60%	0.67%		
	Change	-0.31%	-0.37%	-0.34%		

* Due to data limitations, West Virginia's economic activity is measured as a share of national personal income.
** Statutory rate was 6.0% of U.S. tax liability applied to top rate of 91%.
*** Tax rates reflect state level income tax only.
Source: Laffer Associates

voting with their feet and moving to lower taxed states.

Bilateral Comparisons:
Tennessee v. Kentucky, Texas v. California
So far we have looked at groups of states (no or low income tax states and high income tax states) and how each state has fared before and after it has implemented an income tax. Yet another way to see the effects of tax (and right-to-work) policies is to compare two states that have taken different paths on policy but are otherwise similar. For example, Tennessee versus Kentucky provides one

natural experiment, while Texas versus California provides another. California and Texas are geographically and economically diverse states with huge populations (ranked one and two, respectively) and the largest state economies in the country. Kentucky and Tennessee, meanwhile, are geographically similar states with smaller, less diverse economies. While Tennessee and Texas have each pursued pro-growth economic policies consistent with the top growers discussed above—tax rates, low tax burdens, and right-to-work laws—Kentucky and California have pursued the opposite strategy. At this point, you should not be surprised by the results. Both Tennessee and Texas (the states with the more competitive economic environments) outperform Kentucky and California (the states with the less competitive economic environments). See Tables 6 and 7 for more.

Policy #3: The Sales Tax

We have found that states with low or no income taxes tend to do better on economic indicators such as growth in personal income and employment. There is, however, no similar link between the existence or level of a sales tax and a state's economic performance. We find that sales taxes have a neutral effect on state economies and therefore are a far preferable means for a state to raise needed revenue. It is true that all taxes are bad in the sense that they impede a productive activity. But some taxes are a lot worse than others and the government after all does need revenue to carry out its appointed tasks.

Table 8 illustrates that the states with the lowest sales tax burdens have lower rates of growth in GSP, employment, and population, compared with the states with the highest sales tax burdens. But in truth this is probably a spurious correlation if we consider the sales tax burden alone. Oregon, which has no sales tax at all, has one of the highest state income tax rates in the nation. Mississippi, which has a high sales tax burden, has one of the lowest corporate tax rates in the nation, and Tennessee and Wyoming have no income tax at all and yet have high sales tax burdens.

Because sales taxes are, by definition, flat taxes on consumption, these taxes are less economically distorting than progressive income taxes, either personal or corporate. Sales taxes affect where sales occur, and income taxes—corporate and personal—affect where income is produced. Additionally, several of the states with the highest sales tax

Table 6 | **Bilateral Comparisons: Tennessee v. Kentucky**

Policy Instruments and Economic Consequences

Policy Instruments	Tennessee	Kentucky
Top Marginal Personal Income Tax Rate	0.00%	8.20%
Top Marginal Corporate Income Tax Rate	6.50%	8.20%
Total State & Local Tax Revenue as % of GSP (2009)	7.34%	8.90%
Right-to-Work?	Yes	No
Economic Outcomes		
Change in Personal Income (1981-2010)	430.90%	338.50%
Unemployment Rate (2010)	9.70%	10.40%

Source: Laffer Associates

Table 7 | **Bilateral Comparisons: Texas v. California**

Policy Instruments and Economic Consequences

Policy Instruments	Texas	California
Top Marginal Personal Income Tax Rate	0.00%	10.30%
Top Marginal Corporate Income Tax Rate	4.56%	8.84%
Total State & Local Tax Revenue as % of GSP (2009)	7.52%	9.18%
Right-to-Work?	Yes	No
Economic Outcomes		
Change in Personal Income (1981-2010)	494.90%	403.10%
Unemployment Rate (2010)	8.20%	12.40%

Source: Laffer Associates

burdens (Tennessee, Wyoming, and Washington) also have no income tax. Because states need to raise money to provide needed public services, no income tax states rely on the sales tax to a greater extent, which explains the higher sales tax burdens.

How the Boom and Bust Cycle Affects Tax Receipts

When policymakers choose the levels and types of taxes for their state, they must confront not only the possible effects on the state economy, but the volatility of tax receipts as well. When tax receipts are volatile, that usually means an abnormally large shortfall of revenues when times are tough and spending needs are the greatest. It also means that the state has excess revenues when times are good and some government spending is superfluous. Revenue volatility is exactly counter to volatility in need for government spending.

What happens is that state and local governments spend too much during good

Table 8 | **The Nine States with the Highest and Lowest Sales Tax Burdens**

10-Year Economic Performance (2001-2010 unless otherwise noted)

State	Sales Tax Burden*	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth
Delaware	$0.00	41.9%	-1.6%	13.0%
Montana	$0.00	56.0%	9.4%	9.2%
New Hampshire	$0.00	35.2%	-0.7%	4.7%
Oregon	$0.00	55.0%	-0.3%	10.4%
Alaska	$6.59	77.0%	12.2%	12.1%
Massachusetts	$11.76	34.2%	-4.6%	2.1%
Virginia	$12.72	51.4%	3.2%	11.3%
Maryland	$13.99	50.9%	1.7%	7.4%
Vermont	$13.48	36.1%	-1.6%	2.2%
9 States with Lowest Sales Tax Burden**	$6.50	48.62%	1.97%	8.06%
U.S. Average**	$23.26	46.61%	0.51%	8.63%
9 States with Highest Sales Tax Burden**	$39.03	55.47%	3.07%	10.63%
Arizona	$33.56	49.0%	5.0%	20.5%
Mississippi	$33.68	44.3%	-3.5%	4.0%
Washington	$34.02	47.8%	3.0%	12.3%
Tennessee	$38.45	38.6%	-2.8%	10.3%
Arkansas	$39.28	44.6%	0.8%	8.4%
Louisiana	$40.04	58.7%	-1.6%	1.6%
New Mexico	$40.62	53.1%	5.9%	12.6%
Hawaii	$44.68	57.4%	5.7%	11.7%
Wyoming	$46.92	105.6%	15.2%	14.3%

*State and local sales tax imposed as of 1/1/12. Sales tax burden of $1,000 of personal income.
**Equal-weighted averages.
Source: Laffer Associates

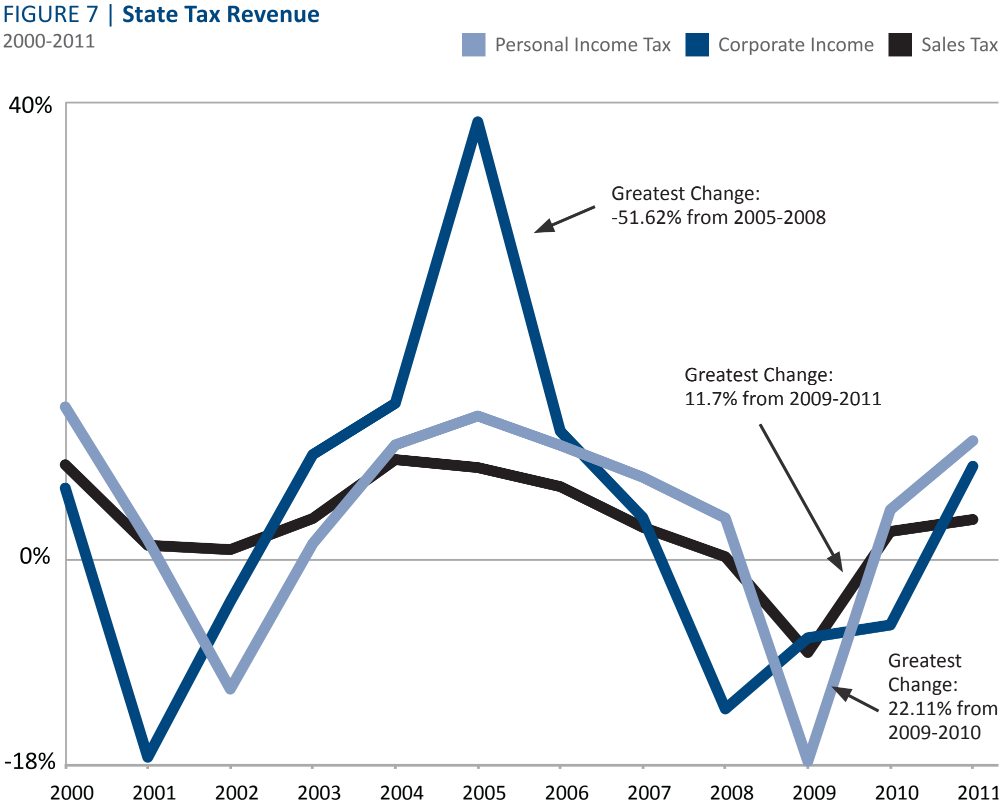
times on marginal projects—because they can. When bad times inevitably come, governments are forced to raise taxes and cut back on desperately needed projects. Volatility of revenues and spending needs is anathema to good governance. Therefore, the best approach is to minimize the volatility of tax revenues.

Which taxes are most volatile? Figure 7 offers some answers. It gives, for three different taxes, the percent change in the rolling 12-month sum of state and local tax revenues collected from 2000 through 2011.

Notice that personal and corporate income tax revenue fluctuates more than sales tax revenue. During bad economic times, individual and corporate income tax revenues fall further, and during good economic times, individual and corporate income tax revenues surge higher. In a recession, businesses contract, earning less profit on which to pay income tax. Though the personal income tax is less volatile, a similar logic is in play. In an economic decline, less work is available, and therefore people work less. Less income on which to pay the personal income tax means less tax revenue for the state. Small businesses often file tax returns as personal, rather than corporate, income, so less revenue from small businesses results in less personal income tax revenue, as well.

Revenue generated from sales taxes is the least affected by the boom and bust cycle—in fact, sales tax revenue changes only half as much as revenue from personal and corporate income taxes do. Not only does the sales tax do less to inhibit growth, it is a steady revenue source even during a recession. While we won't argue that consumption isn't affected in an economic downturn, it is much less affected than corporate and personal income. Progressive corporate and personal income taxes do far more damage to the economy than do other taxes such as sales taxes, property taxes, and severance taxes. In addition, they are substantially less

FIGURE 7 | **State Tax Revenue**
2000-2011



Source: U.S. Census Bureau

reliable than those other taxes. How's that for sound tax policy?

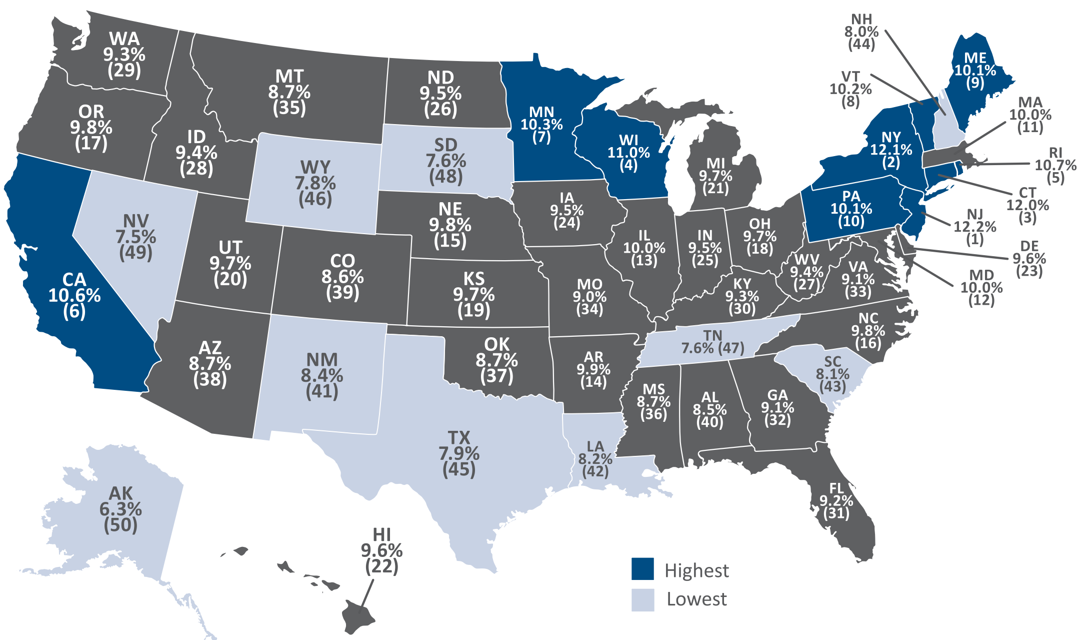
Policy #4: The Total Tax Burden

While the manner in which a tax is imposed matters, as we've seen with our analysis of corporate and personal income taxes, sales taxes, and severance taxes, the size of the burden on a state's residents also matters (Figure 8 below provides the state and local tax burdens by state). Even with an optimally developed tax (such as a flat rate income tax), a state cannot impose a tax burden equivalent to 100 percent of GSP. Such a tax burden, no matter how well placed, will simply destroy the tax base.

Before relating total tax burdens to state economic performance, we must be careful in measuring a state's actual tax burden. For instance, dividing Alaska's total state tax revenues by total state personal income equals a burden of nearly 15 percent. However, because most of the revenues come from severance taxes, which are not paid by Alaskans, the actual tax burden borne by Alaska's resident producers and earners is much lower. Similarly, states with a large number of tourists—such as Florida, Nevada, Louisiana, and California—export a portion of the their sales tax burden to out of state visitors. The correct way to measure the tax burden for residents in each state, consequently, is to adjust the state and local tax revenues for tax "exports" and tax "imports." Every year, the Tax Foundation creates estimates (of each state's state and local tax burden) that account for tax exports and tax imports.[11]

Returning to our comparisons of the top versus bottom nine, we see a familiar pattern in Table 9—those states that imposed the smallest tax burden in 2009 experienced higher rates of economic growth than both

FIGURE 8 | **State and Local Tax Burdens, 2009**



Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis, U.S. Census Bureau, the Council on State Taxation, the Travel Industry Association, Department of Energy, and others.

the average state and those nine states that imposed the largest tax burden. And again, while the strong economies in Alaska and Wyoming increased the performance of the low tax states, the stronger economic performance of the low tax burden states holds even when Alaska and Wyoming are excluded.

You will quickly notice that patterns are evolving across the various measures of policy variables. Seven of the nine states with the lowest tax burdens have no income tax. That's no surprise: It's hard to over tax when one of the major tax sources is absent. Likewise, there is a significant clustering of bad behavior on the high end of the tax burden. Some states just can't get out of their own way.

Not one of the high tax burden states has grown as fast as the average low tax burden states—even if you take Wyoming and Alaska out of the "low tax" list—not one. In fact,

Table 9 | **The Nine States with the Highest and Lowest Tax Burden as a Percentage of Personal Income**

10-Year Economic Performance (2001-2010 unless otherwise noted)

State	State & Local Gov't Tax Burden as a % of Personal Income*	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth	State & Local Tax Revenue Growth***
Alaska	6.3%	77.0%	12.2%	12.1%	452.6%
Nevada	7.5%	58.9%	6.1%	28.9%	100.1%
South Dakota	7.6%	58.5%	6.4%	7.3%	51.2%
Tennessee	7.6%	38.6%	-2.8%	10.3%	61.7%
Wyoming	7.8%	105.6%	15.2%	14.3%	172.2%
Texas	7.9%	57.7%	8.7%	17.9%	75.5%
New Hampshire	8.0%	35.2%	-0.7%	4.7%	59.6%
South Carolina	8.1%	37.1%	-1.0%	13.8%	45.2%
Louisiana	8.2%	58.7%	-1.6%	1.6%	70.4%
9 States with Lowest Tax Burden**	7.67%	58.57%	4.72%	12.34%	120.94%
9 States with Lowest Tax Burden Excluding AK & WY**	7.84%	49.22%	2.17%	12.08%	66.24%
U.S. Average**	9.38%	46.61%	0.51%	8.63%	70.23%
9 States with Highest Tax Burden**	11.02%	38.24%	-2.89%	3.78%	57.46%
Maine	10.1%	35.4%	-2.5%	3.4%	45.3%
Vermont	10.2%	36.1%	-1.6%	2.2%	64.5%
Minnesota	10.3%	39.5%	-1.9%	6.4%	43.8%
California	10.6%	42.1%	-4.8%	8.0%	77.2%
Rhode Island	10.7%	38.1%	-4.1%	-0.5%	52.4%
Wisconsin	11.0%	35.3%	-2.8%	5.1%	39.9%
Connecticut	12.0%	40.9%	-4.3%	4.2%	55.3%
New York	12.1%	43.1%	-0.4%	1.5%	68.3%
New Jersey	12.2%	33.7%	-3.6%	3.6%	70.4%

*State & Local Government Tax Burden as of 2009
**Equal-weighted averages.
Source: Laffer Associates and the Tax Foundation

there is not one high tax burden state that has grown as fast as the average state in the nation—again not one.

Every single high tax burden state has lost jobs over the past decade. The average employment growth for all nine low tax burden states is 4.72 percent. (Excluding Alaska and Wyoming, it is 2.17 percent.) The average for all 50 states is 0.51 percent, while the nine highest tax burden states suffered a loss of 2.89 percent. For California employment growth is even worse, at -4.8 percent.

Despite its poor economic record, California's right at about the national average in population growth, at 8 percent. But even this number is no vindication of the state's policies. Its growth is due largely to immigrants from Latin America and Asia, who generally come from even weaker economies. Domestic in-migration, however, is -3.9 percent. This compares to a rate of -2.48 percent for the average of high tax states, and the national average of 0.9 percent. Domestic in-migration to the lowest burden states is 3.60 percent. When you take into consideration that California didn't gain a Congressional seat for the first time since 1850, while Texas gained four, California is in deep trouble.

Policy #5: Right-to-Work Laws

States cannot focus solely on eliminating or lowering their anti-growth personal and corporate income tax rates to increase growth. There is more to prosperity than that. It is also very true that states that have right-to-work laws grow faster than states with forced unionism.

As of today there are 22 right-to-work states and 28 union shop states. Over the past decade (2001-2010) the right-to-work states grew faster in nearly every respect than their union shop counterparts (Table 10). In February 2012, right-to-work legislation passed in Indiana. However, the data will not reflect this change until next year's edition of *Rich States, Poor States*.

The movement of businesses from forced union states has accelerated in recent years. The high profile National Labor Relations Board (NLRB) versus Boeing case, where Boeing wanted to open a new production facility in the right-to-work state of South Carolina instead of the forced union state of Washington, is just one example of many. To date, the NLRB/Boeing issue has not been fully resolved. The NLRB has enjoined Boeing from opening a facility in South Carolina. It claims that Boeing has broken federal law by moving to South Carolina as retribution against its Washington labor force for having called strikes in the past.[12]

A 2010 study in the *Cato Journal* by a good friend of ours, economist Richard Vedder of Ohio University, found that between 2000 and 2008, 4.8 million Americans moved from forced union states to right-to-work states.[13] That's one person every minute of every day. Right-to-work states are also getting richer over time. Professor Vedder found a 23 percent higher per-capita income growth rate in right-to-work states than in forced union states. From 1977 to 2007, that amounted to $2,760 in per person income. That's a substantial differential.[14]

Table 10 | **The 22 Right-To-Work States and the 28 Forced Union States**

10-Year Economic Performance (2001-2010 unless otherwise noted)

	Gross State Product Growth	Personal Income Growth	Non-Farm Payroll Employment Growth	Population Growth
22 Right-To-Work States*	52.83%	49.99%	2.80%	11.85%
U.S. Average*	46.61%	43.71%	0.51%	8.63%
28 Forced Union States*	41.72%	38.78%	-1.29%	6.09%

*Equal-weighted averages
Source: Laffer Associates

A more recent study by the Cascade Policy Institute measures the impact of right-to-work laws on employment growth, income growth, and migration.[15] Authors Eric Fruits and Randall Pozdena analyze where Oregon could have been economically with right-to-work laws in place by comparing the Beaver State to Idaho, which passed right-to-work in 1985. The study calculates that Oregon could have seen 14 percent higher employment, 10 percent higher personal income, and 13 percent higher wage and salary income. In addition, Fruits and Pozdena incorporate IRS migration data to conclude that, all else equal, Oregon could have seen a net domestic migration from non-right-to-work states 14 percent higher than was actually the case. Finally, the study shows that if lawmakers were to implement right-to-work this year, Oregon would experience higher employment, income, and in-migration.

Right-to-work states have even experienced higher wage growth than forced union states. When adjusting for the cost of living in each state and the fact that right-to-work states were poorer to begin with, a 2003 study in the *Journal of Labor Research* by University of Oklahoma economist Robert Reed found that wages rose faster in states that don't require union membership.[16]

Employers that move away from forced union states mainly do so to avoid dealing with issues such as intrusive union rules, the threat of costly work stoppages, and lawsuits.

Admittedly, we are dealing with small sample sizes. Only six states are both right-to-work states and no personal income tax states: Texas, Tennessee, South Dakota, Nevada, Florida, and Wyoming. Three states without a personal income tax have forced

Table 11 | **No Income Tax, Right-To-Work States versus No Income Tax, Forced Union States**

10-Year Economic Performance (2001-2010 unless otherwise noted)

State	Gross State Product Growth	Personal Income Growth	Non-Farm Payroll Employment Growth	Population Growth
Wyoming	105.6%	74.7%	15.2%	14.3%
Nevada	58.9%	53.0%	6.1%	28.9%
South Dakota	58.5%	49.8%	6.4%	7.3%
Texas	57.7%	59.6%	8.7%	17.9%
Florida	47.7%	51.5%	0.2%	15.0%
Tennessee	38.6%	41.4%	-2.8%	10.3%
6 No Income Tax Right-to-Work States*	61.15%	54.99%	5.63%	15.61%
No Income Tax Right-to-Work States excluding WY*	52.27%	51.05%	3.72%	15.86%
U.S. Average*	46.61%	43.71%	0.51%	8.63%
No Income Tax Forced Union States excluding AK*	41.48%	40.64%	1.16%	8.52%
3 No Income Tax Forced Union States*	53.33%	44.93%	4.84%	9.73%
Alaska	77.0%	53.5%	12.2%	12.1%
Washington	47.8%	48.5%	3.0%	12.3%
New Hampshire	35.2%	32.8%	-0.7%	4.7%

*Equal-weighted averages
Source: Laffer Associates

union laws (Alaska, Washington, and New Hampshire). Even so, their performance differences over the past decade (2001 to 2010) are astonishing. Of the nine no PIT states, those six that are also right-to-work have grown significantly faster than the three with forced union laws (see Table 11 on the previous page).

Conclusion

As we've seen from this chapter, every policy a state implements affects growth, but to what extent varies. Incentives matter. Taxes result in a higher cost of an activity, and therefore serve as a disincentive to partaking in the taxed activity. A tax on income, for example, means people will earn less. Likewise a sales tax will result in less consumption. Any tax is harmful in the sense that it limits an activity; however, some taxes are more harmful than others in that they do more to inhibit growth. Through our top nine versus bottom nine analyses of different policies, we have seen that the taxes most likely to inhibit growth are those that result in less income. States that wish to increase growth would best do so by eliminating or lowering their corporate and personal income tax rates. The data shows that a low tax rate on income leads to more growth than does a high, marginal tax rate. States with no personal or corporate income taxes outperform the states with the highest personal and corporate income taxes. On the other hand, states with low or no sales taxes do not greatly outperform states with the highest sales taxes. Since states need to raise money in order to provide services, the best way to do so would be to have a broad-based sales tax. Additionally, as seen through this chapter, the sales tax is one of the most stable forms of taxation. Even through a recession, sales tax revenue is fairly constant and significantly steadier than revenue from income taxes. The roadmap for state growth can be found in this chapter's data. Over time, we believe the states that choose to follow the roadmap will experience greater and faster growth than the states that choose to ignore it.

ENDNOTES

1 Justice Louis Brandeis. Dissenting Opinion: New State Ice Co. v. Liebmann (285 U.S. 262, 311). 1932.

2 Tennessee and New Hampshire impose an income tax on some forms of investment income.

3 Numbers may not add due to rounding.

4 Carroll, Robert. "Testimony before the Committee on Ways and Means Subcommittee on Select Revenue Measures." U.S. House of Representatives. March 3, 2011.

5 Poulson, Barry and Kaplan, Jules Gordon. "State Income Taxes and Economic Growth." *Cato Journal.* 2008.

6 Bartik, Timothy J. "Business Location Decisions in the United States: Estimates of the Effects of Unionization, Taxes, and Other Characteristics of States." *Journal of Business and Economics Statistics.* January 1985.

7 Mark, Stephen T., McGuire, Therese J., and Papke, Leslie E. "The Influence of Taxes on Employment and Population Growth: Evidence from the Washington, D.C. Metropolitan Area." *National Tax Journal.* March 2000.

8 We only went as far back as 1971 because we needed data from 1961 to calculate our ten year growth rates. 50 years worth of data – one full half century – was our time limit on case study data.

