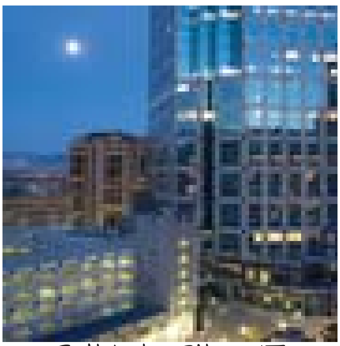
3rd EDITION

Rich States, Poor States

ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX


Salt Lake City, UT


Minden, IA


Detroit, MI

Arthur B. Laffer
Stephen Moore
Jonathan Williams

Foreword by Gov. Gary R. Herbert

American Legislative Exchange Council

Rich States, Poor States

ALEC-Laffer State Economic Competitiveness Index

Arthur B. Laffer
Stephen Moore
Jonathan Williams

ALEC
American Legislative Exchange Council

Rich States, Poor States
ALEC-Laffer State Economic Competitiveness Index

Published by
American Legislative Exchange Council
1101 Vermont Ave., NW, 11th Floor
Washington, D.C. 20005

Phone: (202) 466-3800
Fax: (202) 466-3801

www.alec.org

For more information, contact the ALEC Public Affairs office.

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

Designed for ALEC by
Drop Cap Design • www.dropcapdesign.com

ISBN: 978-0-9822315-5-5

Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index has been published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop, and disseminate public policies, which expand free markets, promote economic growth, limit the size of government, and preserve individual liberty. ALEC is the nation's largest nonpartisan, voluntary membership organization of state legislators, with 2,000 members across the nation. ALEC is governed by a Board of Directors of state legislators, which is advised by a Private Enterprise Board representing major corporate and foundation sponsors.

ALEC is classified by the Internal Revenue Service as a 501(c)(3) nonprofit and public policy and educational organization. Individuals, philanthropic foundations, corporations, companies, or associations are eligible to support ALEC's work through tax-deductible gifts.

Table of Contents

About the Authors v
Acknowledgements vii
Foreword viii
Executive Summary ix

CHAPTER 1 | The State of the States **1**
States Spent and Spent and Spent, Now the Bills Are Due 3
America's Protected Class 4
Benefits for Government Workers: The Ticking Fiscal Time Bomb 4
Government Health Care Benefits: Busting Budgets 6
Asking for More from Taxpayers: America's Forgotten Special Interest Group 7
Return of the Class Warriors 8
Predatory Taxes 9
Necessary Tax Increases? 11
The Solution: Reasonable Spending Limitation 11
Priority-Based Budgeting 12
Other Tax Cutting Efforts 13
Americans Still on the Move 14

CHAPTER 2 | The Missouri Compromise **21**
The State of Missouri 22
The Proposal 23
A Cross-State Comparison: States Without an Income Tax vs. States With the Highest Income Tax Rates 25
States That Have Adopted an Income Tax 27
The Stability of Tax Receipts 32

CHAPTER 3 | California, Michigan, New Jersey, and New York: Lessons on How Not to Govern a State **39**
States That Do Everything Wrong 40
Soaking the Rich: Effects on State Economies 41
The "Taxes Don't Matter" Argument: What the Evidence Shows 43
Spending Doesn't Necessarily Mean Success 44
New Jersey Hits Rock Bottom 46
Michigan's Industrial Policy Belly Flop 47
Escape from New York 49
Is There a Golden State Opportunity? 51

CHAPTER 4 | The Washington Stimulus Curse **55**
Why States Are Better Off Without the "Help" of Congress 56
How the Failed $787 Billion Stimulus Package Sunk State Budgets 56
The Real Cost of a Free Lunch 59
Federal Stimulus: For Every State Winner There's a State Loser 59
Unemployment Insurance Creates Unemployment 60
Higher Government Expenditures De-Stimulate the Economy 61
Fiscal Stimulus and the "New Normal" for State Budgets 63

CHAPTER 5 | State Rankings **69**

Appendix | ALEC-Laffer State Economic Competitiveness Index: Economic Outlook Methodology **122**

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 Dr. Laffer's economic insight and influence in starting a worldwide tax-cutting movement during the 1980s, many publications have named him "The Father of Supply-Side Economics." He is a founding member of the Congressional Policy Advisory Board, which assisted in forming legislation for the 105th, 106th and 107th Congresses. Dr. 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 Tax and Fiscal Policy Task Force for the American Legislative Exchange Council (ALEC), where he works with state legislators and the private sector to develop free-market fiscal policy solutions in the states. Prior to joining ALEC, Williams served as staff economist at the non-partisan Tax Foundation, authoring numerous tax policy studies.