9 The personal income data is from the Bureau of Economic Analysis Regional Accounts. While GSP is a more comprehensive measure of state economic activity than personal income, the Bureau of Economic Analysis switched from the SIC industrial classification system to the NAICS industrial classification system in 1997. This created a discontinuous break in the GSP data. Due to this break, our analysis switches from GSP to personal income for the longer time-series analysis.

10 Recall that our time-series data goes back 50 years. This fact explains why the analysis in this section goes back 50 years.

11 Prante, Gerald. "Tax Foundation State and Local Tax Burden Estimates for 2008: An In-Depth Analysis and Methodological Overview." *Tax Foundation Working Paper No. 4.* August 7, 2008.

12 Laffer, Arthur B. and Stephen Moore. "Boeing and the Union Berlin Wall." *The Wall Street Journal,* May 13, 2011.

13 Vedder, Richard. "Right-to-Work Laws: Liberty, Prosperity, and Quality of Life." *Cato Journal,* Vol. 30, No. 1, pp. 171-180. 2010.

14 Vedder, Richard, Denhart, Matthew, and Robe, Jonathan. "Right-to-Work and Indiana's Economic Future." Indiana Chamber of Commerce. January 2011.

15 Fruits, Eric and Pozdena, Randall J. "Right to Work is Right for Oregon." Cascade Policy Institute. February 2012.

16 Reed, W. Robert. "How right-to-work laws affect wages." *Journal of Labor Research,* Vol. 24, No. 4. 2003.

Nashville, Tennessee

CHAPTER 3

Death Taxes: Economic Growth Killers

Death Taxes: Economic Growth Killers

The ideal goal of the tax code is to raise the funds necessary to run government. Unfortunately, in today's world, tax policy has many additional goals, including (but not limited to): Redistributing income, rewarding favored industries, and punishing behaviors that the government deems undesirable. Despite this greatly expanded tax mandate, finding an appropriate tax code would be relatively straightforward if only people would stop changing their behavior in response to changes in the tax code. It's like dodgeball; if only the other guy wouldn't duck when you threw the ball at him, then it would be easier to win. However, the other guy does duck, and he almost always ducks just when you're throwing the ball at him. In this sense, dodgeball and tax policy have a whole lot in common.

Imposing high tax rates on a narrow tax base is undesirable for many reasons. They produce disproportionately large distortions and thereby seriously damage the economy while yielding little direct tax revenue. High tax rates are direct incentives for people to evade, avoid, or otherwise not report taxable income. A narrow tax base, in turn, allows those same people plenty of tax-free alternatives where they can safeguard their income. High tax rates with a narrow tax base are a toxic combination that decreases other tax revenues. Death taxes are a good illustration of this fact.

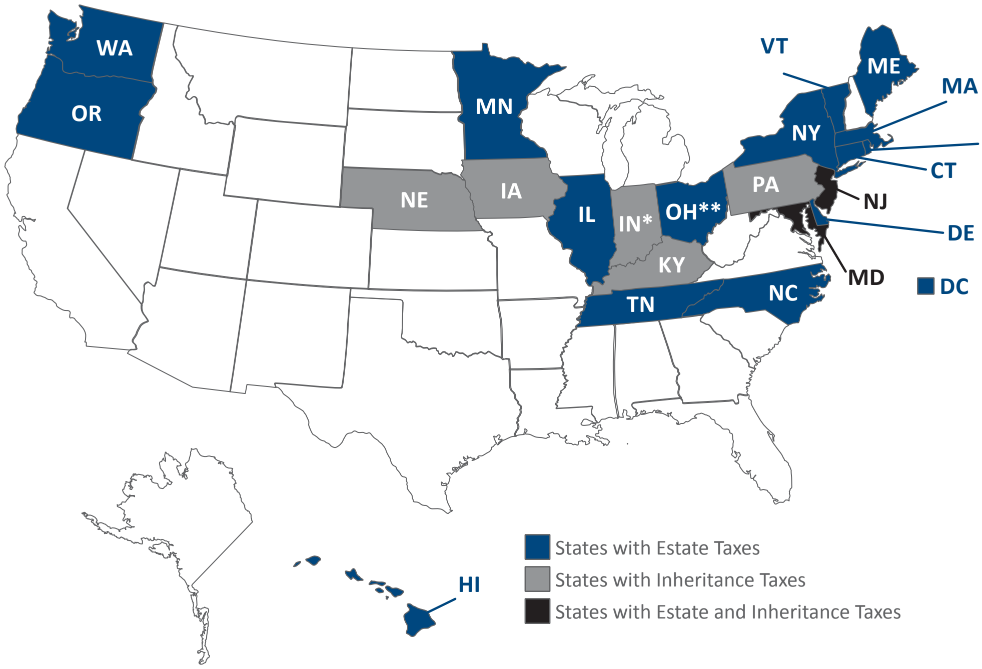
Death Taxes Kill Economic Growth

State inheritance and estate taxes, collectively known as "death taxes," are the poster boys for bad tax policy. Tennessee small business owner Tim Keller can tell you that from painful personal experience. He had planned to expand his business, which his family founded in 1946. Tragically his father passed away, leaving behind death tax liabilities Tim described as a "millstone … tied to the expansion of our business." He had to put on hold his plans to grow the business and create more jobs for Tennesseans so that he could meet the demands of the death tax.[1]

As Tim discovered, death taxes are not just taxes on "millionaires and billionaires" either: Small businesses with assets above the exemption level are responsible for death taxes even though they may not have cash on hand. Some states start taxing estates at just $338,333, and rates can soar up to 19 percent, meaning small businesses must sell off their assets in order to afford the death tax liability.[2] Death triggers at least two different taxes. There is an estate tax levied on your total property value when you die, while your heirs pay an inheritance tax to receive your property. These taxes are in addition to a gift tax, which you must pay on anything valuable you give to a loved one over a certain exemption level. Gift taxes are separate from estate and inheritance taxes, but are many times used as a strategy in estate planning. Currently, 22 states impose at least one of these taxes (see Figure 9). Fourteen states levy only an estate tax, six states levy just an inheritance tax, two states levy both inheritance and estate taxes, and two states levy gift taxes.[3]

The tax-and-spend crowd claims that death taxes raise much needed revenue for state governments. In reality, however, they

FIGURE 9 | **Inheritance and Estate Taxes by State**



*Indiana's inheritance tax will be repealed by 2022.

**Ohio's estate tax will be repealed on January 1, 2013.

Source: American Family Business Foundation, 2012

strangle economic growth. States without death taxes often enjoy higher employment levels, increased population growth, and higher personal income growth than their death tax collecting counterparts (or as we call them, "states not to die in").[4] From the Rust Belt to the Sun Belt, this tax harms state economies.

Ohio and Connecticut: One State Acts on the Truth, Another Ignores It

We'll start our state analysis in the Rust Belt states of the Midwest and Northeast, where economically struggling Ohio and Connecticut both altered their estate taxes. Ohio repealed its estate tax effective January 1, 2013, which is a radical departure from its status of having one of the worst death taxes in the nation that kicked in at $338,333 of assets. On the other hand, Connecticut took a very different approach and expanded its death tax to even more of its residents.[5] We encourage all states to heed the lessons that Ohio and Connecticut learned (or ignored) with their decisions on death tax reform.

For years, Ohio families struggled under the state's damaging estate tax. The Buckeye State has, at least until January 1, the dubious distinction of having one of the lowest exemption in the country, ensuring financial headaches for most family farms and small businesses.[6] Some small businesses may be rich in assets, but lack cash, meaning that they must sell off their assets in order to pay the tax.[7] Moreover, when you combine Ohio's estate tax with the federal estate tax, Ohioans could pay up to 40 percent on a family-owned business.[8]

As in other states with a high death tax, successful Ohioans are tempted to leave town to save their families a large tax bill. The late Howard Metzenbaum, who represented Ohio in the U.S. Senate as a dedicated liberal for nearly 20 years, seemed to understand the incentive. Americans for Prosperity described his decision this way:

Though a lifelong Ohioan, the Senator moved to Florida in 2002, according to a declaration of domicile filed with the Broward County Clerk's office in 2003… As he neared the end of his life, the former Senator also saved his family from paying Ohio's death tax, which features one of the highest state rates (7 percent) and lowest asset thresholds—$338,333—in the country. Florida famously has no income or estate tax, which is one reason other than the climate that it is home to so many northern-born retirees.

Sen. Metzenbaum thus denied the state in which he lived most of his life a parting financial gift.[9] Sen. Metzenbaum isn't the only one, however: Josh Mandel, the state's treasurer, recently remarked that "many small business owners, farmers and middle class retirees have fled Ohio to avoid this punitive estate tax…places like Naples and Palm Beach have become second capitals of Ohio."[10] Between 2001 and 2010, Ohio lost 370,708 taxpayers to other states, earning the state a net migration rank of 6th worst in the nation.

Not only does the estate tax contribute to Ohio's shrinking population, it also fails to raise revenue for the state. According to recent estimates, Columbus received less than 0.02 percent of its revenue from the estate tax.[11] Sagging revenue from the estate tax isn't just an Ohio phenomenon either: According to a 2009 Duquesne University study, the federal estate tax generates only about one percent of Washington's total revenue. Each year as many as 6,000 small businesses are liquidated or absorbed by larger corporations in an attempt to pay the federal estate tax. Local and state governments lose tax revenue from small businesses, leading the authors to conclude, "For every dollar in revenue the estate tax raises, state and local governments lose almost $3 in other taxes."[12] Furthermore, the study estimates that state and local revenues would grow by $9.3 billion annually if the federal estate tax were eliminated.[13]

Recognizing that there are better ways to raise revenue, Gov. John Kasich signed a budget that included a provision to repeal the death tax last session. As the governor describes it, "We've got a budget that maintains tax cuts and kills the death tax so people aren't visiting the undertaker and their accountants on the same day."[14] Effective January 1, 2013, this reform will welcome family-owned businesses and investments back to the Buckeye State.[15] With this barrier to prosperity out of the way, Ohioans now can focus on growing their businesses. In fact, research from the Buckeye Institute suggests that the repeal may enable small businesses to create more than 58,000 jobs in Ohio.[16]

Connecticut Moves in the Wrong Direction

Whereas Ohio repealed its estate tax, Connecticut subjected *more* people to it. In the misguided hope of soaking the rich and closing a $3.3 billion budget shortfall, Gov. Dannel Malloy signed a budget that lowered the estate and gift tax thresholds from $3.5 million to $2 million (retroactive to January 2011) and kept the rate at 12 percent.[17]

But a 2008 study by the Connecticut Department of Revenue demonstrates that the death tax greatly harms economic growth. For example, it found that states without an estate tax had almost 50 percent *greater* growth in job creation.[18] Gov. Malloy chose to ignore the fact that states without estate taxes enjoy higher growth in personal income and population.[19]

Curious about why more than 100,000 people had left the Constitution State, the Connecticut Department of Revenue Services also did a survey as part of the study.[20] Interestingly enough, the average gross estate of those who left was $7.5 million, and their average taxable income was $446,000.[21] Approximately 50 percent of the people surveyed said that they changed their residence primarily because of the state's hefty death tax, and 76 percent said that it was one of the top reasons why they left.[22] Furthermore, the study also found that the state gaining the most people from Connecticut's out-migration was Florida, which does not have an estate tax.[23] Need we say more?

The Good, Bad, and Ugly: More Death Tax Developments

Connecticut and Ohio weren't the only states facing hard decisions about the death tax. States across the country had to decide whether to follow Ohio's example or Connecticut's.

Free Financial Advice: Don't Die in Illinois, Maryland, New Jersey, or Washington

Unfortunately, some states have ignored the evidence about the death tax's harmful impact, earning an infamous spot in our "states not to die in" list.

As part of Illinois's massive tax hike package last year, Gov. Pat Quinn resurrected the estate tax, which has a top rate of 16 percent.[24] This hefty tax certainly makes Illinois less competitive with its neighbors. Sensing an opportunity to attract family businesses and investments away from Illinois, the Indiana legislature passed legislation this session to phase out its inheritance tax over the next 10 years (more on this later).

High tax states Maryland and New Jersey also made our list of where not to die. They are the only two states that impose both a state level estate tax ***and*** inheritance tax (remember, this is in addition to the federal estate tax).[25] For the privilege of dying in Maryland, a taxpayer could pay up to 16 percent in estate taxes (above a $1 million exemption). There is also a 10 percent inheritance tax on everything left to an heir.[26] Furthermore, because Marylanders are also responsible for the federal estate tax, they could face a combined federal and state death tax rate of up to 45.4 percent.[27]

Additionally, we must mention Washington state's heavy estate tax. With an exemption of $2 million and a rate of 19 percent, it has one of the highest rates in the nation.[28]

Fortunately, there is a better way to spark economic growth in your state. Some states are listening to taxpayers and have bold plans to become more competitive for jobs and investments.

Will Tennessee, Nebraska, and other states follow in Ohio's footsteps?

On a brighter note, other states have decided to protect taxpayers and reform their death taxes.

After Nebraska was featured in a *Forbes* article titled "Places Not to Die in 2012," Gov. Heineman is determined to take action. In his State of the State address, Gov. Heineman expressed strong support for repealing Nebraska's inheritance tax. Currently, it is only one of eight states with one.[29]

As we mentioned earlier, the Indiana legislature wants to compete with neighboring states for investments and jobs. This session, legislators passed a bill that will phase out the state's burdensome inheritance tax by 2021. This legislation also doubles the inheritance tax exemption for children and grandchildren.[30] Pleased to provide Hoosiers with vital tax relief, Gov. Mitch Daniels reflected that the inheritance tax had "made life very difficult on family-owned businesses and family-owned farms in the past, some of whom were forced to sell just to pay the taxes."[31]

On the West Coast, taxpayers in Oregon are working hard to repeal the Beaver State's onerous death tax, which features an estate tax with a $1 million exemption and rates as high as 16 percent. Grassroots volunteers aim to put death tax repeal on the ballot in November.[32]

In Tennessee, meanwhile, legislators will soon consider a proposal to reduce or repeal the inheritance tax.[33] There is also legislation moving through the statehouse to repeal Tennessee's gift tax.[34] Given the economic effects of both taxes, which we'll discuss below, both should be welcome developments.

The Death Tax is a Blight on Tennessee's Tax Policy

Tennessee is a great lens from which to study state death taxes because, apart from the gift and estate taxes, Tennessee's state economic policies are generally superb.[35] It thus provides a great study on the harmful effects of death taxes on an otherwise sound set of state tax policies.

Tennessee does not levy a personal income tax on wages—although it does levy a tax on dividends and interest.[36] Tennessee

Table 12 | **Determining the Gift Tax Liabilities of a Tennessee Resident**
Based on Current Federal and State Exemptions and Rates

Step 1. Total Taxable Gift
Federal and State Gift Tax Exemptions for a $5 Million Gift

Federal gift tax exemption (lifetime)	$5,000,000
Federal taxable gift*	$0
Tennessee gift tax exemption	$13,000
Tennessee gift taxable gift	$4,987,000
Total Taxable Gift	$4,987,000

Step 2. Taxes Due to Tennessee
Tennessee Gift Tax Brackets and Rates for a $5 Million Gift

Tennessee Gift Tax Brackets	First $40,000	$ 40,000.01 to $240,000	$240,000.01 to $440,000	$440,000.01 and over	Total
Tennessee Taxable Gift	$40,000	$200,000	$200,000	$4,547,000	$4,987,000
Marginal Tax Rate	5.50%	6.50%	7.50%	9.50%	
Gift Tax Due to Tennessee	$2,200	$13,000	$15,000	$431,965	$462,165

*For the purpose of this table, we assume that none of the $5 million federal lifetime exemption has been used.
Source: Laffer Associates

also has a relatively low corporate income tax rate of 6.5 percent.[37] It is a right-to-work state with one of the lowest percentages of the workforce represented by unions in the nation.[38] Additionally, Tennessee's property taxes are quite reasonable.[39]

But the state's Achilles' heel is its gift and estate taxes. Tennessee is one of a minority of 22 states that levies an estate or inheritance tax.[40] It is also one of only two states (Connecticut is the other) that levies a separate gift tax.[41]

The top estate tax rate in Tennessee is 9.5 percent, while gift tax rates can soar to 16 percent.[42] There is a gift tax exemption of $13,000 per recipient per year. There are, however, no lifetime gift exemptions under state law as there are under federal law, meaning that even donors who are not subject to federal tax will have to pay state gift taxes.[43]

Tennesseans who want to take advantage of the higher lifetime federal gift tax exclusion create a $4.987 million state taxable event for themselves that is unique to Tennessee. Table 12 shows the math. Tennesseans who want to take advantage of the beneficial federal policy must pay more than $462,000 to the state. On the other hand, moving out of Tennessee could save a person that amount in taxes. Wouldn't you move to another state to avoid a gift tax liability of half a million dollars?

With this as backdrop, Tennessee's problem is starkly apparent. Contrary to the expectations of "social justice" advocates, taxes do not redistribute income. They redistribute people. The higher the tax rate, the narrower the tax base, and the more mobile the people being taxed, the greater the redistribution of people. The result is less redistribution of income, meaning less tax revenue for the government.

Gift and estate taxes, as opposed to Tennessee's other taxes, are levied on a narrow tax base that represents a very small subset of a state's population. This population is highly mobile, so the people subject to Tennessee's gift and estate taxes have the ability to change the location of their wealth to avoid those taxes.

All of these features make gift and estate taxes the exact opposite of what an optimal tax base should be. Consequently, the economic outcome is a redistribution of people away from the states that levy death taxes toward states that do not. This is one specific example of the phenomenon we discuss in chapter 1, which is that people vote with their feet.

The incentive to move is strongest, obviously, for those people who must pay death taxes. When successful entrepreneurs move, Tennessee loses not only their income, but also the income and jobs their businesses create. It loses in other ways, too: Houses they would have bought, the purchases they would have made, and other taxes they would have paid (remember Golden Rule number 7).

Florida's Tax Laws Lure Successful Tennesseans to the Sunshine State

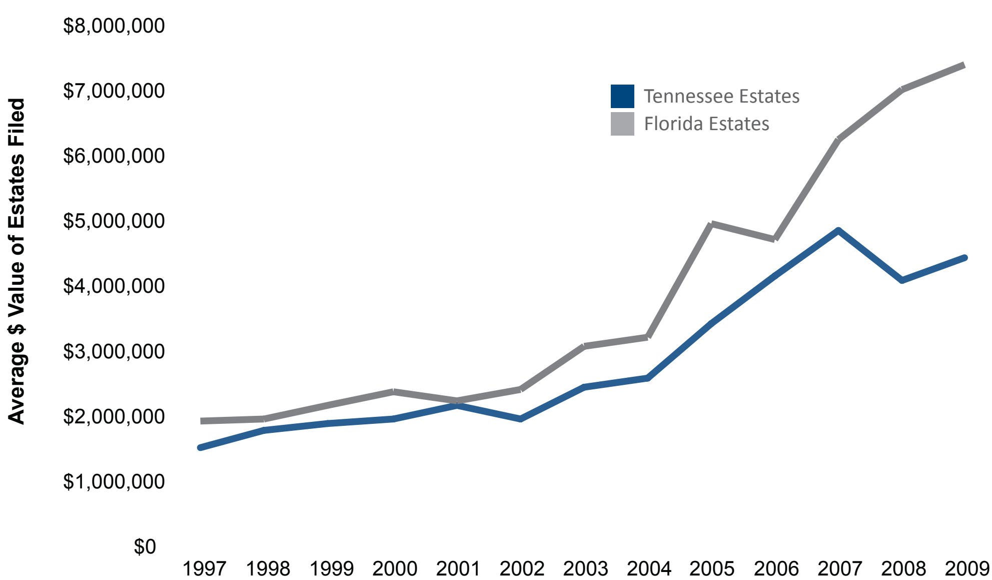
Then there is Florida. The Sunshine State is a major competitor for population and income. This makes sense due to Tennessee's close proximity to Florida and similarly competitive economic environment.

Florida, like most other no personal income tax states, does not impose a state estate tax. As a result, the people Tennessee loses to Florida tend to have much higher incomes, while the people Florida loses to Tennessee tend to have lower incomes. The result is an income premium for Florida. In fact, we estimate that the average income of Tennesseans moving to Florida is 13 percent higher than the average income of Floridians moving to Tennessee.

Migration and income are two ways of looking at the effects of these states' estate tax policies. But more data from the IRS gives us two other tools of analysis. The first data set is the average size of estates in Florida and Tennessee in the years 1997 through 2009. The second is the percentage of population filing estate tax returns in both states in those years. Using this data you can quickly see the type of damage Tennessee's gift and estate taxes have wreaked.

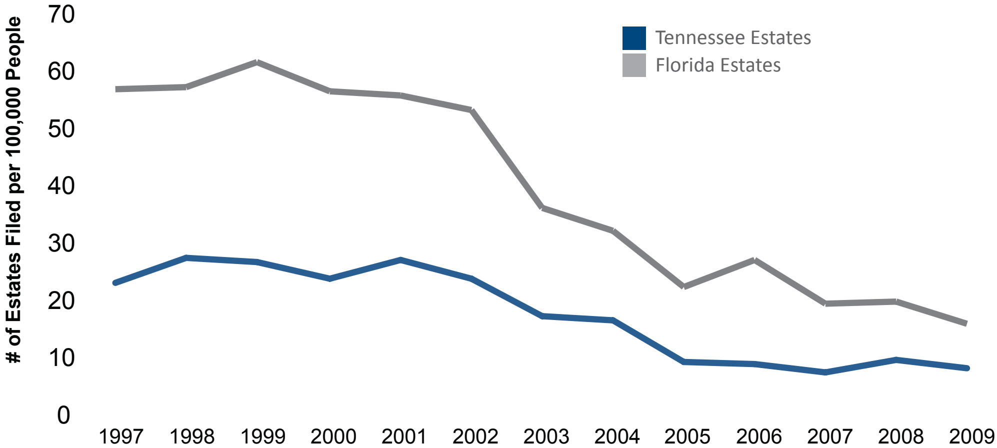
In 1997, the average size of an estate in Tennessee was $1.5 million, and in Florida it was $1.9 million, a full 25 percent higher than in Tennessee. While that difference was a substantial advantage for Florida, it paled in comparison to what happened 12 years later. In 2009, Florida's average estate was $7.4 million; in Tennessee it was $4.4

FIGURE 10 | **Size of Average Federal Estate Filed in Tennessee and Florida**
1997-2009



Source: Internal Revenue Service

FIGURE 11 | **Number of Federal Estate Tax Returns Filed per 100,000 People in Tennessee and Florida**
1997-2009



Source: Internal Revenue Service, U.S. Census Bureau

million. While the average size grew in both states, Florida's average estate was almost 75 percent larger than Tennessee's (Figure 10).[44] The incentive is for Tennessee's wealthiest and most productive taxpayers to move to Florida before they have to pay the estate tax.

While the estate size data is powerful enough, it's reinforced by data revealing the number of estate tax returns filed as a share of each state's population (Figure 11). In 1997, there were an average 24 estate tax returns filed for every 100,000 people in Tennessee. In that same year, Florida had 57 tax returns per 100,000 people—more than double the Tennessee rate. By 2009 federal filing requirements had changed, and only eight estate tax returns per 100,000 people were filed in Tennessee. On the other hand, 16 returns per 100,000 people were filed in Florida.

To reiterate, not only was the average federal estate size much larger in Florida than in Tennessee, but large estates were much more common in Florida than in Tennessee. The most shocking observation in this discussion is that these differences are increasing sharply.

Estate Taxes Raise Very Little Revenue

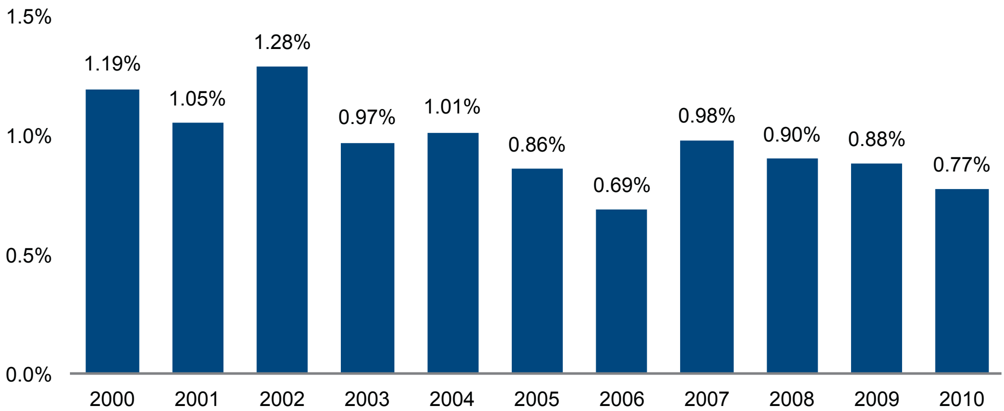
In terms of economic growth, Tennessee pays a high price for imposing state gift and estate taxes. Even from an accounting perspective, Tennessee's gift and estate taxes contribute very little to overall state tax revenues (see Figure 12). In 2010, gift and estate taxes accounted for less than one percent of total state revenues. In fact, these taxes have not exceeded 1.5 percent of revenues for more than a decade.[45]

Eliminating Tennessee's estate tax comes with a very small revenue loss. According to the Tennessee Department of Revenue, Tennessee's gift and estate taxes raised only $81 million in fiscal year 2010 and $113 million in fiscal year 2011.[46]

That is in static dollar terms. But the world is not static: Eliminating Tennessee's gift and estate taxes will increase the rate of economic growth in Tennessee. Stronger economic growth benefits the government through higher tax revenues, and it will more than offset the small static revenue loss to the state and provides extra revenue to the local governments as well.[47]

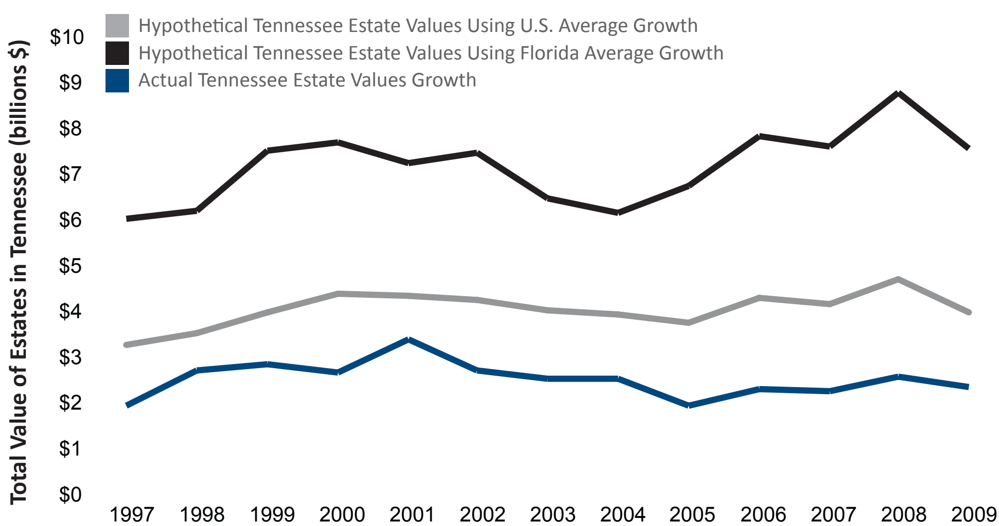
We estimate that had Tennessee eliminated its gift and estate taxes 10 years ago, its economy would have been over 14 percent larger in 2010. The state also would have gained 200,000 to 220,000 more jobs. Moreover, state and local government revenues

FIGURE 12 | **Tennessee's Gift and Estate Taxes as a Percentage of Total Tax Revenues**
2000-2010



Source: U.S. Census Bureau

FIGURE 13 | **Total Dollar Value of All Estates in Tennessee (in billions)**
1997-2009



Source: Internal Revenue Service, U.S. Census Bureau

would have benefitted from the more robust economic growth, gaining between $7 billion and $7.3 billion.[48]

The Estate Tax Has Depressed the Value of Tennessee's Estates and Economy

Not only does the estate tax raise very little revenue, it also is a drag on Tennessee's economic growth. Overall, the value of estates in Tennessee could have been between $1 billion and $6 billion larger each and every year over a 22-year period (see Figure 13). Between 1997 and 2009, Tennessee's estates could have been $21.4 billion larger had they grown at the U.S. national average and $64.5 billion larger had they grown at Florida's average growth rate. Clearly, Tennessee's economy has lost enormous amounts of accumulated wealth due to gift and estate taxes. This wealth would have created more jobs in Tennessee, alleviated some of Tennessee's poverty, and significantly increased Tennessee's state and local tax revenues.

Eliminating Tennessee's Gift and Estate Taxes Can Bring Dynamic Benefits

No matter which way you look at it, the potential dynamic benefits for Tennessee are impressive. All residents of Tennessee pay an extremely high cost for the state's gift and estate taxes, whether they are subject to it or not.

Eliminating the gift and estate taxes will raise the total amount of investment and economic activity in Tennessee. Greater economic activity will lead to higher consumption, a stronger housing market, and a larger total amount of dividends and interest income reported. Public treasuries will also benefit. The types of government tax revenues Tennessee could generate by eliminating the gift and estate taxes include:

- Higher revenues from dividends and interest income;
- Higher consumption in the state, therefore higher state sales tax revenues, excise tax revenues, and local sales tax revenues;
- Higher property values, therefore higher local property tax revenues; and,
- Higher employment.

We have given you just a glimpse of the dynamic benefits Tennessee could gain if it eliminated the gift and estate taxes. There are many ways to explain how eliminating this tax would boost the economy. Next, we analyze Tennessee's gift and estate taxes by first focusing on the benefits of accumulating wealth and then discussing how Tennessee can catch up to the top performing no income tax states.

Repealing the Death Tax Can Help Tennessee by Letting Wealth Grow and Work

Wealth is a key factor in creating jobs, raising productivity, and in short, increasing economic growth. Without wealth there is no capital accumulation. Without capital accumulation, there is no technological progress. Both capital and technology are key inputs for generating economic growth.[49] Because the gift and estate taxes diminish wealth accumulation, Tennessee's economic growth is less than it should be. While tax policy reduces production, it also reduces consumption. Wealthier societies not only produce more, they consume more as well, a phenomenon that economists call "the wealth effect." One recent study estimated that every extra dollar of wealth leads, after a few years, to an additional six to nine cents of increased consumption.[50]

People adjust their estates in response to both federal and state tax policy to minimize the ultimate tax burden. Nevertheless, if we use the size of the lost estates between 2000 and 2009 as a guide, the total wealth of Tennessee is $16.6 billion to $48.3 billion smaller than it would have been over this entire period. This is wealth that could have been put to use investing in Tennessee businesses each and every year between 2000 and 2009. Instead, these assets have either migrated away from Tennessee or never came to Tennessee in the first place and have been subsequently put to work in other states.

According to the Federal Reserve Board, total U.S. assets in 2000 were around $50.1 trillion.[51] Based on Tennessee's share of the U.S. economy, this would equate to a total asset base in Tennessee somewhere in the neighborhood of $901 billion. The $16.6 billion to $48.3 billion in lost assets, had they not been lost due to Tennessee's gift and estate taxes, represents around a 1.8 percent to 5.4 percent dent in Tennessee's total asset base. A higher asset base directly translates into greater economic growth. Greater economic growth around the same range as the increase in its asset base implies that Tennessee's economy, as measured by gross state product, could have been $6.1 billion to $18.2 billion larger than it currently is without the state gift and estate taxes.[52]

A larger economy would have led to more jobs and higher tax revenues for the state. Based on the size of Tennessee's total tax revenues relative to the size of its economy in 2010, Tennessee would have experienced an increase of total tax revenues (excluding the gift and estate tax revenues) around $247.8

million to $746.9 million. That's far more than the $80 million to $100 million in tax revenues that Tennessee's gift and estate taxes raise in an average year.[53]

Death Tax Repeal Can Help Tennessee's Economy Catch Up

We have just finished looking at how eliminating the death tax would increase Tennessee's asset base and tax revenues. Now we will look at how much larger the economy could grow. Tennessee already has many features of the nine states that do things right. It does not have a tax on earned income, and it has a fairly low corporate income tax, a low overall tax burden, and it is a right-to-work state. All four of these features are associated with a significant growth premium. So Tennessee's economy should be growing significantly faster than the U.S. average, but it is not. As Table 13 shows, Tennessee does not reap an economic growth premium in large part due to its gift and estate taxes.

The main difference between Tennessee and the other pro-growth states is Tennessee's gift and estate taxes. For instance, every one of the slower growing zero personal income tax rate states violate one of the key pro-growth policy recommendations. Both New Hampshire and Washington state are no personal income tax states, but they are slow growing compared with the rest of the no income tax states. New Hampshire is not a right-to-work state. Washington state is not a right-to-work state, either, and it imposes an estate tax, though not a gift tax.

Like New Hampshire and Washington, Tennessee has one policy that, if changed, could make a difference. Removing Tennessee's gift and estate taxes would eliminate the most important policy obstacle that differentiates Tennessee from the other pro-growth states. With this obstacle removed, there is no reason to believe that Tennessee's rate of economic growth would not resemble the average rate of economic growth for the pro-growth states. Had Tennessee's economic performance matched the performance of the pro-growth tax states between 2001 and 2010, by 2010 Tennessee's economy would have been significantly better off (Table 14 on the next page).

Tennessee is both one of the nine states with the lowest tax burden and one of the nine states that does not levy a personal income tax. Over the past decade, if Tennessee's economy had grown at the average growth rate of the nine states with the

Table 13 | **Tennessee's Economic Performance Compared to the Average of Pro-Growth States**
2001-2010

States	State & Local Government Tax Burden as a % of Personal Income*	Top Personal Income Tax Rate	Top Corporate Income Tax Rate	Gross State Product Growth	Non-Farm Payroll Employment Growth	Population Growth	State & Local Tax Revenue Growth**
9 States with Lowest Tax Burden as a % of Personal Income	7.67%	1.21%	4.35%	58.57%	4.72%	12.4%	120.94%
9 States with No PIT	7.91%	0.00%	4.74%	58.54%	5.36%	13.65%	81.53%
8 States with Lowest Marginal CIT Rate	8.39%	2.66%	2.56%	59.13%	4.8%	11.98%	69.32%
Tennessee	7.6%	0.0%	6.5%	38.6%	-2.8%	10.3%	61.7%

*State & Local Government Tax Burden as of 2009 from Tax Foundation
**1999-2008
Source: U.S. Census Bureau, Bureau of Economic Analysis, Tax Foundation, and Laffer Associates

Table 14 | **Potential Additional Economic Performance in Tennessee**
Annual Benefit as of 2010

States	Additional Gross State Product ($ billions)	Additional Non-Farm Payroll Employment	Additional Population	Additional Net Domestic Migration	Additional State & Local Tax Revenue ($ billions)
9 States with Lowest Tax Burden as a % of Personal Income	$36.64	203,252	103,539	4,887	$7.0
9 States with No PIT	$36.58	220,460	178,875	9,588	$7.3

Source: Laffer Associates

lowest tax burden or the nine states with no personal income tax, Tennessee would have greatly benefitted. The potential benefits include significantly higher output growth, larger employment growth, and higher tax revenue for Tennessee state and local governments. These benefits overwhelm the small revenues raised for the state by the gift and estate taxes.

Conclusion

No matter which way you look at it, broad-based taxes at the lowest possible tax rate provide people the least opportunity to avoid paying taxes—and the lowest incentive to do so. State inheritance, gift, and estate taxes are diametrically opposed to this fundamental canon of taxation. From Connecticut to Tennessee, death taxes are a classic example of bad economic incentives. These states have struggled with low employment growth, population losses, and sagging death tax revenue.[54] Prosperity for all Americans would be enhanced by eliminating death taxes.

Remember Tim Keller from the beginning of this chapter? His family-owned business had to put their plans to expand on hold after Tim's father passed away. The resulting death tax liabilities, combined with other financial challenges, proved to be an immense burden for his family. Another company acquired their business in 2008.[55] Unfortunately, Tim's story isn't unique—countless other small businesses face similar challenges trying to pay these taxes.[56]

The death tax hits homeowners, small business owners, and farmers disproportionately hard. Maybe that's why public polling has consistently shown that the death tax is one of the most unpopular taxes in existence. States with estate taxes are encouraging citizens to take their income, their jobs, and their capital and move to states that do not levy confiscatory taxes on the geese that lay the golden eggs. And that's why death taxes are the poster boys for bad tax policy.

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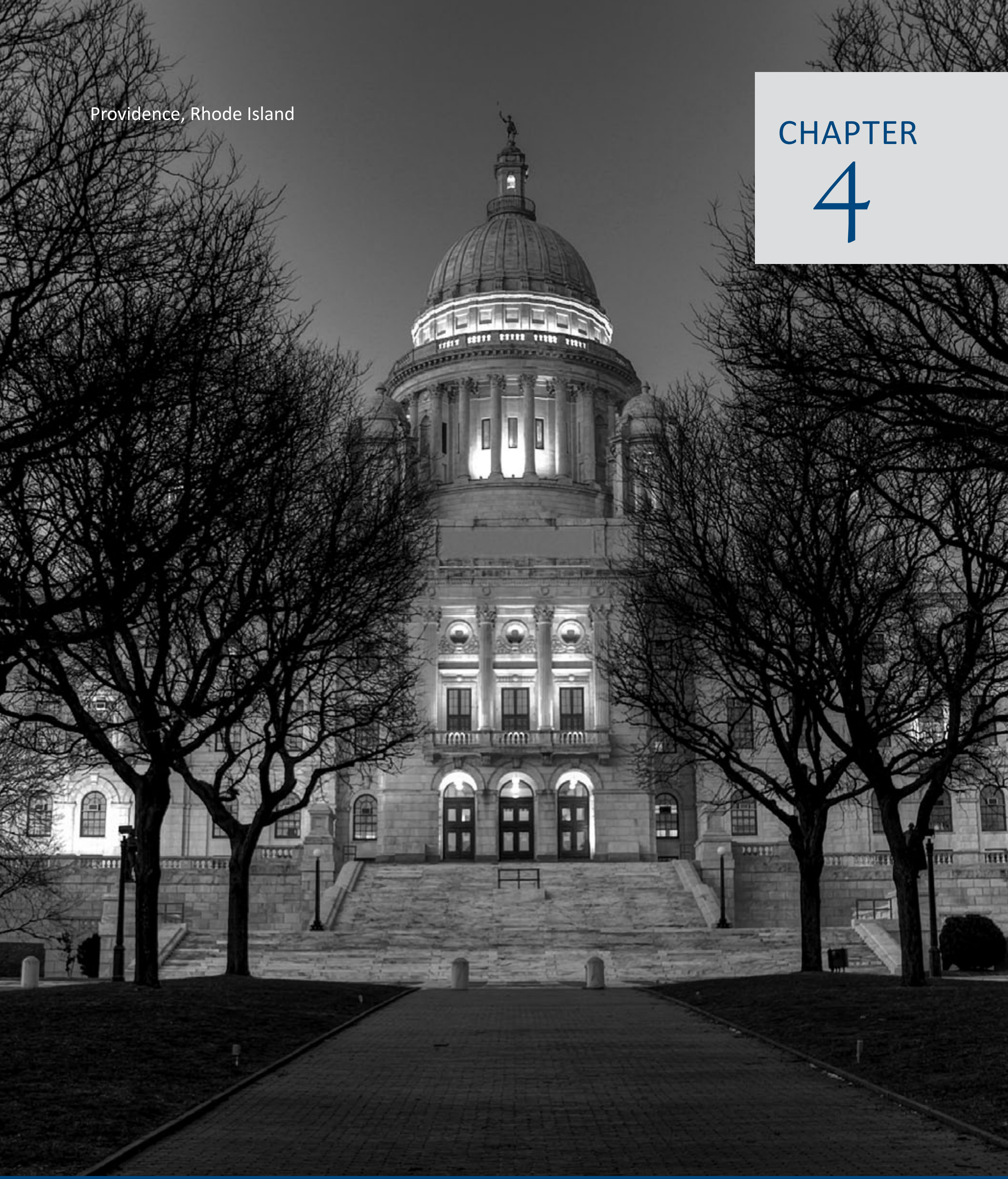


Providence, Rhode Island

CHAPTER 4

State Rankings

State Rankings

The Economic Outlook Ranking is a forecast based on a state's current standing in 15 state policy variables. 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.

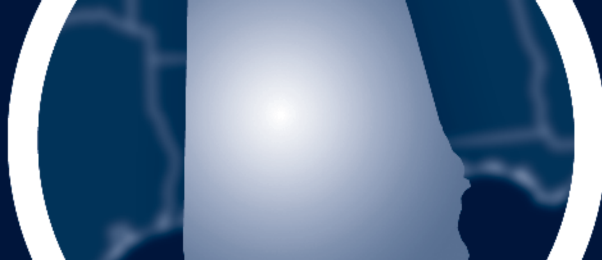
The Economic Performance Ranking is a backward-looking measure based on a state's performance on three important variables: Personal Income Per Capita, Absolute Domestic Migration, and Non-Farm Payroll Employment—all of which are highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.

Table 15 | **ALEC-Laffer State Economic Outlook Rankings, 2012**
Based upon equal-weighting of each state's rank in 15 policy variables

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

Table 16 | **ALEC-Laffer State Economic Performance Rankings, 2000-2010**

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



Alabama

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

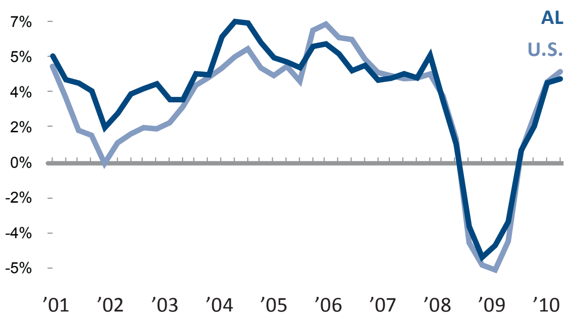
22 Economic Performance Rank

21 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

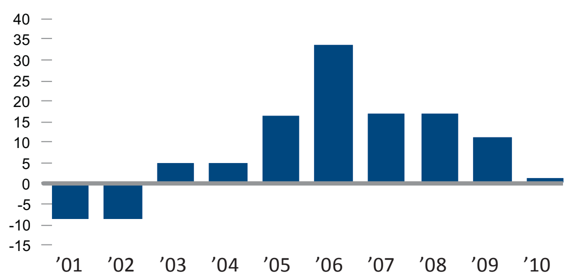
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 39.6% Rank: 18

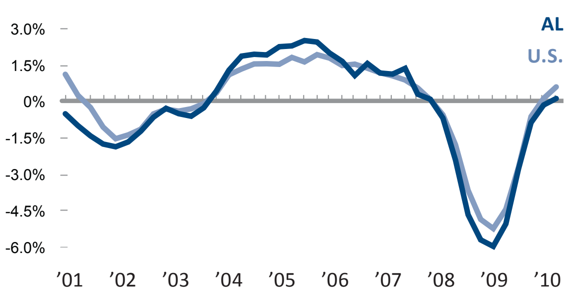


Absolute Domestic Migration
Cumulative 2001-2010 88,477 Rank: 14

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -3.2% Rank: 42



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**15**	**16**	**17**	**20**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.25%	12
Top Marginal Corporate Income Tax Rate	4.23%	6
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	-$1.95	1
Property Tax Burden (per $1,000 of personal income)	$15.13	1
Sales Tax Burden (per $1,000 of personal income)	$24.56	29
Remaining Tax Burden (per $1,000 of personal income)	$23.13	44
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.53	29
Debt Service as a Share of Tax Revenue	8.6%	26
Public Employees Per 10,000 of Population (full-time equivalent)	600.0	39
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	45.5	47
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.45	41
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Alaska

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

5 Economic Performance Rank

29 Economic Outlook Rank

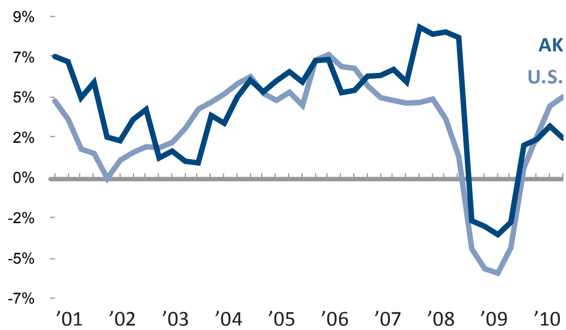
Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

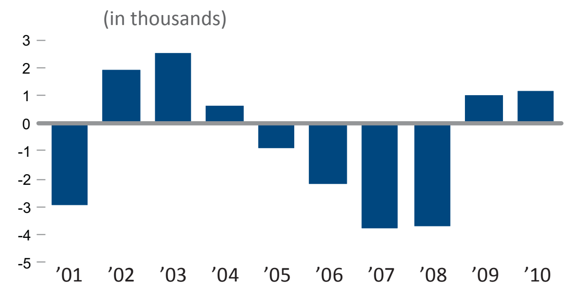
Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

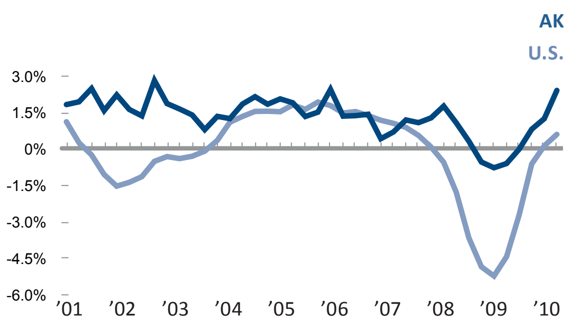
Personal Income Per Capita
Cumulative Growth 2000-2010 45.3% Rank: 8



Absolute Domestic Migration -6,221 Rank: 29
Cumulative 2001-2010



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 16.9% Rank: 2



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	37	38	22	29

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	9.40%	43
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$39.19	38
Sales Tax Burden (per $1,000 of personal income)	$6.59	5
Remaining Tax Burden (per $1,000 of personal income)	$15.89	14
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.92	21
Debt Service as a Share of Tax Revenue	7.1%	12
Public Employees Per 10,000 of Population (full-time equivalent)	762.4	49
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.6	33
State Minimum Wage (federal floor is $7.25)	$7.75	42
Average Workers' Compensation Costs (per $100 of payroll)	$3.10	49
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Arizona

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

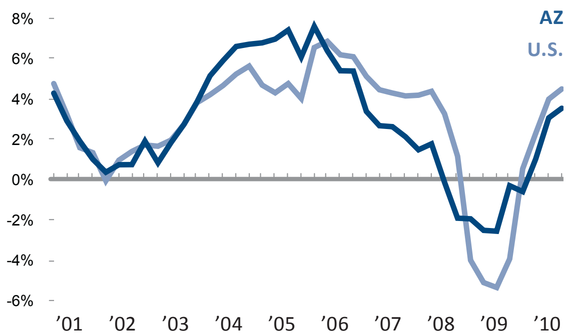
11 Economic Performance Rank

9 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Personal Income Per Capita

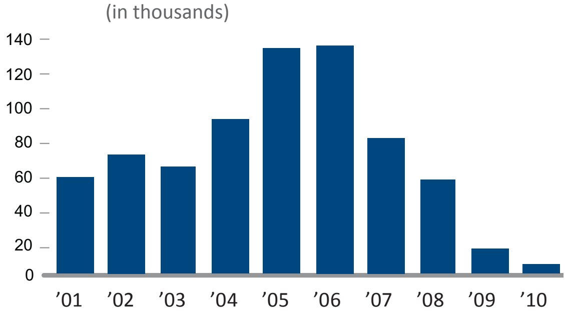
Cumulative Growth 2000-2010 31.9% Rank: 32



Absolute Domestic Migration

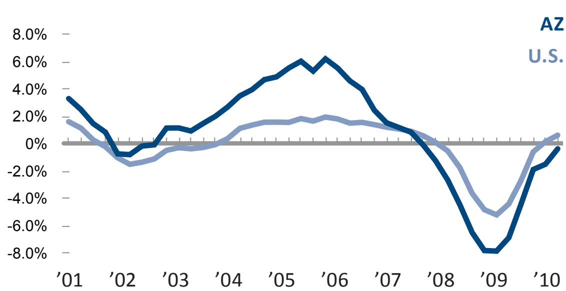
Cumulative 2001-2010 702,883 Rank: 3

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 7.1% Rank: 11



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**6**	**3**	**3**	**12**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.54%	13
Top Marginal Corporate Income Tax Rate	6.97%	23
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.50	30
Property Tax Burden (per $1,000 of personal income)	$32.01	26
Sales Tax Burden (per $1,000 of personal income)	$33.56	42
Remaining Tax Burden (per $1,000 of personal income)	$13.57	5
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$2.86	34
Debt Service as a Share of Tax Revenue	10.5%	43
Public Employees Per 10,000 of Population (full-time equivalent)	459.8	2
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.0	13
State Minimum Wage (federal floor is $7.25)	$7.65	38
Average Workers' Compensation Costs (per $100 of payroll)	$1.71	13
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Arkansas

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

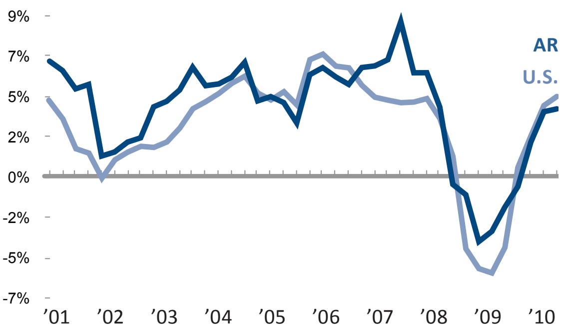
10 Economic Performance Rank

11 Economic Outlook Rank

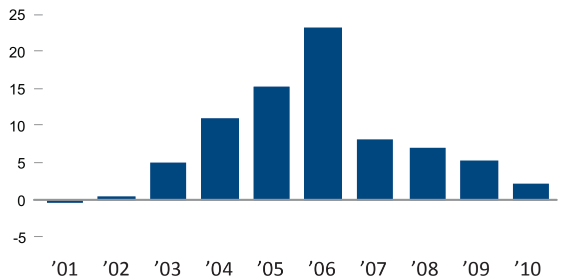
Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