His work has been featured in many publications including *The Wall Street Journal*, *The Los Angeles Times*, *Forbes*, and *Investor's Business Daily*. Williams has been a contributing author to the Reason Foundation's *Annual Privatization Report* and has written for the Ash Institute at the Kennedy School of Government at Harvard. He is also a contributor to *The Examiner* (Washington, D.C.) and serves as an adjunct fiscal policy fellow at the Kansas Policy Institute.

In addition to testifying before numerous legislative bodies and speaking to audiences across America, Williams is a frequent guest on talk radio shows and has appeared on numerous television outlets including The Glenn Beck Program and *Fox Business News*. A Mid-Michigan native, Williams graduated magna cum laude from Northwood University in Midland, Mich., majoring in economics, banking/finance, and business management. While at Northwood, he was the recipient of the prestigious Ludwig von Mises Award in Economics.

Acknowledgements

We wish to thank the following parties for making this publication possible:

First, our sincere thanks go to the Searle Freedom Trust and the Claude R. Lambe Charitable Foundation for their generous support of this research and promotion of this book.

Next, we thank Ron Scheberle, Michael Bowman, Pia Decarsin, Meaghan Archer, John Napolitano, Theodore Lafferty, Cal Bowen, Jeff W. Reed, Anthony P. Campau, and the professional staff of ALEC for their assistance in publishing this in a timely manner. We also appreciate the research assistance of Tyler Grimm, Ford Scudder, Mark Wise, Jeff Thomson, and Allison Moore. Richard Vedder and Wayne Winegarden once again provided us with a catalog of high-quality studies on the impact of immigrants on state economies. We hope these research findings help lead to the enactment of pro-growth economic policies in all 50 state capitals.

Foreword

Dear ALEC Member,

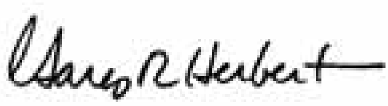
It is no secret that, as a nation and as individual states, we are in challenging economic times. States have seen their revenues drop dramatically and have been forced to respond with difficult budget cuts.

Although we continue to deal with challenging times, economic indicators are telling us that states are finally beginning to turn the corner. There is light at the end of the tunnel, and we are beginning to see signs of recovery. To accelerate this recovery, states can benefit from each other's expertise and experience. This requires access to information and analysis from which we can learn from one another and implement best practices.

The American Legislative Exchange Council has long been a trusted source for this critical economic and tax policy information. The Council continues to provide leadership to state executives and legislatures, and many of us have come to depend on this valuable expertise. The third edition of "Rich States, Poor States" is a vital resource that will help shape sound fiscal policy in states across the country.

Thank you to those who helped produce this report, which I know will be a vital addition to the arsenals of countless policymakers throughout the United States.

Sincerely,



Gary R. Herbert,
Governor of Utah

Executive Summary

In this third edition of *Rich States, Poor States*, authors Arthur B. Laffer, Stephen Moore, and Jonathan Williams explain why the economic crisis has been so rough on the states, what states should do to alleviate the fiscal pain, and what they should avoid. In addition, the authors provide the 2010 ALEC-Laffer State Economic Competitiveness rankings of the states based on their economic policies and examine which states took the right corrective actions and which states took the wrong ones in the face of this fiscal storm.

Chapter 1 analyzes the toll the "Great Recession" has taken at the state level and offers an in-depth look at where states are in need of improvement. The authors point to the fundamental cause of why so many state budgets are broken: An unprecedented buildup in the size of state budgets. The chickens have come home to roost from the spending in state capitals from 2004 to 2008. Instead of continuing down the road to bankruptcy with wild spending, debt, and unfunded pension liabilities, the authors walk through the steps of priority-based budgeting. This section also gives a comprehensive overview of both good and bad fiscal actions in the states—complete with a list of 2009's biggest losers.