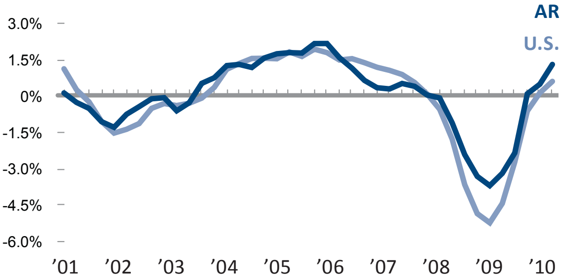
Personal Income Per Capita
Cumulative Growth 2000-2010 45.3% Rank: 7



Absolute Domestic Migration
Cumulative 2001-2010 77,407 Rank: 16
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 1.1% Rank: 22



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	11	12	13	13

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	34
Top Marginal Corporate Income Tax Rate	6.50%	19
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.03	37
Property Tax Burden (per $1,000 of personal income)	$16.93	3
Sales Tax Burden (per $1,000 of personal income)	$39.28	46
Remaining Tax Burden (per $1,000 of personal income)	$16.58	17
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.39	6
Debt Service as a Share of Tax Revenue	5.3%	3
Public Employees Per 10,000 of Population (full-time equivalent)	601.3	40
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	48.7	44
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.18	3
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

California

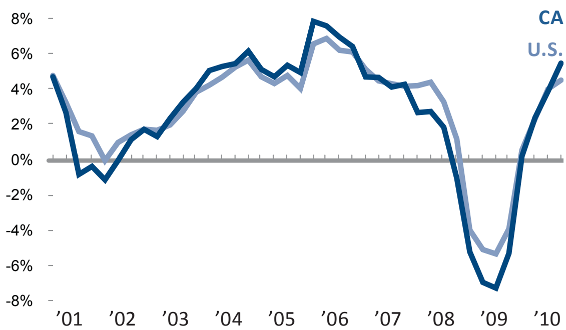
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

47 Economic Performance Rank

38 Economic Outlook Rank

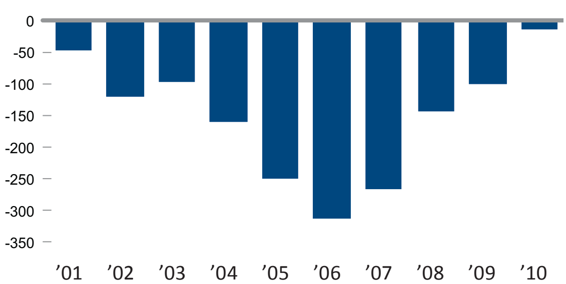
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 28.7% Rank: 40

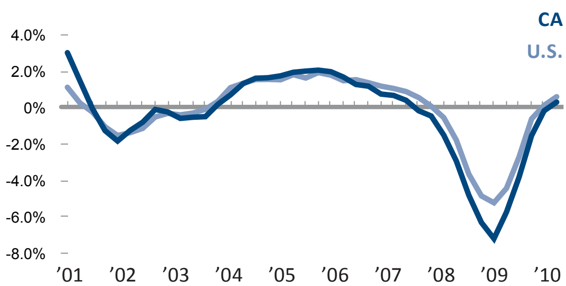


Absolute Domestic Migration
Cumulative 2001-2010 -1,505,126 Rank: 49

(in thousands)



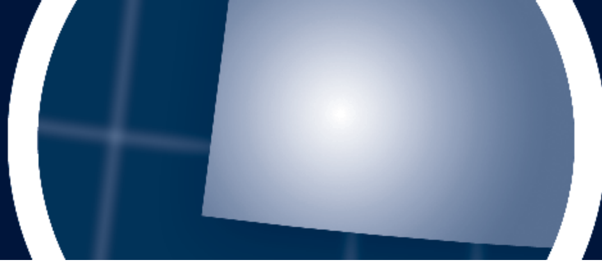
Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -2.5% Rank: 36



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	42	43	46	47

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.30%	47
Top Marginal Corporate Income Tax Rate	8.84%	38
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$36.90	50
Property Tax Burden (per $1,000 of personal income)	$34.33	30
Sales Tax Burden (per $1,000 of personal income)	$23.78	24
Remaining Tax Burden (per $1,000 of personal income)	$15.60	11
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$2.84	2
Debt Service as a Share of Tax Revenue	9.7%	35
Public Employees Per 10,000 of Population (full-time equivalent)	478.2	5
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	47.2	46
State Minimum Wage (federal floor is $7.25)	$8.00	43
Average Workers' Compensation Costs (per $100 of payroll)	$2.68	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4



Colorado

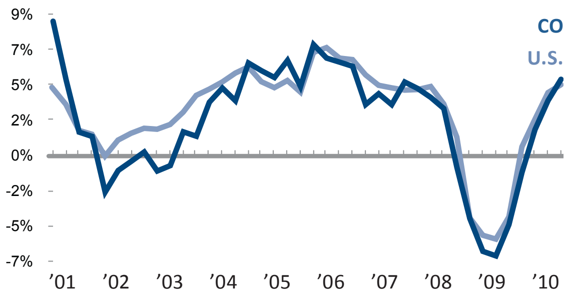
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

24 Economic Performance Rank

8 Economic Outlook Rank

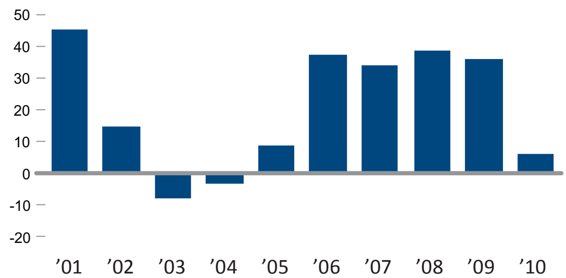
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 24.8% Rank: 47

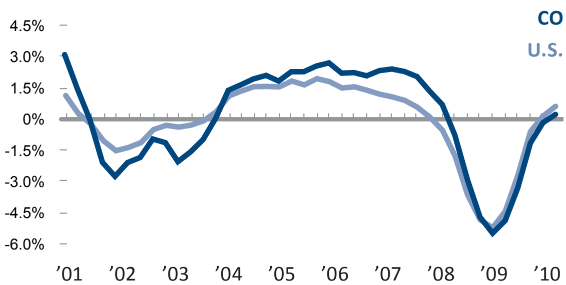


Absolute Domestic Migration
Cumulative 2001-2010 208,990 Rank: 10

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 1.9% Rank: 20



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	9	2	2	6

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.63%	14
Top Marginal Corporate Income Tax Rate	4.63%	8
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.86	20
Property Tax Burden (per $1,000 of personal income)	$29.87	20
Sales Tax Burden (per $1,000 of personal income)	$24.01	26
Remaining Tax Burden (per $1,000 of personal income)	$11.22	2
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$3.29	36
Debt Service as a Share of Tax Revenue	12.0%	47
Public Employees Per 10,000 of Population (full-time equivalent)	541.4	24
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.8	8
State Minimum Wage (federal floor is $7.25)	$7.64	37
Average Workers' Compensation Costs (per $100 of payroll)	$1.39	4
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	3	1

Connecticut

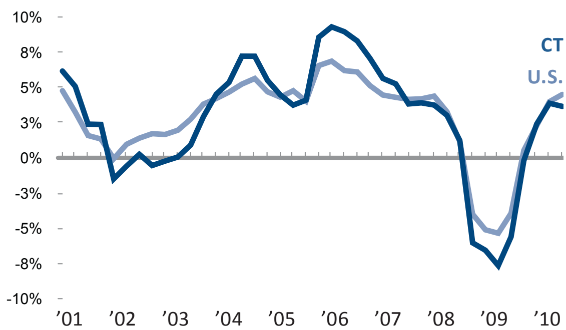
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

44 Economic Performance Rank

44 Economic Outlook Rank

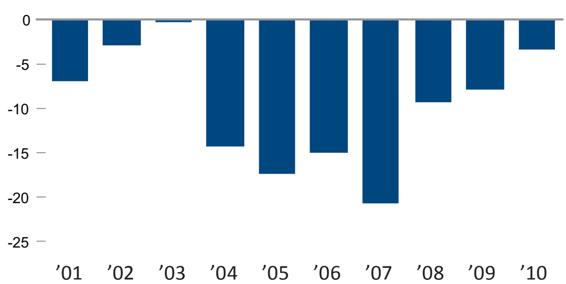
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 30.3% Rank: 36

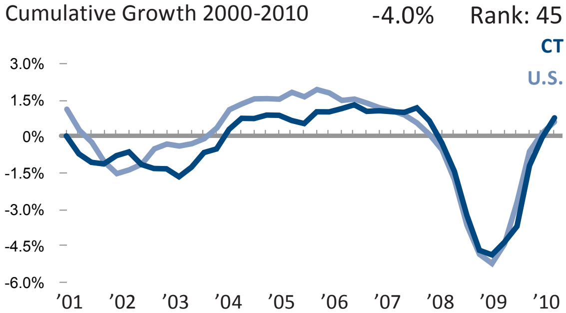


Absolute Domestic Migration
Cumulative 2001-2010 -97,731 Rank: 42

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -4.0% Rank: 45



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	40	32	36	35

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.70%	28
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.67	27
Property Tax Burden (per $1,000 of personal income)	$44.82	44
Sales Tax Burden (per $1,000 of personal income)	$16.78	10
Remaining Tax Burden (per $1,000 of personal income)	$15.09	9
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$10.37	47
Debt Service as a Share of Tax Revenue	8.5%	25
Public Employees Per 10,000 of Population (full-time equivalent)	524.4	17
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.1	24
State Minimum Wage (federal floor is $7.25)	$8.25	45
Average Workers' Compensation Costs (per $100 of payroll)	$2.55	45
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Delaware

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

35 Economic Performance Rank

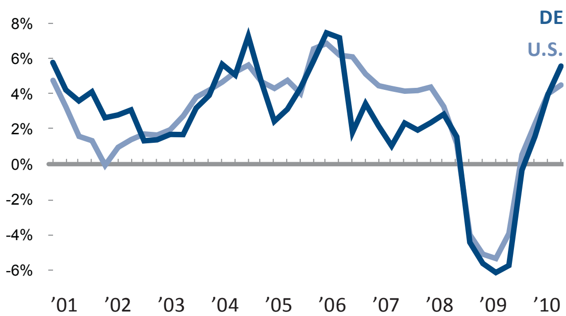
34 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

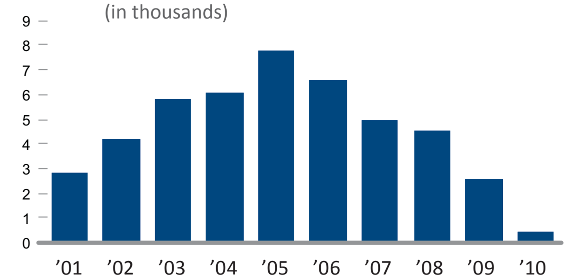
Cumulative Growth 2000-2010 28.3% Rank: 41



Absolute Domestic Migration

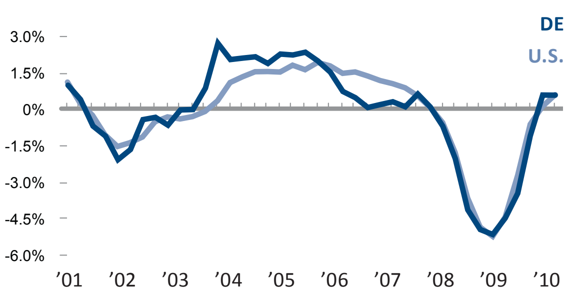
Cumulative 2001-2010 45,827 Rank: 18

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -1.2% Rank: 31



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**31**	**31**	**37**	**34**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.00%	40
Top Marginal Corporate Income Tax Rate	9.98%	47
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.97	45
Property Tax Burden (per $1,000 of personal income)	$17.96	4
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$50.67	50
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$6.40	44
Debt Service as a Share of Tax Revenue	10.2%	40
Public Employees Per 10,000 of Population (full-time equivalent)	547.2	27
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	77.2	1
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.85	17
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Florida

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

13 Economic Performance Rank

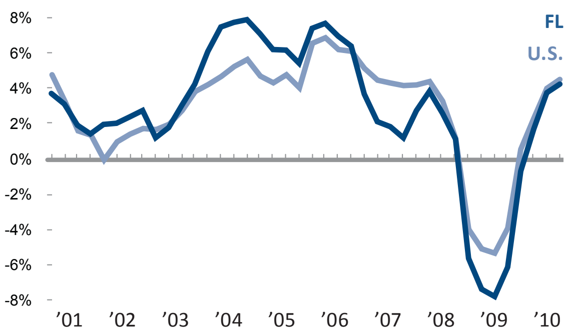
13 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

Personal Income Per Capita

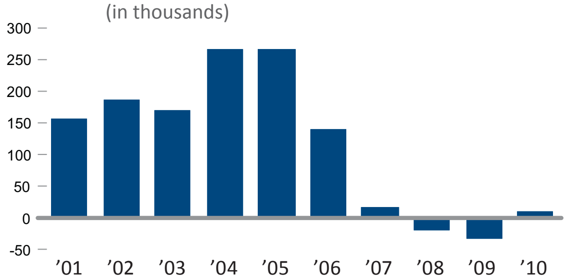
Cumulative Growth 2000-2010 31.6% Rank: 33



Absolute Domestic Migration

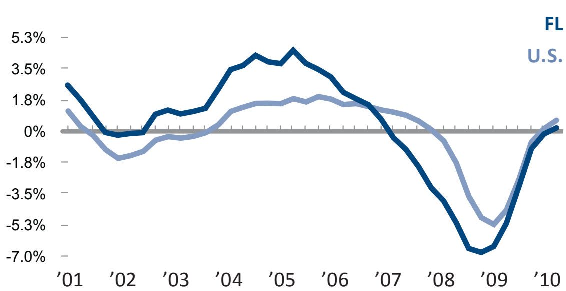
Cumulative 2001-2010 1,164,630 Rank: 1

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 2.9% Rank: 18



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**16**	**11**	**5**	**10**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	5.50%	13
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$41.13	39
Sales Tax Burden (per $1,000 of personal income)	$28.68	39
Remaining Tax Burden (per $1,000 of personal income)	$23.05	43
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.53	28
Debt Service as a Share of Tax Revenue	8.8%	28
Public Employees Per 10,000 of Population (full-time equivalent)	482.0	6
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	53.9	41
State Minimum Wage (federal floor is $7.25)	$7.67	40
Average Workers' Compensation Costs (per $100 of payroll)	$1.70	11
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Georgia

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

33 Economic Performance Rank

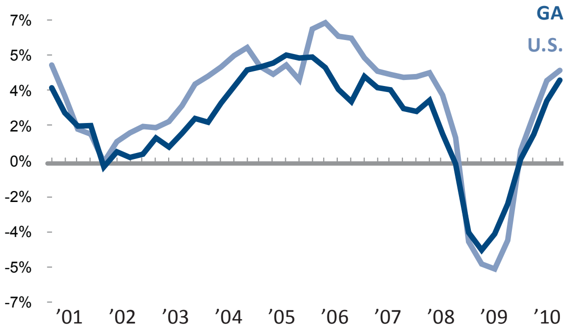
10 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

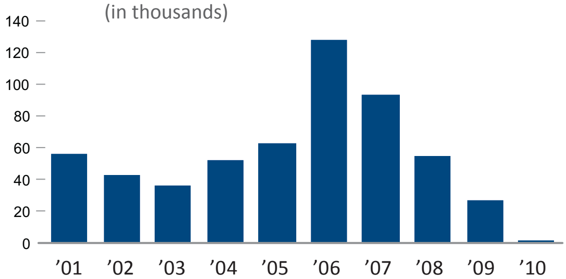
Cumulative Growth 2000-2010 23.0% Rank: 48



Absolute Domestic Migration

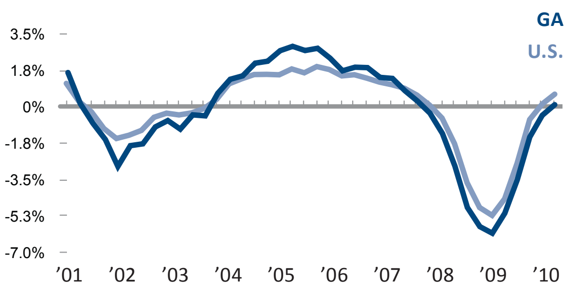
Cumulative 2001-2010 552,246 Rank: 5

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -2.3% Rank: 34



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	8	8	9	11

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.00%	25
Top Marginal Corporate Income Tax Rate	6.00%	15
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.53	24
Property Tax Burden (per $1,000 of personal income)	$31.29	23
Sales Tax Burden (per $1,000 of personal income)	$26.92	36
Remaining Tax Burden (per $1,000 of personal income)	$10.77	1
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.94	22
Debt Service as a Share of Tax Revenue	6.8%	11
Public Employees Per 10,000 of Population (full-time equivalent)	532.8	21
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.9	27
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.08	27
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Hawaii

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

15 Economic Performance Rank

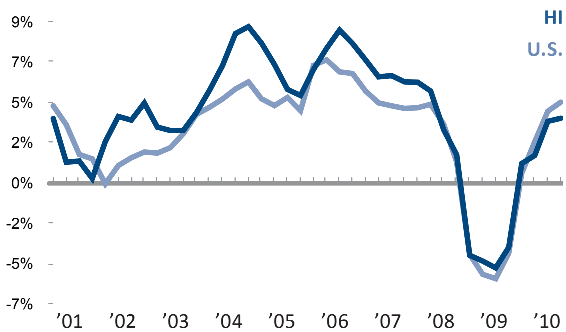
46 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

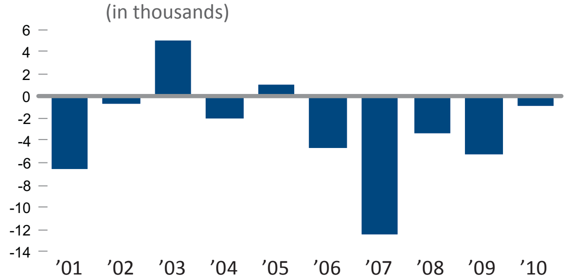
Cumulative Growth 2000-2010 43.3% Rank: 12



Absolute Domestic Migration

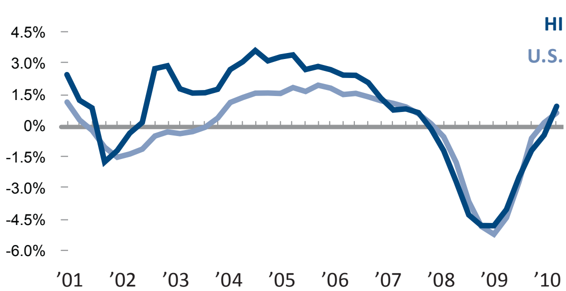
Cumulative 2001-2010 -29,883 Rank: 34

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 8.7% Rank: 9



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	41	41	39	46

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	11.00%	49
Top Marginal Corporate Income Tax Rate	6.40%	18
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.22	36
Property Tax Burden (per $1,000 of personal income)	$23.89	10
Sales Tax Burden (per $1,000 of personal income)	$44.68	49
Remaining Tax Burden (per $1,000 of personal income)	$21.68	39
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$7.21	45
Debt Service as a Share of Tax Revenue	9.9%	36
Public Employees Per 10,000 of Population (full-time equivalent)	536.9	22
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.4	35
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.70	11
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Idaho

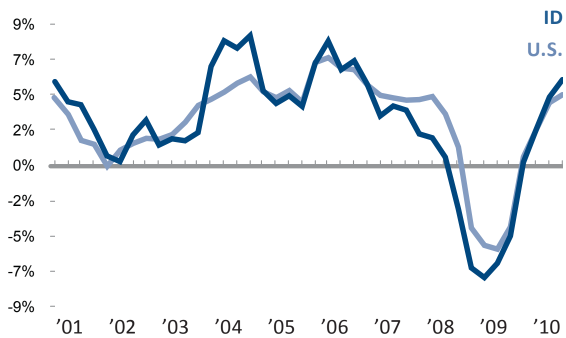
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

17 Economic Performance Rank

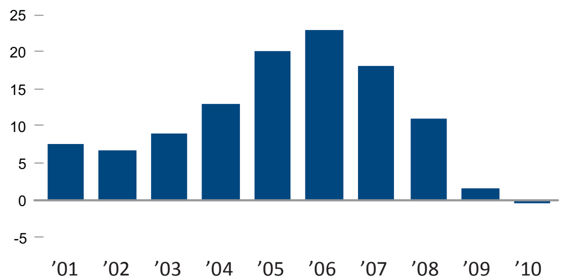
6 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

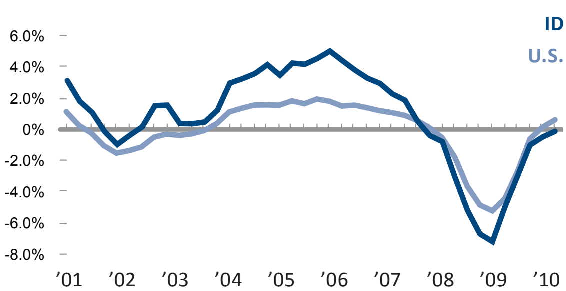
Personal Income Per Capita
Cumulative Growth 2000-2010 30.5% Rank: 35



Absolute Domestic Migration
Cumulative 2001-2010 109,961 Rank: 13
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 9.5% Rank: 8



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	10	14	7	5

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.80%	38
Top Marginal Corporate Income Tax Rate	7.60%	26
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.38	39
Property Tax Burden (per $1,000 of personal income)	$25.43	14
Sales Tax Burden (per $1,000 of personal income)	$24.44	27
Remaining Tax Burden (per $1,000 of personal income)	$14.92	8
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.06	10
Debt Service as a Share of Tax Revenue	6.3%	6
Public Employees Per 10,000 of Population (full-time equivalent)	497.1	8
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.9	18
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.98	22
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Illinois

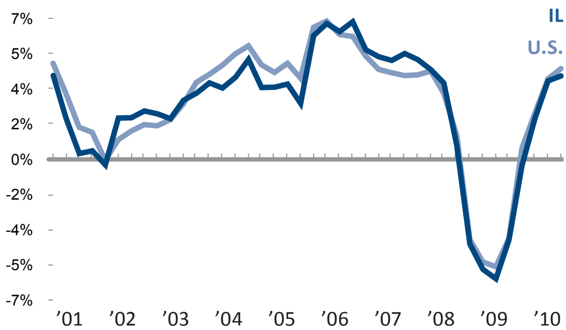
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

48 Economic Performance Rank

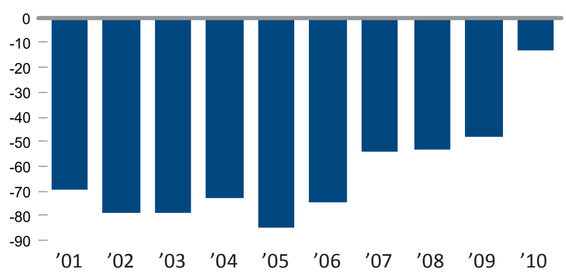
48 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

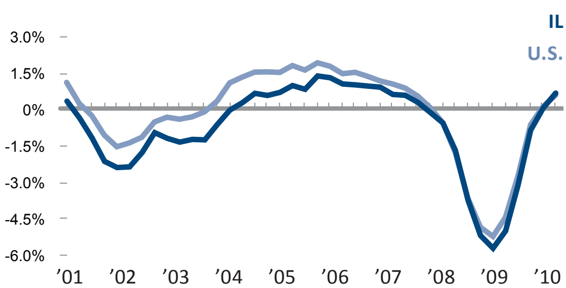
Personal Income Per Capita
Cumulative Growth 2000-2010 29.6% Rank: 39



Absolute Domestic Migration
Cumulative 2001-2010 -627,622 Rank: 48
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -6.6% Rank: 47



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**43**	**44**	**47**	**44**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	16
Top Marginal Corporate Income Tax Rate	9.50%	44
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$1.33	15
Property Tax Burden (per $1,000 of personal income)	$42.24	40
Sales Tax Burden (per $1,000 of personal income)	$20.02	16
Remaining Tax Burden (per $1,000 of personal income)	$22.80	41
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$14.08	50
Debt Service as a Share of Tax Revenue	10.4%	42
Public Employees Per 10,000 of Population (full-time equivalent)	498.2	9
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	47.9	45
State Minimum Wage (federal floor is $7.25)	$8.25	45
Average Workers' Compensation Costs (per $100 of payroll)	$3.05	48
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Indiana

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

46 Economic Performance Rank

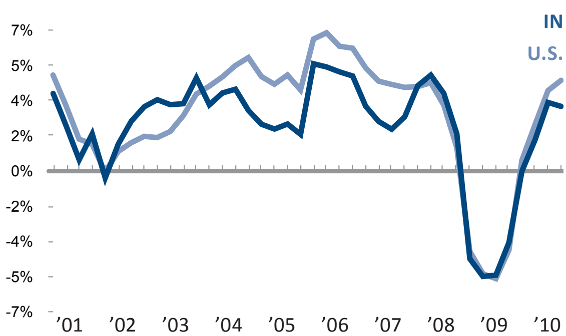
24 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

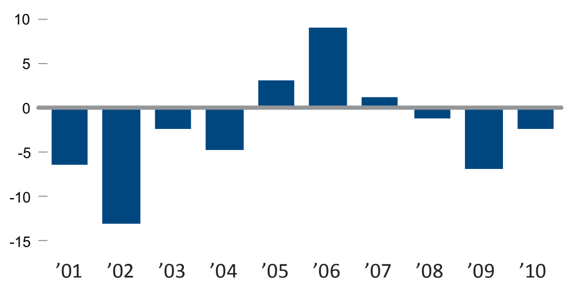
Cumulative Growth 2000-2010 25.7% Rank: 45



Absolute Domestic Migration

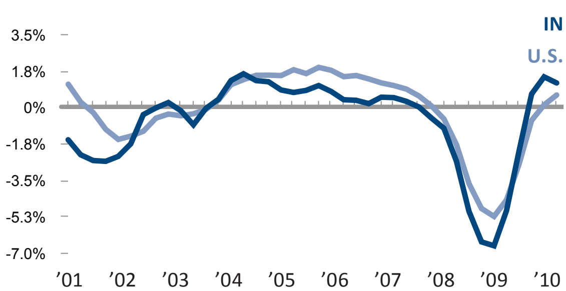
Cumulative 2001-2010 -23,820 Rank: 32

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -7.0% Rank: 48



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**12**	**17**	**20**	**16**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.02%	19
Top Marginal Corporate Income Tax Rate	8.50%	35
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.67	14
Property Tax Burden (per $1,000 of personal income)	$32.97	29
Sales Tax Burden (per $1,000 of personal income)	$28.27	38
Remaining Tax Burden (per $1,000 of personal income)	$17.73	24
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$3.40	37
Debt Service as a Share of Tax Revenue	8.2%	23
Public Employees Per 10,000 of Population (full-time equivalent)	531.2	20
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.9	3
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.16	2
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Iowa

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

28 Economic Performance Rank

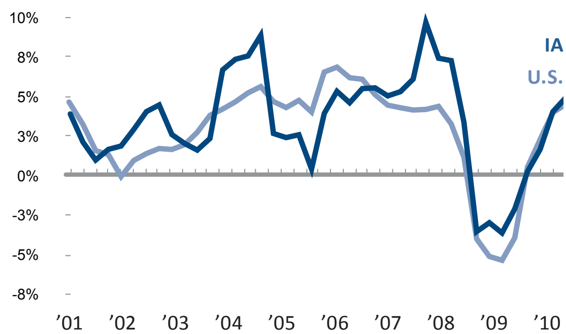
22 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

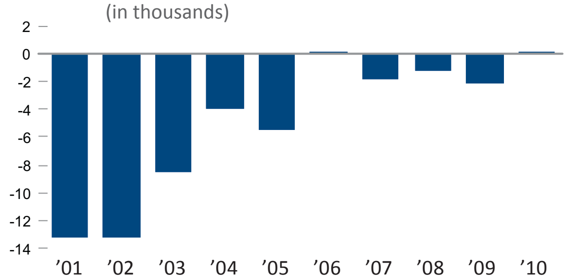
Cumulative Growth 2000-2010 41.3% Rank: 15



Absolute Domestic Migration

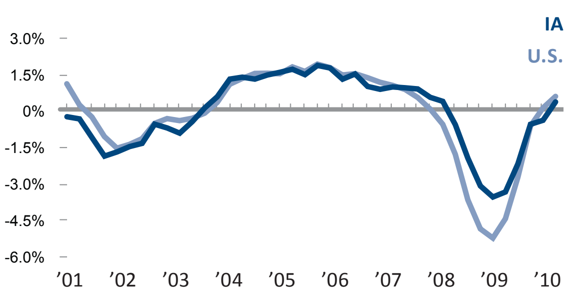
Cumulative 2001-2010 -49,494 Rank: 38

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -0.5% Rank: 27



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**25**	**35**	**28**	**23**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.84%	23
Top Marginal Corporate Income Tax Rate	9.90%	46
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.99	34
Property Tax Burden (per $1,000 of personal income)	$34.65	33
Sales Tax Burden (per $1,000 of personal income)	$24.66	30
Remaining Tax Burden (per $1,000 of personal income)	$18.22	27
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.20	17
Debt Service as a Share of Tax Revenue	5.1%	2
Public Employees Per 10,000 of Population (full-time equivalent)	585.7	37
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.4	5
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.82	15
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Kansas

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

39 Economic Performance Rank

26 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

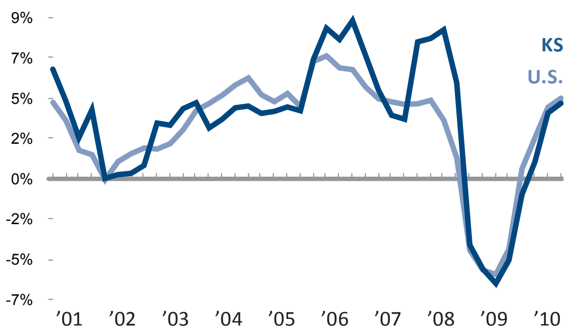
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

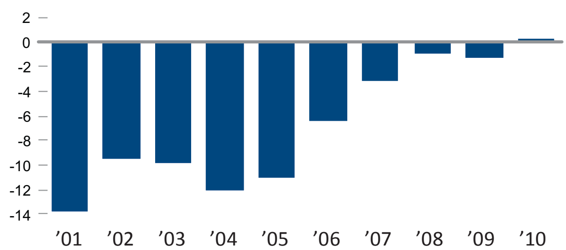
Cumulative Growth 2000-2010 | 38.9% | Rank: 20



Absolute Domestic Migration

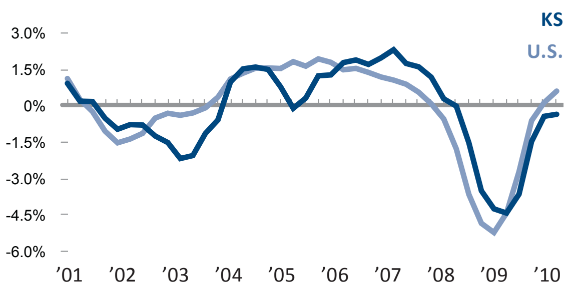
Cumulative 2001-2010 | -67,438 | Rank: 40

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 | -1.4% | Rank: 33



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**29**	**24**	**25**	**27**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.45%	26
Top Marginal Corporate Income Tax Rate	7.00%	25
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.82	32
Property Tax Burden (per $1,000 of personal income)	$34.37	31
Sales Tax Burden (per $1,000 of personal income)	$26.61	35
Remaining Tax Burden (per $1,000 of personal income)	$13.08	4
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$2.35	33
Debt Service as a Share of Tax Revenue	9.5%	33
Public Employees Per 10,000 of Population (full-time equivalent)	708.2	48
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.6	14
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.55	8
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Kentucky

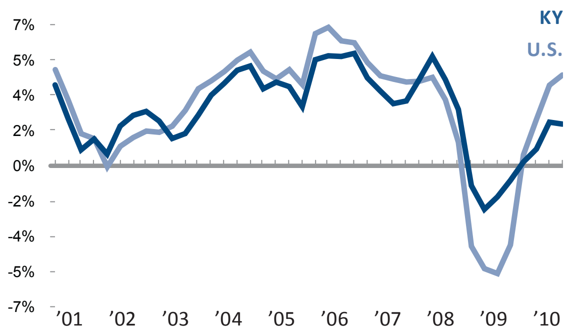
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

32 Economic Performance Rank

39 Economic Outlook Rank

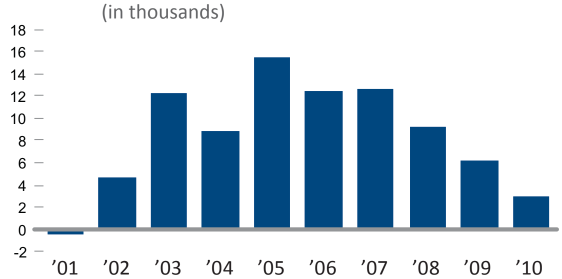
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 30.8% Rank: 34

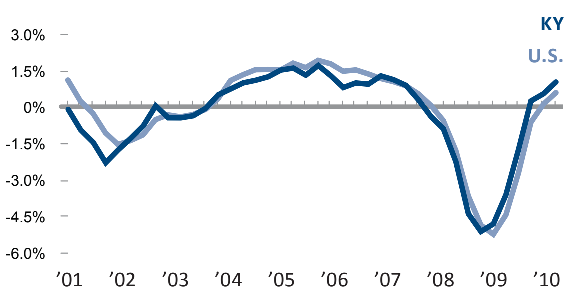


Absolute Domestic Migration
Cumulative 2001-2010 84,631 Rank: 15

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -2.4% Rank: 35



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	44	36	40	40

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.20%	41
Top Marginal Corporate Income Tax Rate	8.20%	32
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.42	19
Property Tax Burden (per $1,000 of personal income)	$20.61	7
Sales Tax Burden (per $1,000 of personal income)	$20.64	18
Remaining Tax Burden (per $1,000 of personal income)	$21.29	38
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.00	13
Debt Service as a Share of Tax Revenue	13.2%	49
Public Employees Per 10,000 of Population (full-time equivalent)	557.8	31
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	54.4	40
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.29	36
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Louisiana

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

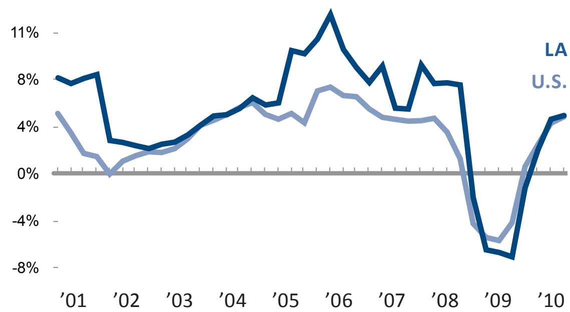
25 Economic Performance Rank

19 Economic Outlook Rank

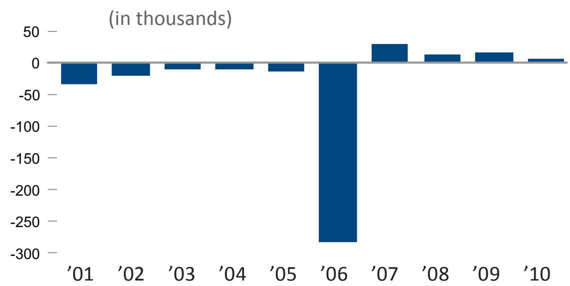
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

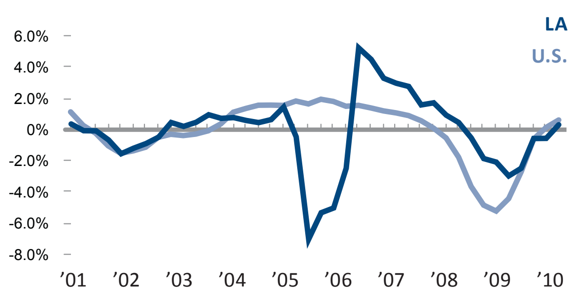
Personal Income Per Capita
Cumulative Growth 2000-2010 58.0% Rank: 2



Absolute Domestic Migration
Cumulative 2001-2010 -306,662 Rank: 44



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -1.3% Rank: 32



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**24**	**18**	**16**	**15**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.90%	10
Top Marginal Corporate Income Tax Rate	5.20%	12
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.25	29
Property Tax Burden (per $1,000 of personal income)	$18.88	6
Sales Tax Burden (per $1,000 of personal income)	$40.04	47
Remaining Tax Burden (per $1,000 of personal income)	$19.33	33
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.19	9
Debt Service as a Share of Tax Revenue	9.9%	37
Public Employees Per 10,000 of Population (full-time equivalent)	610.2	41
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	39.6	49
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.06	26
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Maine

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

23 Economic Performance Rank

47 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

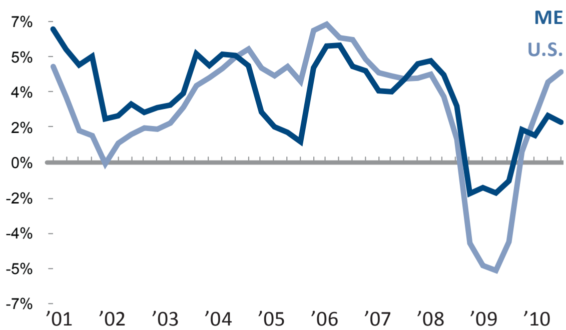
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

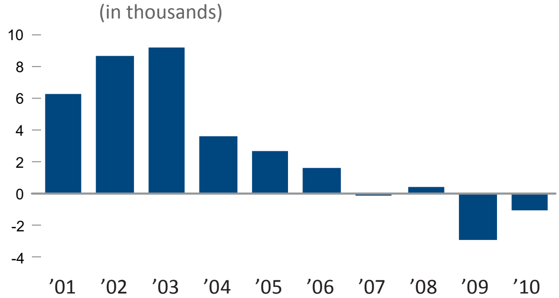
Cumulative Growth 2000-2010 36.6% Rank: 22



Absolute Domestic Migration

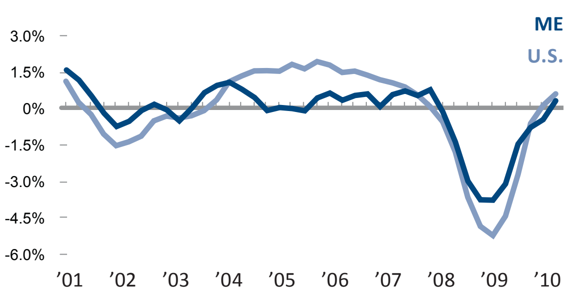
Cumulative 2001-2010 28,188 Rank: 24

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -1.0% Rank: 30



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	46	47	44	48

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.50%	43
Top Marginal Corporate Income Tax Rate	8.93%	39
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$18.78	47
Property Tax Burden (per $1,000 of personal income)	$45.28	45
Sales Tax Burden (per $1,000 of personal income)	$21.01	20
Remaining Tax Burden (per $1,000 of personal income)	$19.59	34
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.42	27
Debt Service as a Share of Tax Revenue	6.6%	9
Public Employees Per 10,000 of Population (full-time equivalent)	545.6	26
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.2	12
State Minimum Wage (federal floor is $7.25)	$7.50	35
Average Workers' Compensation Costs (per $100 of payroll)	$2.52	43
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Maryland

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

21 Economic Performance Rank

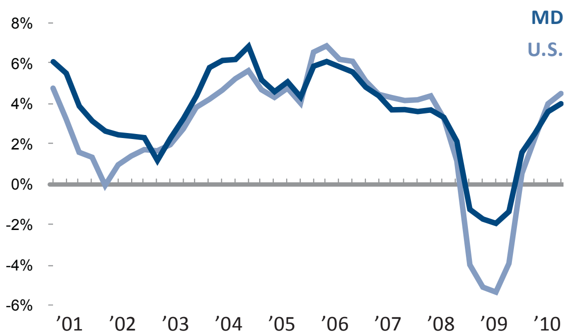
20 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

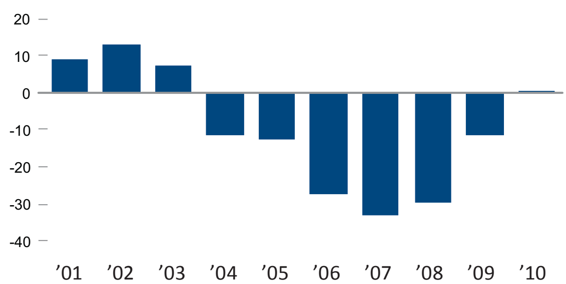
Cumulative Growth 2000-2010 40.8% Rank: 16



Absolute Domestic Migration

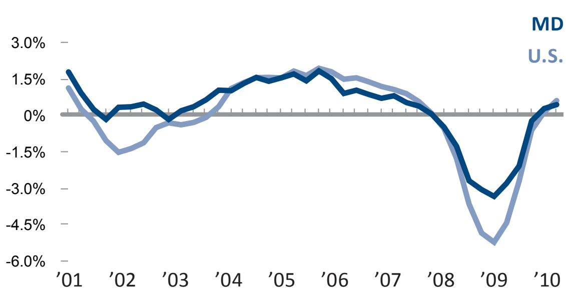
Cumulative 2001-2010 -95,645 Rank: 41

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 3.6% Rank: 14



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**28**	**28**	**29**	**21**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.70%	44
Top Marginal Corporate Income Tax Rate	8.25%	34
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.87	21
Property Tax Burden (per $1,000 of personal income)	$24.98	12
Sales Tax Burden (per $1,000 of personal income)	$13.99	9
Remaining Tax Burden (per $1,000 of personal income)	$17.23	20
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.27	26
Debt Service as a Share of Tax Revenue	6.3%	7
Public Employees Per 10,000 of Population (full-time equivalent)	522.9	16
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.2	20
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.63	9
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Massachusetts

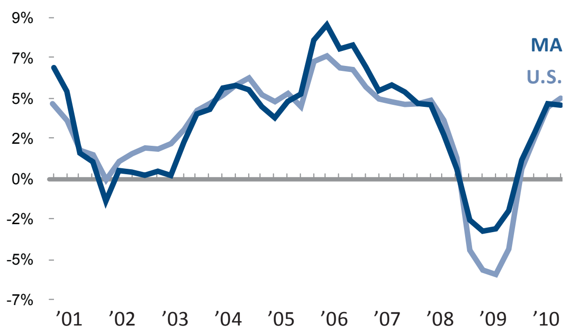
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

43 Economic Performance Rank

25 Economic Outlook Rank

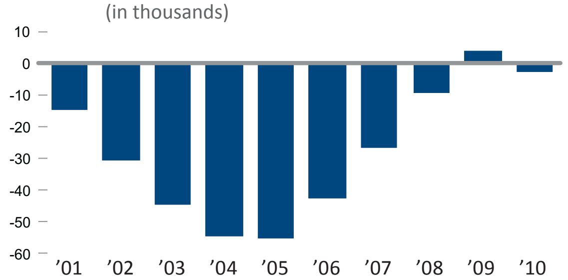
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 33.5% Rank: 25

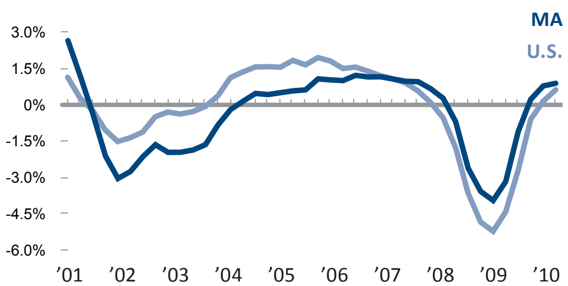


Absolute Domestic Migration
Cumulative 2001-2010 -277,309 Rank: 43

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -3.1% Rank: 40



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	22	26	32	24

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.25%	20
Top Marginal Corporate Income Tax Rate	8.00%	31
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$3.08	17
Property Tax Burden (per $1,000 of personal income)	$36.87	35
Sales Tax Burden (per $1,000 of personal income)	$11.76	6
Remaining Tax Burden (per $1,000 of personal income)	$11.62	3
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$4.62	42
Debt Service as a Share of Tax Revenue	14.6%	50
Public Employees Per 10,000 of Population (full-time equivalent)	502.2	10
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.6	9
State Minimum Wage (federal floor is $7.25)	$8.00	43
Average Workers' Compensation Costs (per $100 of payroll)	$1.54	7
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Michigan

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

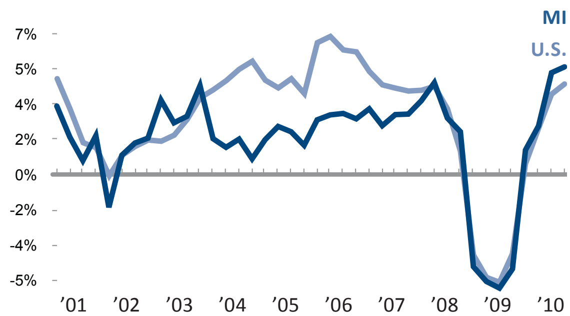
50 Economic Performance Rank

17 Economic Outlook Rank

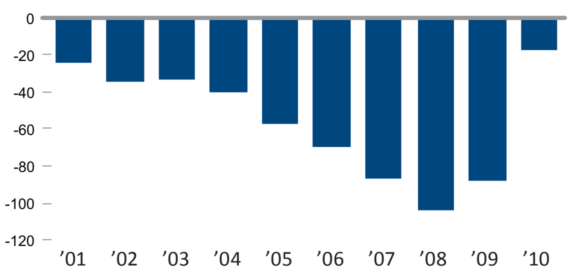
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

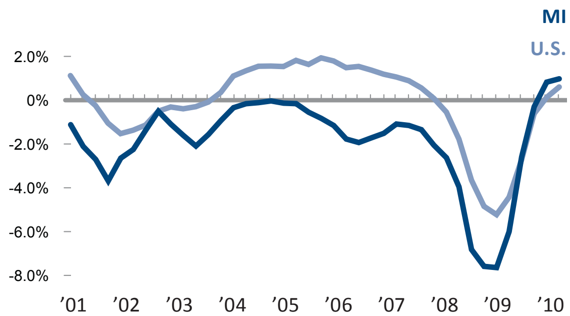
Personal Income Per Capita
Cumulative Growth 2000-2010 20.3% Rank: 49



Absolute Domestic Migration
Cumulative 2001-2010 -554,374 Rank: 47
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -16.9% Rank: 50



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	17	34	26	25

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.85%	30
Top Marginal Corporate Income Tax Rate	7.00%	24
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.15	16
Property Tax Burden (per $1,000 of personal income)	$42.31	41
Sales Tax Burden (per $1,000 of personal income)	$26.42	32
Remaining Tax Burden (per $1,000 of personal income)	$15.96	15
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.90	4
Debt Service as a Share of Tax Revenue	9.0%	30
Public Employees Per 10,000 of Population (full-time equivalent)	482.8	7
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.5	30
State Minimum Wage (federal floor is $7.25)	$7.40	33
Average Workers' Compensation Costs (per $100 of payroll)	$2.12	28
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Minnesota

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

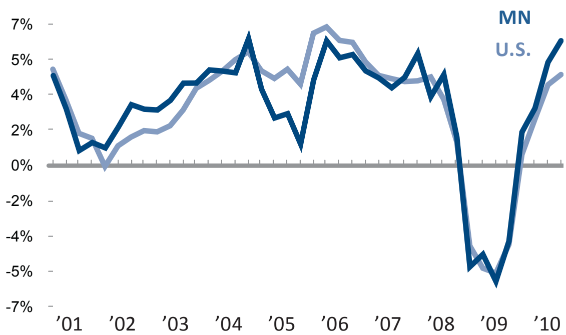
41 Economic Performance Rank

41 Economic Outlook Rank

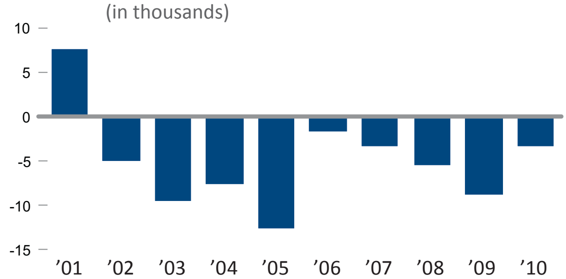
Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

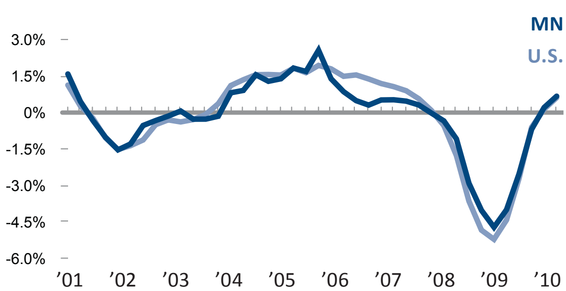
Personal Income Per Capita
Cumulative Growth 2000-2010 32.5% Rank: 29



Absolute Domestic Migration
Cumulative 2001-2010 -49,989 Rank: 39



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -0.6% Rank: 28



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	39	40	38	37

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.85%	39
Top Marginal Corporate Income Tax Rate	9.80%	45
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$17.61	46
Property Tax Burden (per $1,000 of personal income)	$31.82	25
Sales Tax Burden (per $1,000 of personal income)	$20.16	17
Remaining Tax Burden (per $1,000 of personal income)	$21.01	37
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.40	19
Debt Service as a Share of Tax Revenue	7.9%	21
Public Employees Per 10,000 of Population (full-time equivalent)	525.9	18
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.3	11
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.27	35
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Mississippi

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

36 Economic Performance Rank

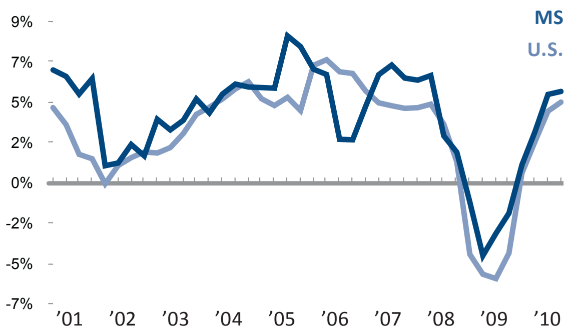
15 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

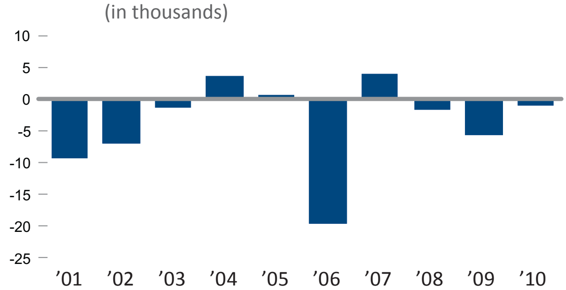
Cumulative Growth 2000-2010 45.1% Rank: 9



Absolute Domestic Migration

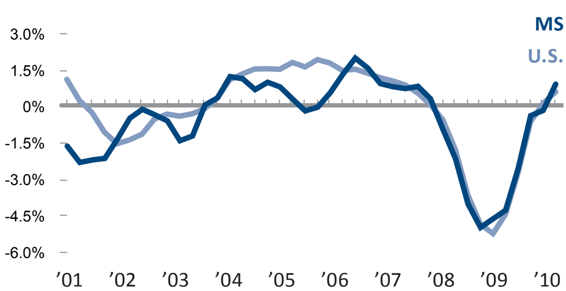
Cumulative 2001-2010 -37,045 Rank: 35

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -5.4% Rank: 46



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	19	19	18	19

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	16
Top Marginal Corporate Income Tax Rate	5.00%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.53	25
Property Tax Burden (per $1,000 of personal income)	$26.08	15
Sales Tax Burden (per $1,000 of personal income)	$33.68	43
Remaining Tax Burden (per $1,000 of personal income)	$19.00	31
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.20	25
Debt Service as a Share of Tax Revenue	5.7%	4
Public Employees Per 10,000 of Population (full-time equivalent)	649.8	45
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	40.0	48
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.96	20
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Missouri

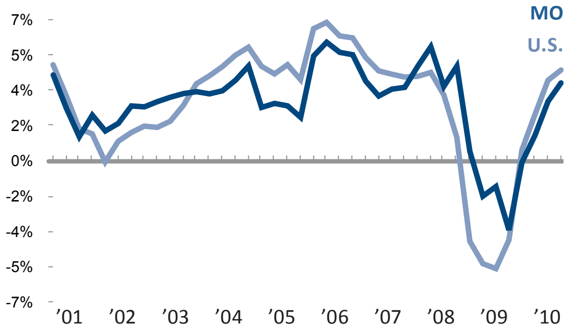
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

38 Economic Performance Rank

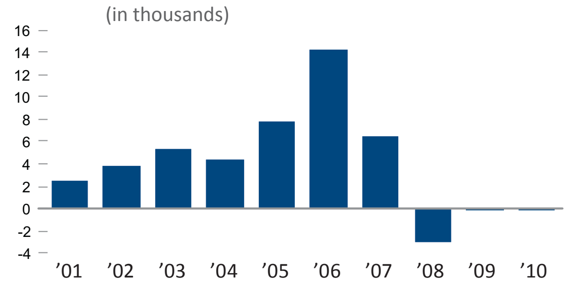
7 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

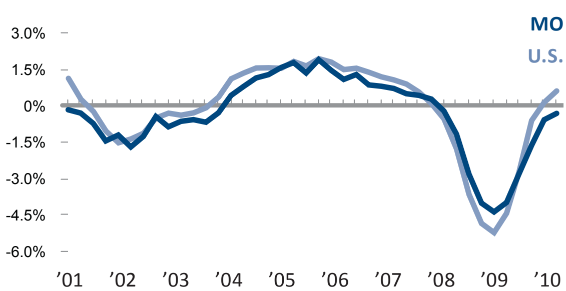
Personal Income Per Capita
Cumulative Growth 2000-2010 33.1% Rank: 28



Absolute Domestic Migration
Cumulative 2001-2010 41,252 Rank: 20



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -3.7% Rank: 43



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**25**	**23**	**15**	**9**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	33
Top Marginal Corporate Income Tax Rate	5.81%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.28	13
Property Tax Burden (per $1,000 of personal income)	$25.01	13
Sales Tax Burden (per $1,000 of personal income)	$21.75	22
Remaining Tax Burden (per $1,000 of personal income)	$15.84	13
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.37	7
Debt Service as a Share of Tax Revenue	9.4%	31
Public Employees Per 10,000 of Population (full-time equivalent)	541.3	23
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.1	37
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.90	18
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	3	1

Montana

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

3 Economic Performance Rank

36 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

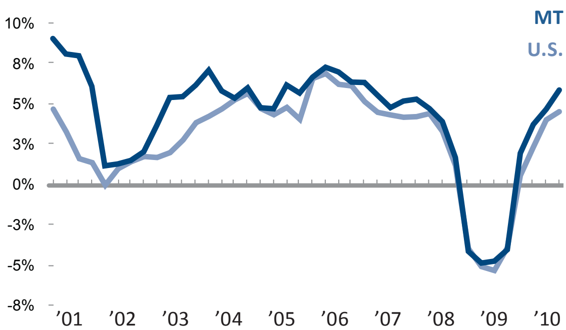
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

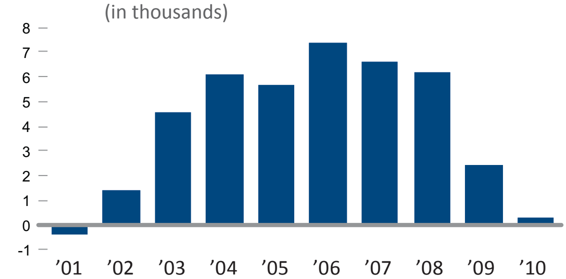
Cumulative Growth 2000-2010 48.5% Rank: 5



Absolute Domestic Migration

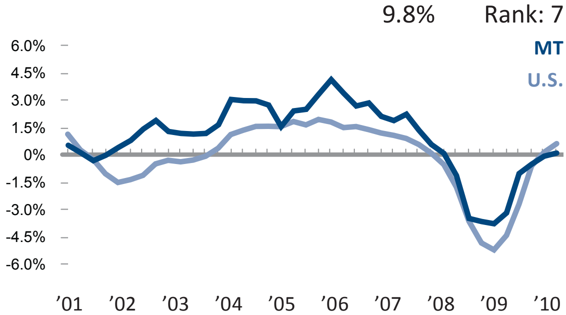
Cumulative 2001-2010 40,163 Rank: 21

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 9.8% Rank: 7



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**32**	**30**	**33**	**36**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	31
Top Marginal Corporate Income Tax Rate	6.75%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.97	22
Property Tax Burden (per $1,000 of personal income)	$37.73	36
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$25.78	46
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$1.33	3
Debt Service as a Share of Tax Revenue	6.7%	10
Public Employees Per 10,000 of Population (full-time equivalent)	589.6	38
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	52.4	43
State Minimum Wage (federal floor is $7.25)	$7.65	38
Average Workers' Compensation Costs (per $100 of payroll)	$3.33	50
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Nebraska

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

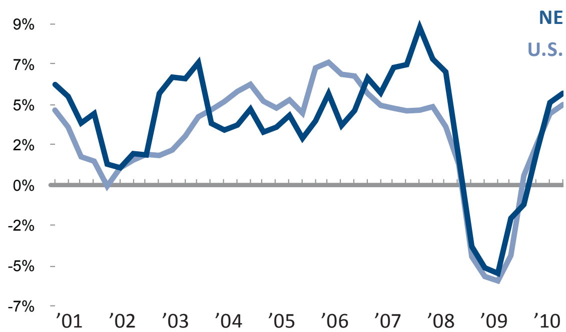
20 Economic Performance Rank

31 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Personal Income Per Capita

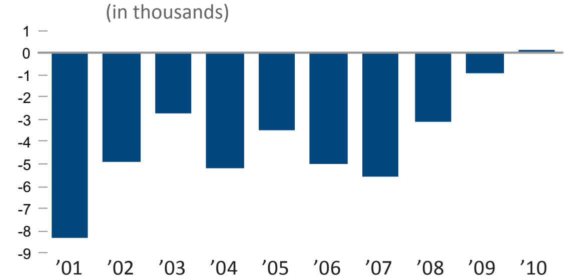
Cumulative Growth 2000-2010 40.8% Rank: 17



Absolute Domestic Migration

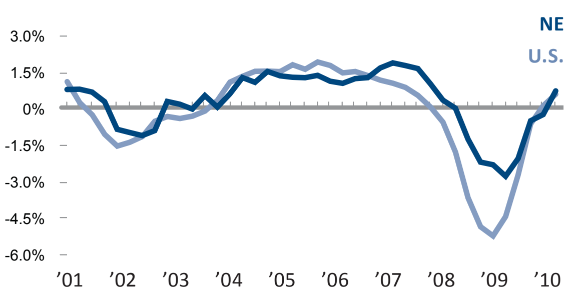
Cumulative 2001-2010 -39,152 Rank: 36

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 3.6% Rank: 15



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	34	29	34	32

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.84%	29
Top Marginal Corporate Income Tax Rate	7.81%	29
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.42	43
Property Tax Burden (per $1,000 of personal income)	$36.42	34
Sales Tax Burden (per $1,000 of personal income)	$25.23	31
Remaining Tax Burden (per $1,000 of personal income)	$16.27	16
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.03	11
Debt Service as a Share of Tax Revenue	7.3%	17
Public Employees Per 10,000 of Population (full-time equivalent)	663.3	47
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.7	4
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.97	21
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Nevada

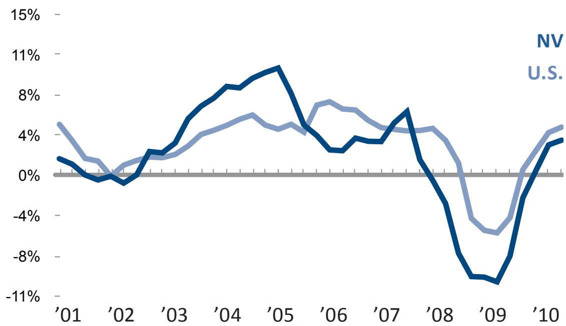
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

18 Economic Performance Rank

18 Economic Outlook Rank

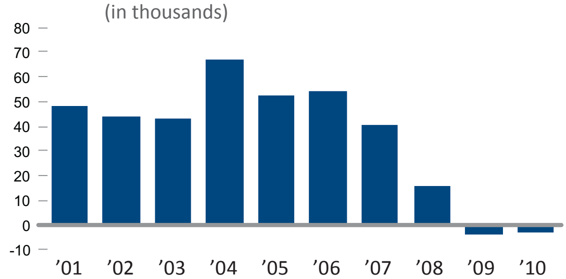
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Personal Income Per Capita
Cumulative Growth 2000-2010 20.2% Rank: 50

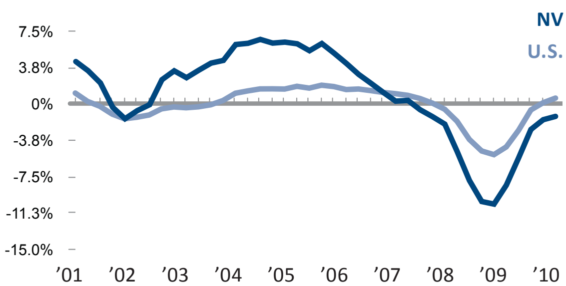


Absolute Domestic Migration
Cumulative 2001-2010 358,407 Rank: 6

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 9.9% Rank: 6



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	7	7	11	17

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$34.60	32
Sales Tax Burden (per $1,000 of personal income)	$29.46	40
Remaining Tax Burden (per $1,000 of personal income)	$34.14	49
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$10.37	46
Debt Service as a Share of Tax Revenue	10.2%	41
Public Employees Per 10,000 of Population (full-time equivalent)	422.1	1
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.8	28
State Minimum Wage (federal floor is $7.25)	$8.25	45
Average Workers' Compensation Costs (per $100 of payroll)	$2.13	30
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

New Hampshire

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

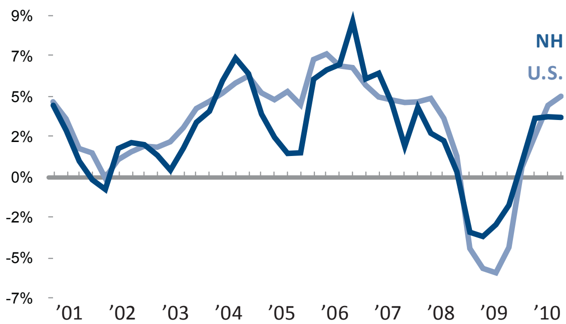
34 Economic Performance Rank

28 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

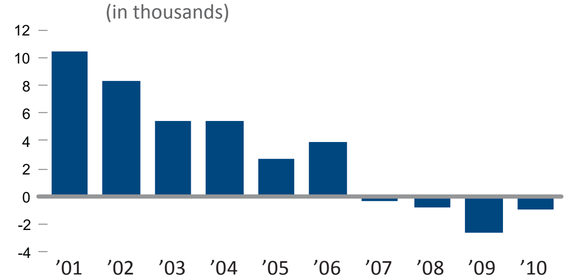
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 26.6% Rank: 44

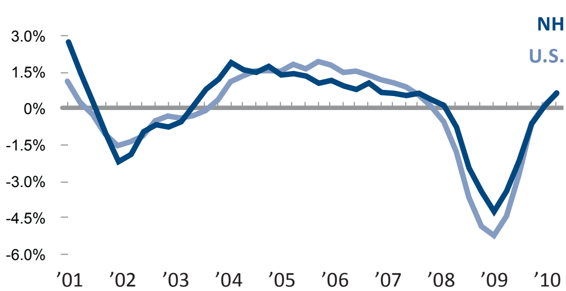


Absolute Domestic Migration
Cumulative 2001-2010 31,706 Rank: 22

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 1.5% Rank: 21



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**26**	**37**	**30**	**28**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	8.50%	35
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$56.47	50
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$20.83	35
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.04	24
Debt Service as a Share of Tax Revenue	10.1%	38
Public Employees Per 10,000 of Population (full-time equivalent)	554.3	30
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.2	16
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.45	41
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

New Jersey

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

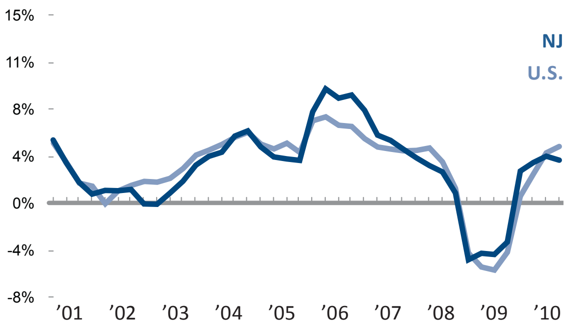
45 Economic Performance Rank

42 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Personal Income Per Capita

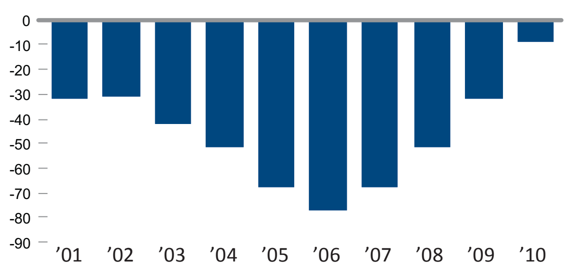
Cumulative Growth 2000-2010 29.6% Rank: 38



Absolute Domestic Migration

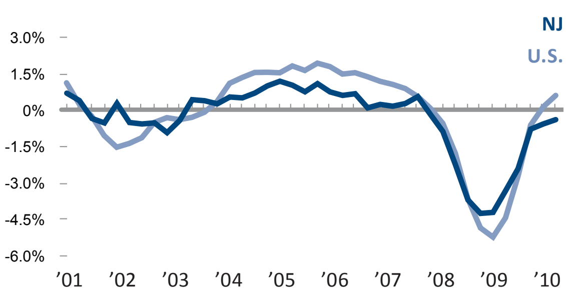
Cumulative 2001-2010 -460,261 Rank: 46

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -3.0% Rank: 39



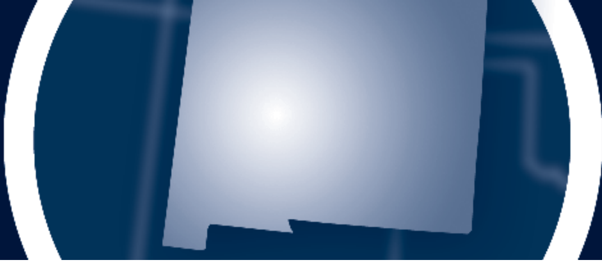
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	48	46	48	45

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.97%	46
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$24.81	48
Property Tax Burden (per $1,000 of personal income)	$52.48	48
Sales Tax Burden (per $1,000 of personal income)	$18.47	12
Remaining Tax Burden (per $1,000 of personal income)	$14.46	7
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.10	15
Debt Service as a Share of Tax Revenue	7.2%	16
Public Employees Per 10,000 of Population (full-time equivalent)	580.5	35
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.8	32
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.53	44
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

New Mexico

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX



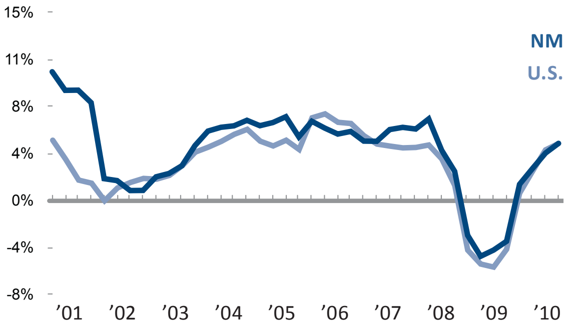
6 Economic Performance Rank

35 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

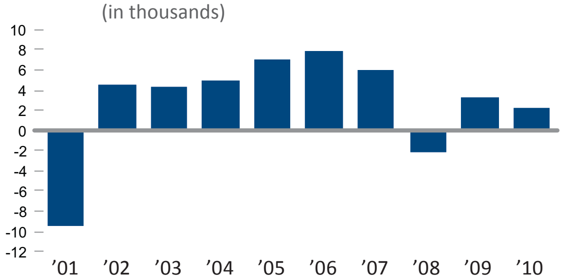
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 46.0% Rank: 6

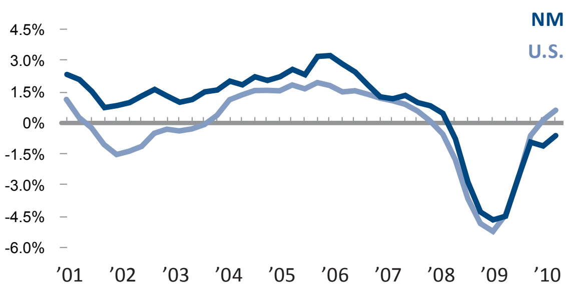


Absolute Domestic Migration
Cumulative 2001-2010 28,518 Rank: 23

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 8.2% Rank: 10



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**27**	**25**	**35**	**39**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.90%	15
Top Marginal Corporate Income Tax Rate	7.60%	26
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$9.93	28
Property Tax Burden (per $1,000 of personal income)	$18.40	5
Sales Tax Burden (per $1,000 of personal income)	$40.62	48
Remaining Tax Burden (per $1,000 of personal income)	$15.16	10
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$5.44	43
Debt Service as a Share of Tax Revenue	7.7%	20
Public Employees Per 10,000 of Population (full-time equivalent)	621.9	42
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	53.9	41
State Minimum Wage (federal floor is $7.25)	$7.50	35
Average Workers' Compensation Costs (per $100 of payroll)	$1.91	19
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

New York

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

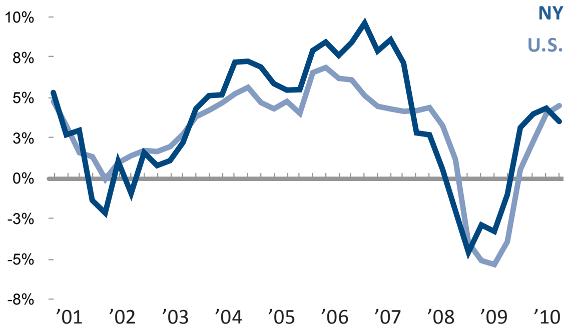
40 Economic Performance Rank

50 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

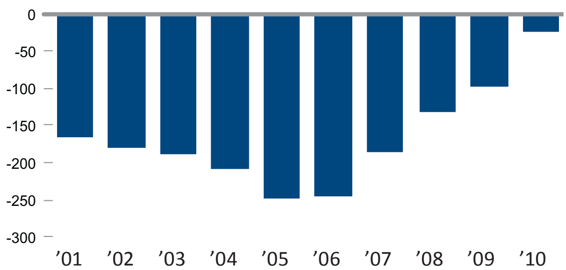
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 38.0% Rank: 21

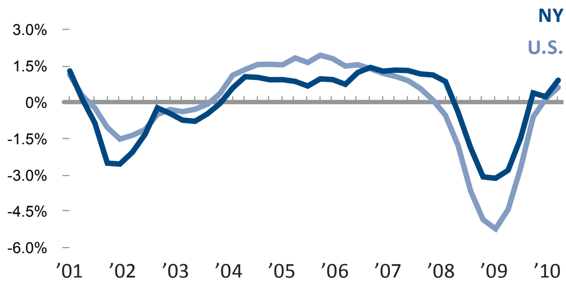


Absolute Domestic Migration
Cumulative 2001-2010 -1,673,059 Rank: 50

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 0.0% Rank: 24

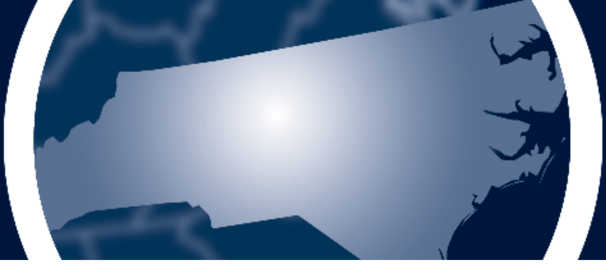


Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**49**	**50**	**50**	**50**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	12.70%	50
Top Marginal Corporate Income Tax Rate	15.95%	49
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.43	40
Property Tax Burden (per $1,000 of personal income)	$44.71	43
Sales Tax Burden (per $1,000 of personal income)	$24.49	28
Remaining Tax Burden (per $1,000 of personal income)	$18.32	29
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$11.01	48
Debt Service as a Share of Tax Revenue	9.6%	34
Public Employees Per 10,000 of Population (full-time equivalent)	631.3	43
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.5	23
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.34	38
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

North Carolina

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX



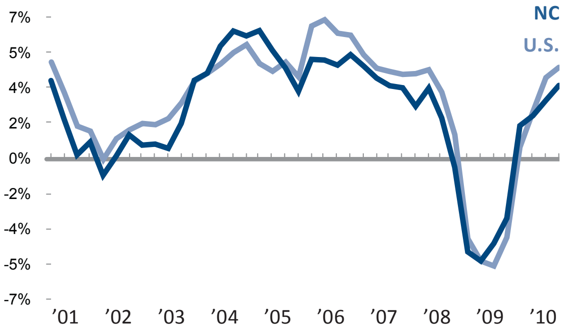
27 Economic Performance Rank

23 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

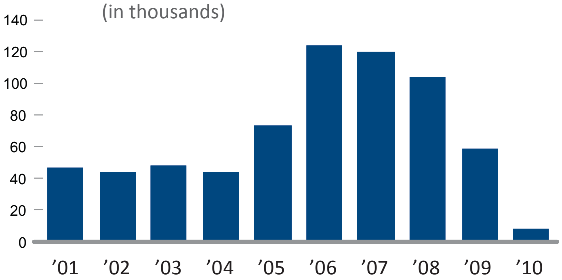
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 25.7% Rank: 46

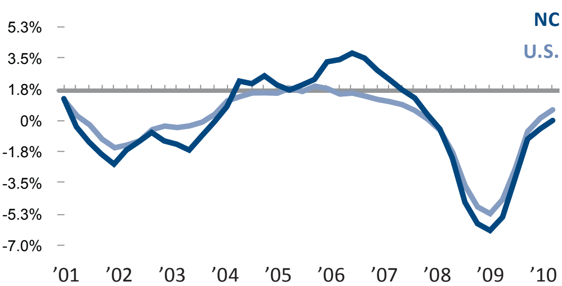


Absolute Domestic Migration
Cumulative 2001-2010 671,984 Rank: 4

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -0.9% Rank: 29



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	21	21	21	26

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.75%	36
Top Marginal Corporate Income Tax Rate	6.90%	22
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.06	33
Property Tax Burden (per $1,000 of personal income)	$24.89	11
Sales Tax Burden (per $1,000 of personal income)	$22.54	23
Remaining Tax Burden (per $1,000 of personal income)	$17.41	22
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.97	23
Debt Service as a Share of Tax Revenue	7.4%	18
Public Employees Per 10,000 of Population (full-time equivalent)	580.6	36
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.0	17
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.12	28
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

North Dakota

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

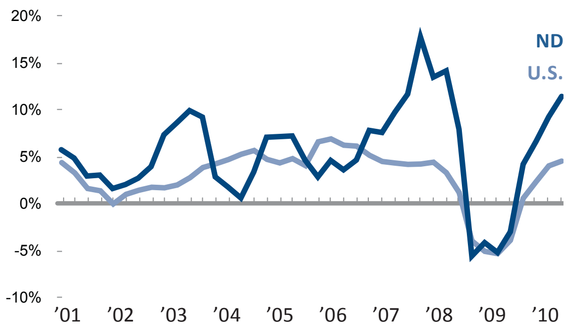
4 Economic Performance Rank

5 Economic Outlook Rank

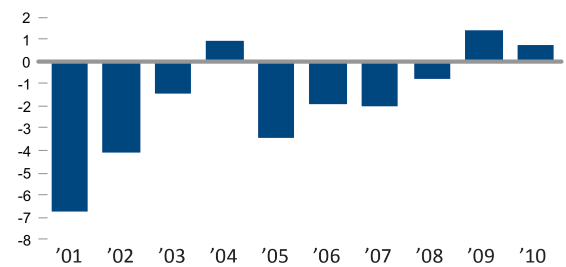
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

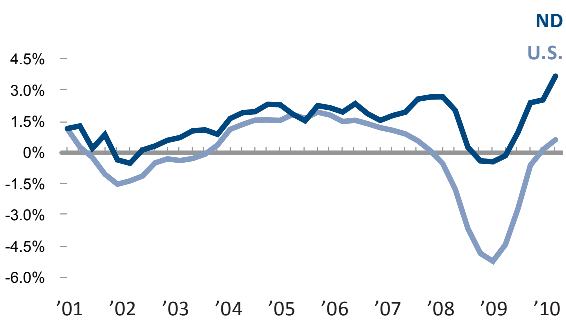
Personal Income Per Capita
Cumulative Growth 2000-2010 72.0% Rank: 1



Absolute Domestic Migration
Cumulative 2001-2010 -17,300 Rank: 31
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 16.8% Rank: 3



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**18**	**13**	**12**	**7**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.99%	11
Top Marginal Corporate Income Tax Rate	3.35%	4
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.77	31
Property Tax Burden (per $1,000 of personal income)	$29.03	19
Sales Tax Burden (per $1,000 of personal income)	$26.58	34
Remaining Tax Burden (per $1,000 of personal income)	$19.27	32
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$24.18	1
Debt Service as a Share of Tax Revenue	7.1%	13
Public Employees Per 10,000 of Population (full-time equivalent)	660.9	46
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.1	2
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.02	1
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Ohio

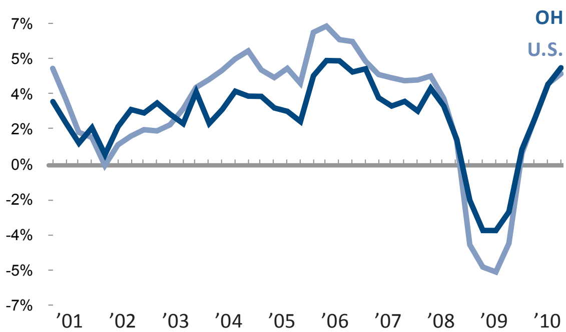
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

49 Economic Performance Rank

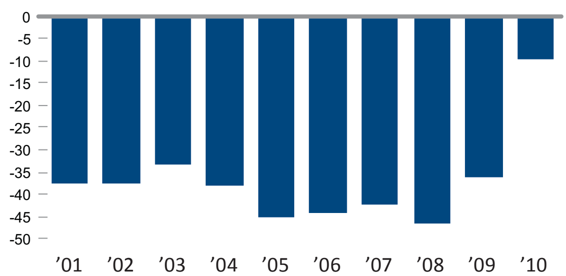
37 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

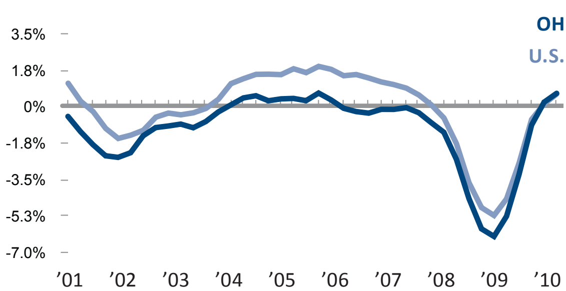
Personal Income Per Capita
Cumulative Growth 2000-2010 27.6% Rank: 43



Absolute Domestic Migration
Cumulative 2001-2010 -370,708 Rank: 45
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -10.4% Rank: 49



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	47	45	42	38

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.43%	42
Top Marginal Corporate Income Tax Rate	3.69%	5
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.08	38
Property Tax Burden (per $1,000 of personal income)	$31.77	24
Sales Tax Burden (per $1,000 of personal income)	$19.01	14
Remaining Tax Burden (per $1,000 of personal income)	$20.99	36
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.59	30
Debt Service as a Share of Tax Revenue	8.0%	22
Public Employees Per 10,000 of Population (full-time equivalent)	526.4	19
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.7	29
State Minimum Wage (federal floor is $7.25)	$7.70	41
Average Workers' Compensation Costs (per $100 of payroll)	$2.24	34
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Oklahoma

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

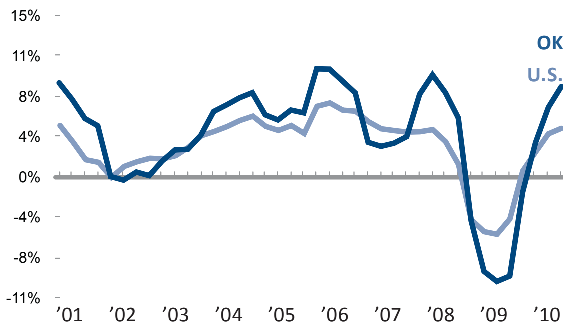
9 Economic Performance Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

Personal Income Per Capita

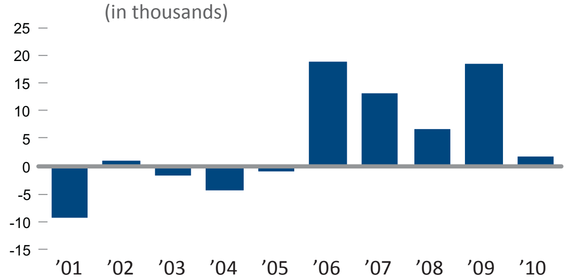
Cumulative Growth 2000-2010 44.4% Rank: 10



Absolute Domestic Migration

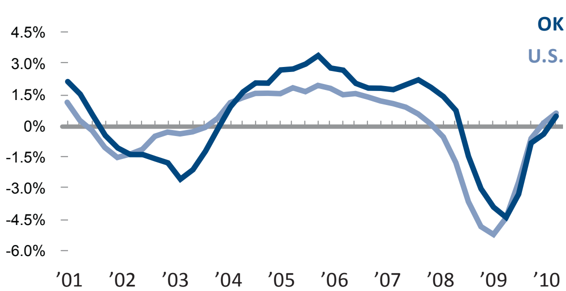
Cumulative 2001-2010 44,022 Rank: 19

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 3.5% Rank: 16



14 Economic Outlook Rank

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	14	15	14	14

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.25%	20
Top Marginal Corporate Income Tax Rate	6.00%	15
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.56	26
Property Tax Burden (per $1,000 of personal income)	$16.58	2
Sales Tax Burden (per $1,000 of personal income)	$28.22	37
Remaining Tax Burden (per $1,000 of personal income)	$17.43	23
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.94	32
Debt Service as a Share of Tax Revenue	6.4%	8
Public Employees Per 10,000 of Population (full-time equivalent)	576.8	34
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.0	31
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.87	47
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Oregon

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

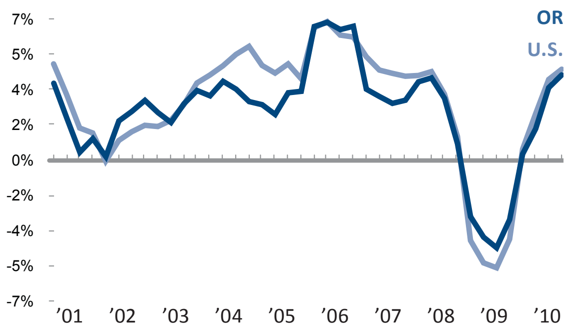
26 Economic Performance Rank

45 Economic Outlook Rank

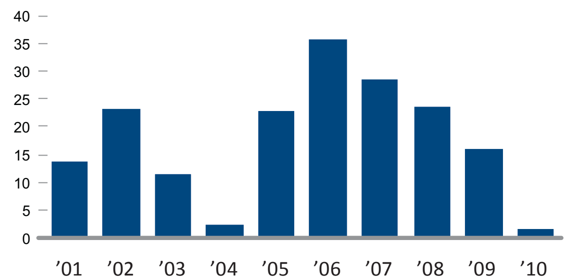
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

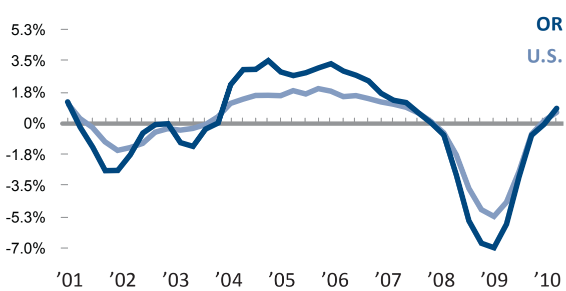
Personal Income Per Capita
Cumulative Growth 2000-2010 28.2% Rank: 42



Absolute Domestic Migration
Cumulative 2001-2010 178,802 Rank: 11
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 0.0% Rank: 25



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	35	39	41	43

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.60%	48
Top Marginal Corporate Income Tax Rate	11.25%	48
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.90	41
Property Tax Burden (per $1,000 of personal income)	$32.12	27
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$18.57	30
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$11.49	49
Debt Service as a Share of Tax Revenue	10.1%	39
Public Employees Per 10,000 of Population (full-time equivalent)	516.8	13
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.0	21
State Minimum Wage (federal floor is $7.25)	$8.80	49
Average Workers' Compensation Costs (per $100 of payroll)	$1.69	10
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	4

Pennsylvania

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

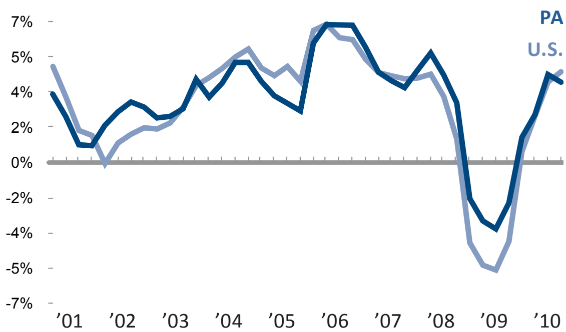
30 Economic Performance Rank

40 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

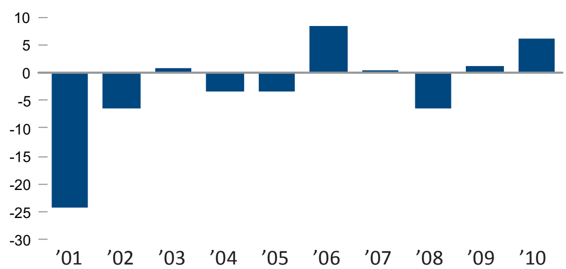
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 35.0% Rank: 23

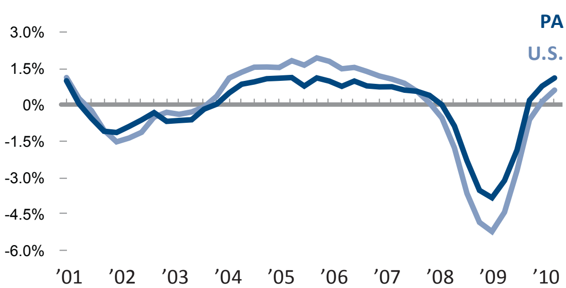


Absolute Domestic Migration
Cumulative 2001-2010 -26,994 Rank: 33

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -0.4% Rank: 26



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	36	42	43	41

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	32
Top Marginal Corporate Income Tax Rate	17.09%	50
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$30.63	22
Sales Tax Burden (per $1,000 of personal income)	$17.40	11
Remaining Tax Burden (per $1,000 of personal income)	$24.57	45
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$4.58	41
Debt Service as a Share of Tax Revenue	9.4%	32
Public Employees Per 10,000 of Population (full-time equivalent)	471.5	4
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.6	33
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.32	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Rhode Island

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

37 Economic Performance Rank

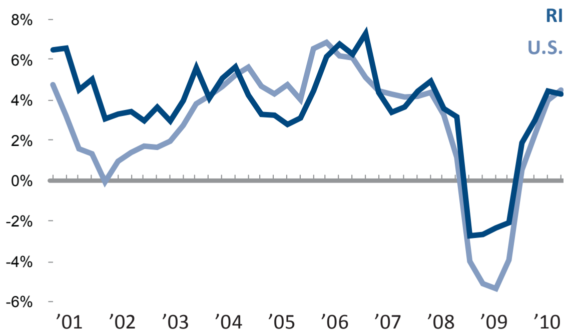
43 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

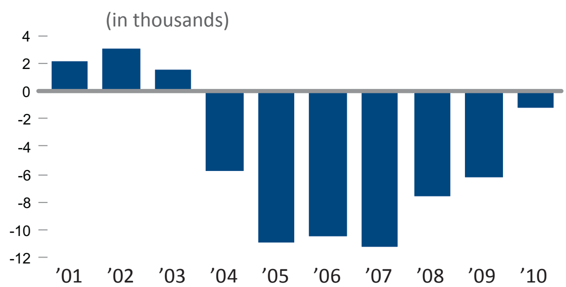
Personal Income Per Capita

Cumulative Growth 2000-2010 — 42.5% — Rank: 13



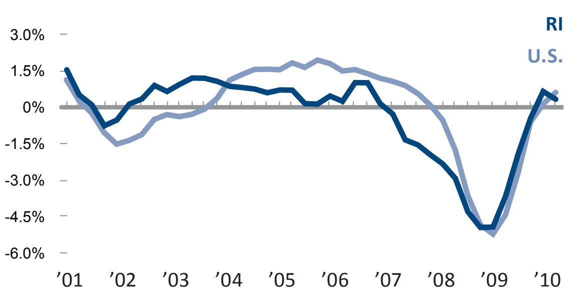
Absolute Domestic Migration

Cumulative 2001-2010 — -46,343 — Rank: 37



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 — -3.2% — Rank: 41



Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	45	48	45	42

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.99%	24
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.26	35
Property Tax Burden (per $1,000 of personal income)	$49.04	47
Sales Tax Burden (per $1,000 of personal income)	$18.77	13
Remaining Tax Burden (per $1,000 of personal income)	$17.38	21
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$3.63	38
Debt Service as a Share of Tax Revenue	11.7%	46
Public Employees Per 10,000 of Population (full-time equivalent)	470.2	3
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	55.2	38
State Minimum Wage (federal floor is $7.25)	$7.40	33
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	23
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

South Carolina

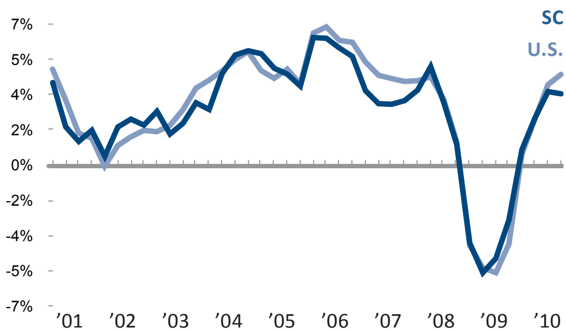
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

29 Economic Performance Rank

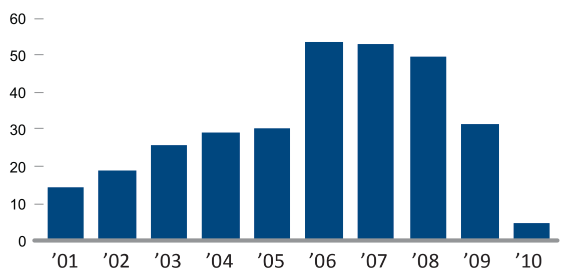
27 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

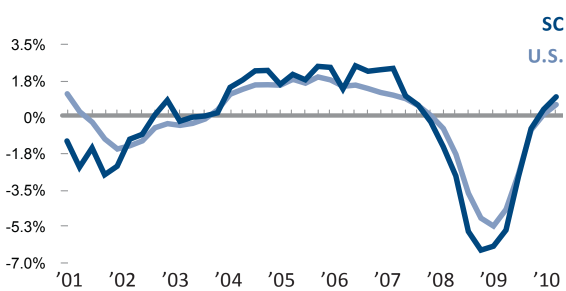
Personal Income Per Capita
Cumulative Growth 2000-2010 30.0% Rank: 37



Absolute Domestic Migration
Cumulative 2001-2010 310,871 Rank: 7
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -2.6% Rank: 37



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	20	20	31	22

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	34
Top Marginal Corporate Income Tax Rate	5.00%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.12	42
Property Tax Burden (per $1,000 of personal income)	$30.09	21
Sales Tax Burden (per $1,000 of personal income)	$21.29	21
Remaining Tax Burden (per $1,000 of personal income)	$16.82	18
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.83	20
Debt Service as a Share of Tax Revenue	12.2%	48
Public Employees Per 10,000 of Population (full-time equivalent)	543.4	25
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	55.1	39
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.38	39
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

South Dakota

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

7 Economic Performance Rank

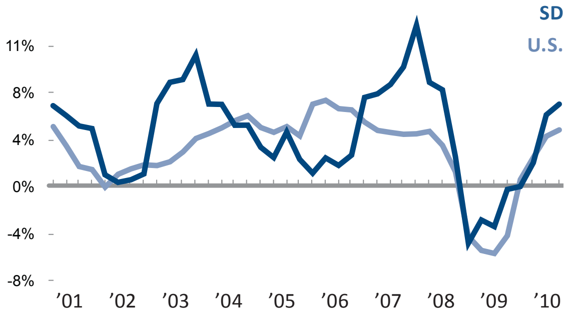
2 **Economic Outlook Rank**

Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

Personal Income Per Capita

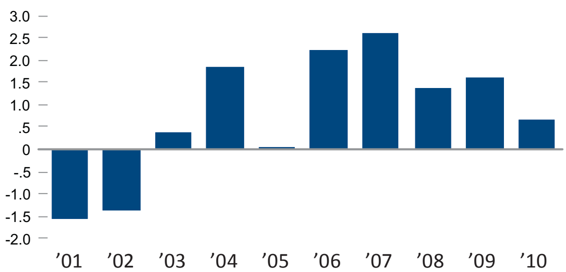
Cumulative Growth 2000-2010 52.7% Rank: 4



Absolute Domestic Migration

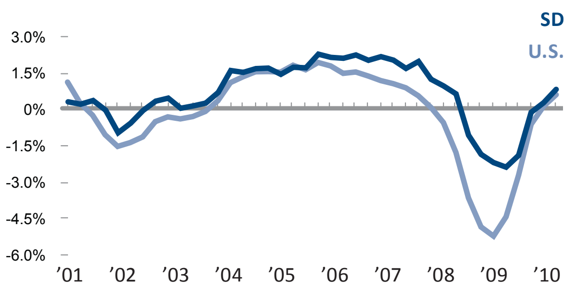
Cumulative 2001-2010 7,828 Rank: 27

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 6.9% Rank: 12

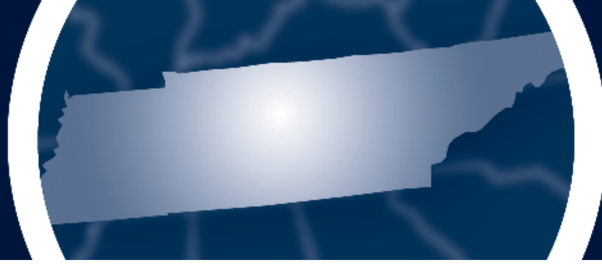


Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**2**	**5**	**4**	**2**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$28.45	17
Sales Tax Burden (per $1,000 of personal income)	$33.00	41
Remaining Tax Burden (per $1,000 of personal income)	$18.23	28
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.16	16
Debt Service as a Share of Tax Revenue	8.2%	24
Public Employees Per 10,000 of Population (full-time equivalent)	566.2	32
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.6	9
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	23
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14



Tennessee

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

31 Economic Performance Rank

12 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

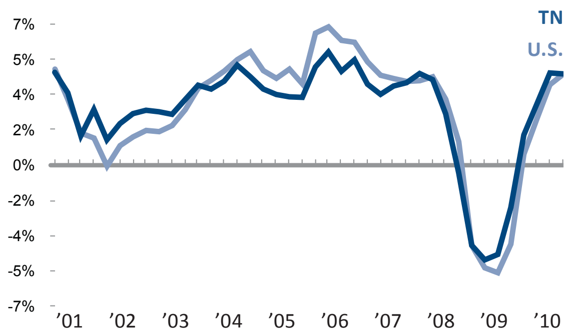
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

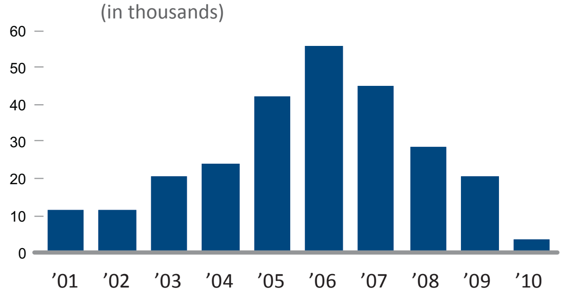
Cumulative Growth 2000-2010 32.2% Rank: 30



Absolute Domestic Migration

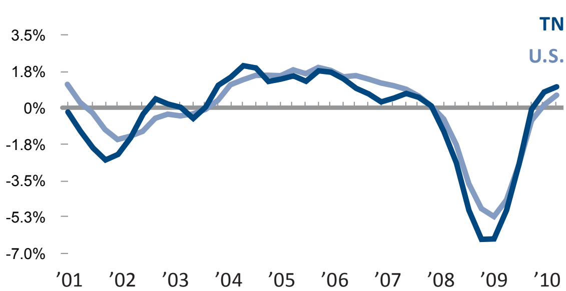
Cumulative 2001-2010 263,372 Rank: 8

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 -3.8% Rank: 44



Historical Ranking Comparison

ECONOMIC OUTLOOK RANK	2008	2009	2010	2011
	3	9	10	8

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.50%	19
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$21.76	8
Sales Tax Burden (per $1,000 of personal income)	$38.45	45
Remaining Tax Burden (per $1,000 of personal income)	$17.83	25
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$2.96	35
Debt Service as a Share of Tax Revenue	9.0%	29
Public Employees Per 10,000 of Population (full-time equivalent)	517.4	14
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.7	19
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.19	31
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Texas

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

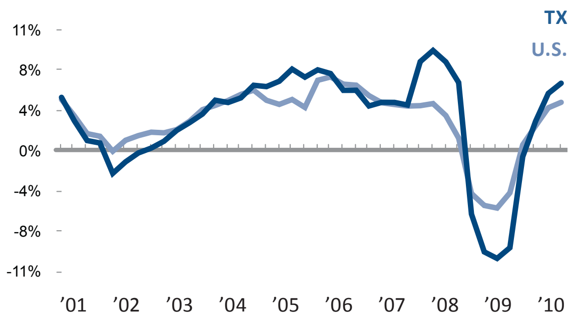
2 Economic Performance Rank

16 Economic Outlook Rank

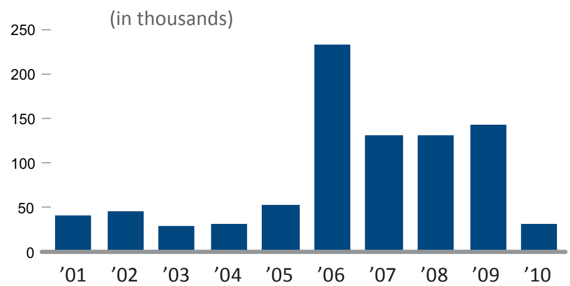
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

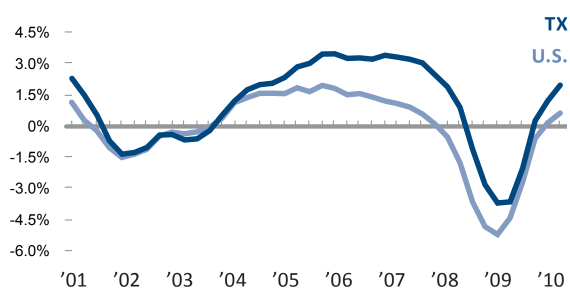
Personal Income Per Capita
Cumulative Growth 2000-2010 34.0% Rank: 24



Absolute Domestic Migration
Cumulative 2001-2010 868,295 Rank: 2



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 11.5% Rank: 4



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	13	10	19	18

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	4.56%	7
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$38.65	37
Sales Tax Burden (per $1,000 of personal income)	$23.79	25
Remaining Tax Burden (per $1,000 of personal income)	$21.84	40
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.03	12
Debt Service as a Share of Tax Revenue	11.5%	45
Public Employees Per 10,000 of Population (full-time equivalent)	575.1	33
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.3	36
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.38	39
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Utah

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

12 Economic Performance Rank

1 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

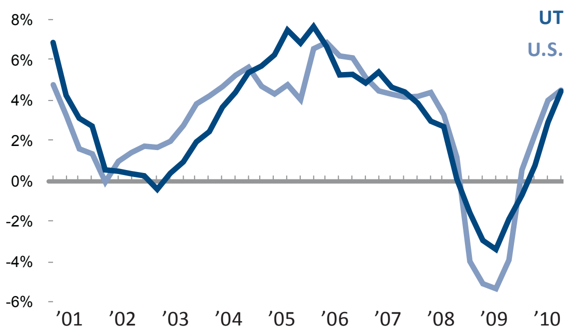
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

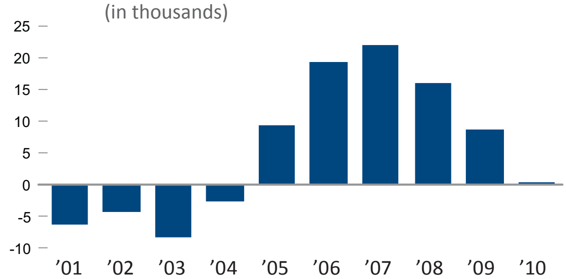
Personal Income Per Capita

Cumulative Growth 2000-2010 33.2% Rank: 27



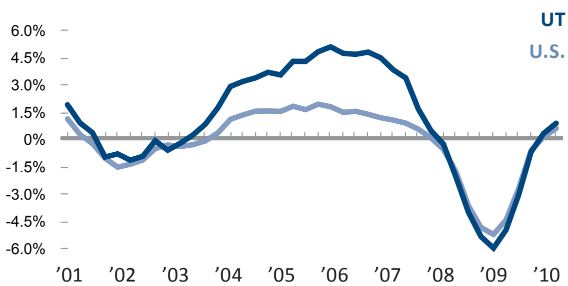
Absolute Domestic Migration

Cumulative 2001-2010 53,813 Rank: 17



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 11.3% Rank: 5



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**1**	**1**	**1**	**1**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	16
Top Marginal Corporate Income Tax Rate	5.00%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$26.13	16
Sales Tax Burden (per $1,000 of personal income)	$26.42	33
Remaining Tax Burden (per $1,000 of personal income)	$15.63	12
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.33	18
Debt Service as a Share of Tax Revenue	7.7%	19
Public Employees Per 10,000 of Population (full-time equivalent)	509.3	12
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.8	7
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.46	6
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Vermont

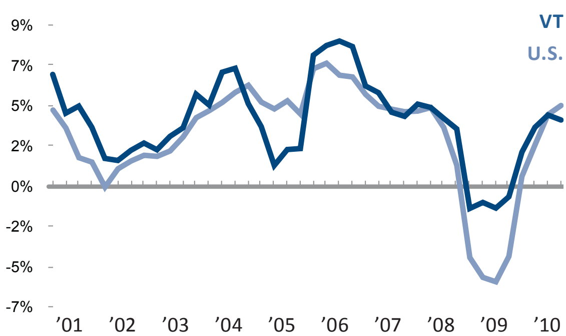
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

19 Economic Performance Rank

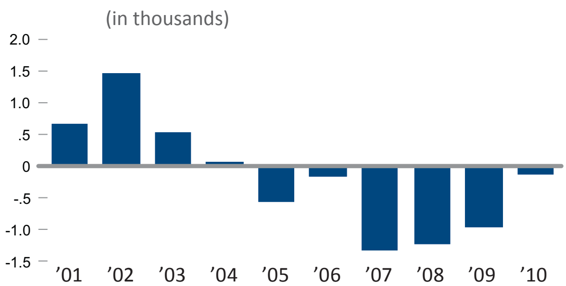
49 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

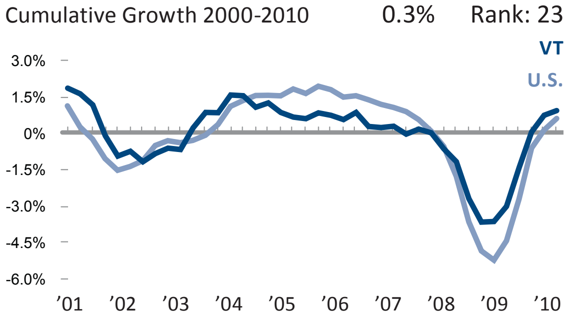
Personal Income Per Capita
Cumulative Growth 2000-2010 41.5% Rank: 14



Absolute Domestic Migration
Cumulative 2001-2010 -1,637 Rank: 28



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 0.3% Rank: 23



Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**50**	**49**	**49**	**49**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	45
Top Marginal Corporate Income Tax Rate	8.50%	35
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$27.36	49
Property Tax Burden (per $1,000 of personal income)	$52.61	49
Sales Tax Burden (per $1,000 of personal income)	$13.48	8
Remaining Tax Burden (per $1,000 of personal income)	$27.51	47
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$1.67	31
Debt Service as a Share of Tax Revenue	7.1%	14
Public Employees Per 10,000 of Population (full-time equivalent)	646.9	44
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.6	25
State Minimum Wage (federal floor is $7.25)	$8.46	48
Average Workers' Compensation Costs (per $100 of payroll)	$2.22	33
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Virginia

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

8 Economic Performance Rank

3 Economic Outlook Rank

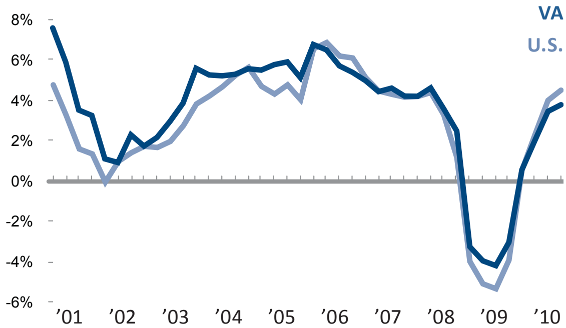
Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)

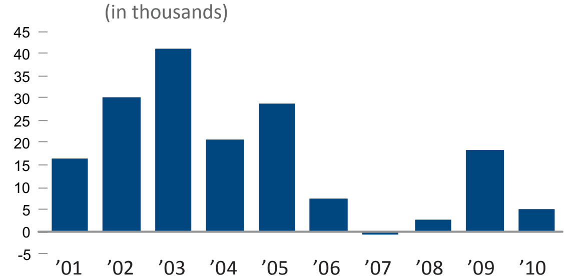
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 39.4% Rank: 19

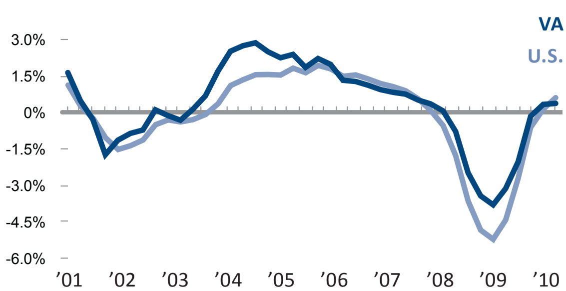


Absolute Domestic Migration
Cumulative 2001-2010 170,135 Rank: 12

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 4.5% Rank: 13



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**5**	**4**	**8**	**3**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.75%	22
Top Marginal Corporate Income Tax Rate	6.00%	15
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.45	23
Property Tax Burden (per $1,000 of personal income)	$32.56	28
Sales Tax Burden (per $1,000 of personal income)	$12.72	7
Remaining Tax Burden (per $1,000 of personal income)	$17.20	19
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$0.00	14
Debt Service as a Share of Tax Revenue	7.1%	15
Public Employees Per 10,000 of Population (full-time equivalent)	552.2	29
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.1	6
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.39	4
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Washington

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

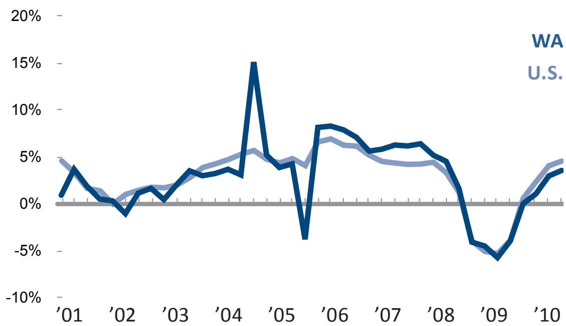
14 Economic Performance Rank

Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

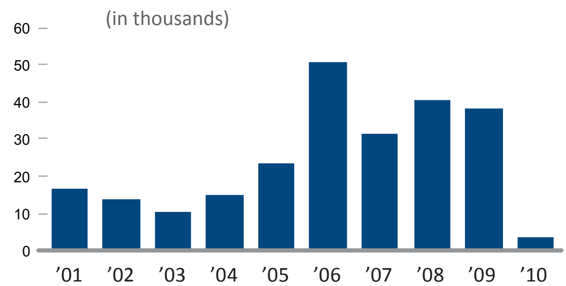
Personal Income Per Capita

Cumulative Growth 2000-2010 33.3% Rank: 26



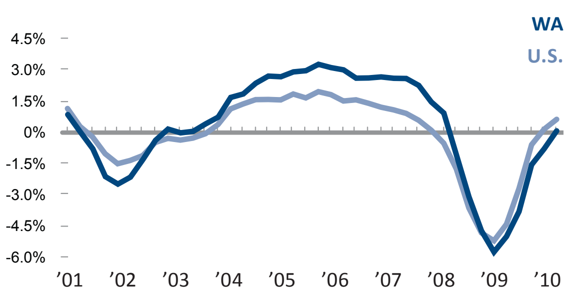
Absolute Domestic Migration

Cumulative 2001-2010 242,663 Rank: 9



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 3.1% Rank: 17



33 Economic Outlook Rank

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	30	22	24	33

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	8.21%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$28.49	18
Sales Tax Burden (per $1,000 of personal income)	$34.02	44
Remaining Tax Burden (per $1,000 of personal income)	$22.90	42
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$4.30	40
Debt Service as a Share of Tax Revenue	11.1%	44
Public Employees Per 10,000 of Population (full-time equivalent)	519.7	15
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.6	25
State Minimum Wage (federal floor is $7.25)	$9.04	50
Average Workers' Compensation Costs (per $100 of payroll)	$2.04	25
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	3	1

West Virginia

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

16 Economic Performance Rank

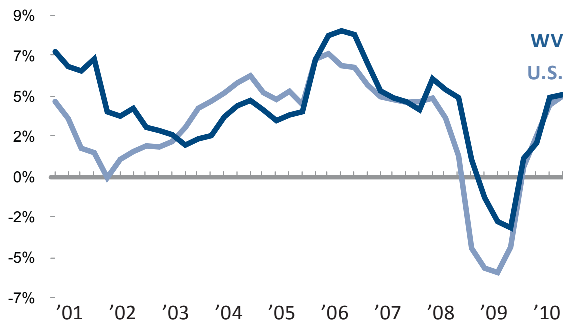
30 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita

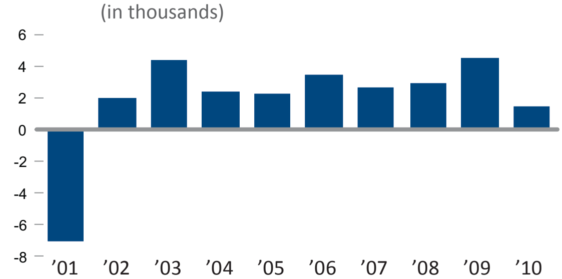
Cumulative Growth 2000-2010 44.1% Rank: 11



Absolute Domestic Migration

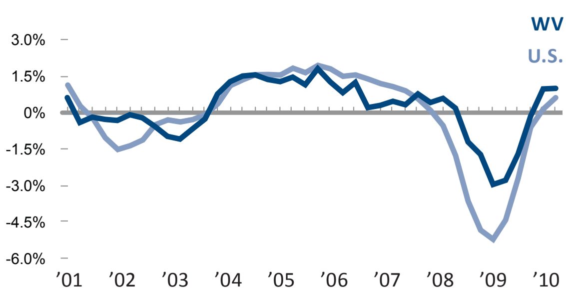
Cumulative 2001-2010 19,208 Rank: 26

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2000-2010 2.2% Rank: 19



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**38**	**33**	**27**	**31**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	27
Top Marginal Corporate Income Tax Rate	7.75%	28
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.53	44
Property Tax Burden (per $1,000 of personal income)	$22.60	9
Sales Tax Burden (per $1,000 of personal income)	$19.19	15
Remaining Tax Burden (per $1,000 of personal income)	$28.27	48
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.59	5
Debt Service as a Share of Tax Revenue	6.2%	5
Public Employees Per 10,000 of Population (full-time equivalent)	548.6	28
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	35.1	50
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.84	16
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Wisconsin

2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

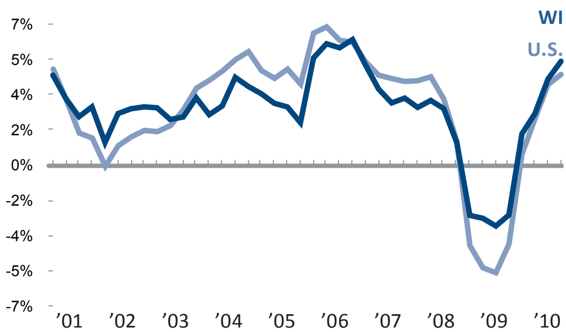
42 Economic Performance Rank

32 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)
A backward-looking measure 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.

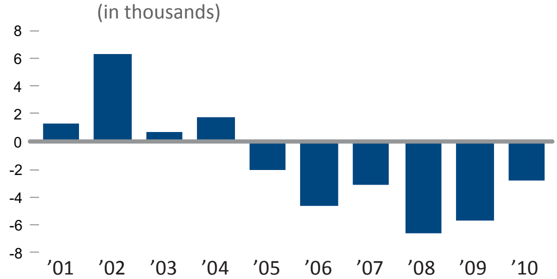
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Personal Income Per Capita
Cumulative Growth 2000-2010 32.1% Rank: 31

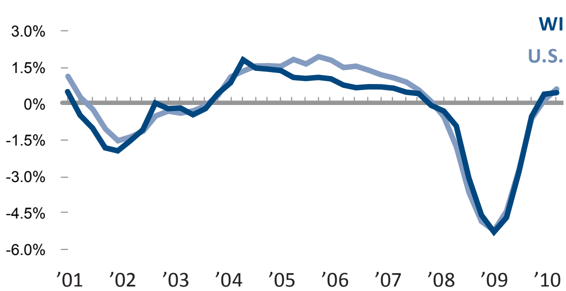


Absolute Domestic Migration
Cumulative 2001-2010 -14,788 Rank: 30

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 -3.0% Rank: 38



Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	33	27	23	30

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.75%	36
Top Marginal Corporate Income Tax Rate	7.90%	30
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$3.66	18
Property Tax Burden (per $1,000 of personal income)	$43.52	42
Sales Tax Burden (per $1,000 of personal income)	$20.72	19
Remaining Tax Burden (per $1,000 of personal income)	$18.20	26
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	$3.77	39
Debt Service as a Share of Tax Revenue	8.7%	27
Public Employees Per 10,000 of Population (full-time equivalent)	503.0	11
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.8	22
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.21	32
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Wyoming

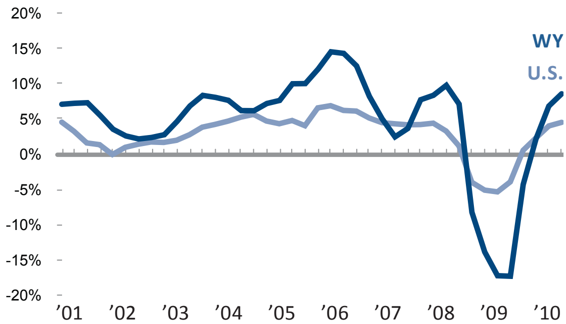
2012 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

1 Economic Performance Rank

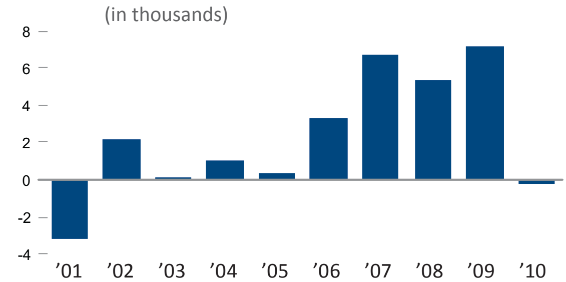
Economic Performance Rank (1=best 50=worst)

A backward-looking measure 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.

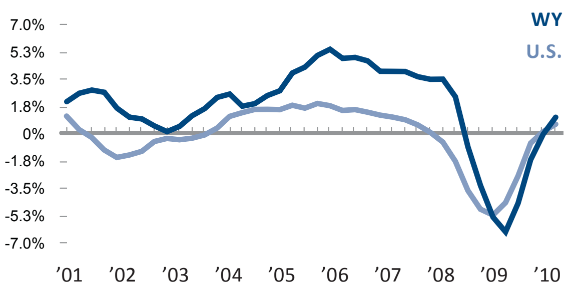
Personal Income Per Capita
Cumulative Growth 2000-2010 53.1% Rank: 3



Absolute Domestic Migration
Cumulative 2001-2010 22,709 Rank: 25



Non-Farm Payroll Employment
Cumulative Growth 2000-2010 19.1% Rank: 1



4 Economic Outlook Rank

Economic Outlook Rank (1=best 50=worst)

A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009	2010	2011
ECONOMIC OUTLOOK RANK	**4**	**6**	**6**	**4**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$48.65	46
Sales Tax Burden (per $1,000 of personal income)	$46.92	50
Remaining Tax Burden (per $1,000 of personal income)	$13.84	6
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income)	-$0.26	8
Debt Service as a Share of Tax Revenue	2.5%	1
Public Employees Per 10,000 of Population (full-time equivalent)	900.1	50
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.5	15
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.79	14
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Appendix

2012 ALEC-Laffer State Economic Competitiveness Index:

Economic Outlook Methodology

Earlier in this book, we introduced 15 policy variables that have a proven impact on the migration of capital—both investment and human—into and out of states. The end result of an equally weighted combination of these variables is the 2012 ALEC-Laffer Economic Outlook rankings of the states. Each of these factors is influenced directly by state lawmakers through the legislative process. The 15 factors and a basic description of their purposes, sourcing, and subsequent calculation methodologies are as follows:

HIGHEST MARGINAL PERSONAL INCOME TAX RATE

This ranking includes local taxes, if any, and any impact of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. Data was drawn from: CCH Tax Research Network, Tax Analysts, and Tax Administrators.

HIGHEST MARGINAL CORPORATE INCOME TAX RATE

This variable includes local taxes, if any, and includes the effect of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. In the case of gross receipts or business franchise taxes, an effective tax rate was approximated using NIPA profits, rental and proprietor's income, and gross domestic product data. The approximation resulted in a gross receipts tax to corporate income tax multiplier of roughly 4.56, meaning that a 1 percent tax rate on gross receipts roughly translates to a 4.56 percent corporate income tax rate. Data was drawn from: CCH Tax Research Network, Tax Analysts, Tax Administrators, and the Bureau of Economic Analysis.

PERSONAL INCOME TAX PROGRESSIVITY

This variable was measured as the difference between the average tax liability per $1,000 at incomes of $150,000 and $50,000. The tax liabilities were measured using a combination of effective tax rates, exemptions, and deductions at both state and federal levels, which are calculations from Laffer Associates.

PROPERTY TAX BURDEN

This variable was calculated by taking tax revenues from property taxes per $1,000 of personal income. We have used U.S. Census Bureau data, for which the most recent year available is 2009. This data was released in October 2011.

SALES TAX BURDEN

This variable was calculated by taking tax revenues from sales taxes per $1,000 of personal income. Sales taxes taken into consideration include the general sales tax and specific sales taxes. We have used U.S. Census Bureau data, for which the most recent year available is 2009. Where appropriate, gross receipts or business franchise taxes, counted as sales taxes in the Census data, were subtracted from a state's total sales taxes to avoid double-counting tax burden in a state. This data was released in October 2011.

REMAINING TAX BURDEN
This variable was calculated by taking tax revenues from all taxes—excluding personal income, corporate income (including corporate license), property, sales, and severance per $1,000 of personal income. We used U.S. Census Bureau data, for which the most recent year available is 2009. Data was released in October 2011.

ESTATE OR INHERITANCE TAX (YES OR NO)
This variable assesses if a state levies an estate or inheritance tax. We chose to score states based on either a "yes" for the presence of a state-level estate or inheritance tax, or a "no" for the lack thereof. Data was drawn from: McGuire Woods LLP, "State Death Tax Chart: Revised January 3, 2012."

RECENTLY LEGISLATED TAX CHANGES
This variable calculates each state's relative change in tax burden over a two-year period, (in this case, 2010 and 2011), using static revenue estimates of legislated tax changes per $1,000 of personal income. This time frame ensures that tax changes will impact a state's ranking long enough to overcome any lags in the tax revenue data. Laffer Associates calculations used raw data from Tax Analysts and other sources.

DEBT SERVICE AS A SHARE OF TAX REVENUE
Interest paid on debt as a percentage of total tax revenue. This information comes from U.S. Census Bureau data.

PUBLIC EMPLOYEES PER 10,000 RESIDENTS
This variable shows the full-time Equivalent Public Employment per 10,000 of Population. This information comes from U.S. Census Bureau data.

QUALITY OF STATE LEGAL SYSTEM
This variable ranks tort systems by state. Information comes from the 2010 U.S. Chamber of Commerce State Liability Systems Ranking.

STATE MINIMUM WAGE
Minimum wage enforced on a state-by-state basis. If a state does not have a minimum wage, we use the federal minimum wage floor. This information comes from the U.S. Department of Labor, as of January 2012.

WORKERS' COMPENSATION COSTS
This variable highlights the 2010 Workers' Compensation Index Rate (cost per $100 of payroll). Note: This survey is conducted by the Information Management Division, Department of Consumer & Business Services.

RIGHT-TO-WORK STATE (YES OR NO)
This variable assesses whether or not a state requires union membership out of its employees. We have chosen to score states based on either a "yes" for the presence of a right-to-work law, or a "no" for the lack thereof. This information comes from the National Right to Work Legal Defense and Education Foundation, Inc.

TAX OR EXPENDITURE LIMIT
States were ranked by the number of state tax or expenditure limits in place. We measure this by i) a tax expenditure limit, ii) mandatory voter approval of tax increases, and iii) a supermajority requirement for tax increases. This information comes from the Cato Institute and other sources.

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Speaker Philip Gunn, Mississippi

American Legislative Exchange Council
1101 Vermont Ave., NW, 11th Floor
Washington, D.C. 20005
Ph: (202) 466-3800 Fax: (202) 466-3801
www.alec.org

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