The second chapter focuses largely on Missouri. As the "average" American state, it is a near-perfect example of how states are affected by the economic crisis. But, more important, Missouri serves as an example of why the state income tax should be eliminated and what fruits that will bear for state residents. The income tax has long been a hindrance to economic growth and state prosperity in the Show-Me State, making it crucial for Missouri and others to consider fundamental tax reform. If Missouri aspires to enhance its competitiveness in the coming years, it should follow Tennessee's lead—by avoiding a personal income tax—as the authors explain in this chapter.

Chapter 3 shows the long-term damage caused by nearly uncontrolled "progressive" policymaking. Here the focus is on what *not* to do. The authors analyze once thriving, but now economically depressed, California, Michigan, New Jersey, and New York, to demonstrate the serious consequences of tax-and-spend governance. In this section, Laffer, Moore, and Williams describe the "moving van effect," where people flee states with oppressive taxes to go to more tax-friendly states. Unfortunately for the above-named states, high taxes are driving away the geese that lay the golden eggs.

In the fourth chapter, the authors provide a special section on how Washington's policies are impacting states. They show how almost everything Congress and President Barack Obama's Administration have done in dealing with the country's economic and fiscal crises have made things much worse for the states. The authors provide evidence that the economic stimulus, while hailed as "manna from heaven" by some policymakers, actually has been (and will continue to be) a net negative for state economies and state budgets.

Finally, Chapter 5 is the much-anticipated 2010 ALEC-Laffer State Economic Competitiveness Index, which offers two distinct rankings. The first, the Economic Performance Rank, is a backward-looking measure based on a state's per-

Relationship Between Policies and Performance

ALEC-Laffer State Economic Outlook Rank vs. 10-Year Economic Performance, 1998-2008

State	Rank	Gross State Product Growth	Personal Income Growth	Personal Income Per Capita Growth	Population Growth
Utah	1	82.5%	76.3%	39.5%	25.9%
Colorado	2	73.7%	76.7%	48.6%	19.9%
Arizona	3	80.9%	88.9%	43.9%	33.1%
South Dakota	4	77.9%	71.5%	58.4%	7.8%
Florida	5	78.4%	77.9%	51.3%	19.0%
Wyoming	6	137.6%	117.3%	96.3%	8.6%
Idaho	7	77.0%	79.4%	48.1%	22.0%
Virginia	8	75.2%	73.8%	54.3%	13.0%
Georgia	9	55.6%	65.5%	35.5%	23.3%
Tennessee	10	56.7%	59.7%	43.0%	12.0%
10 Highest Ranked States*	-	**79.6%**	**78.7%**	**51.9%**	**18.5%**
Nevada	11	106.2%	100.3%	46.7%	41.1%
North Dakota	12	84.3%	70.3%	69.6%	-0.9%
Arkansas	13	59.0%	65.9%	52.3%	9.2%
Oklahoma	14	84.6%	81.3%	69.0%	7.0%
Missouri	15	44.8%	51.3%	40.6%	7.9%
Louisiana	16	88.2%	65.5%	64.3%	0.3%
Alabama	17	59.4%	61.7%	52.1%	6.2%
Mississippi	18	51.7%	58.5%	51.9%	4.8%
Texas	19	94.5%	84.8%	53.3%	20.6%
Indiana	20	42.5%	45.6%	37.0%	6.5%
North Carolina	21	64.8%	64.4%	39.3%	18.4%
Alaska	22	106.8%	74.0%	55.7%	11.0%
Wisconsin	23	49.6%	51.4%	42.8%	6.2%
Washington	24	64.9%	69.4%	48.5%	13.8%
Kansas	25	61.5%	57.0%	49.1%	5.1%
Michigan	26	23.6%	33.2%	32.2%	1.6%
West Virginia	27	56.1%	52.3%	51.7%	0.0%
Iowa	28	62.2%	53.6%	49.0%	3.1%
Maryland	29	68.8%	71.7%	58.3%	8.7%
New Hampshire	30	53.5%	60.3%	47.9%	9.6%
South Carolina	31	51.9%	64.5%	43.3%	14.9%
Massachusetts	32	54.6%	61.6%	54.8%	4.3%
Montana	33	80.5%	75.7%	61.8%	8.5%
Nebraska	34	59.9%	55.3%	47.4%	5.1%
New Mexico	35	74.0%	71.9%	54.7%	10.8%
Connecticut	36	48.7%	58.9%	53.0%	4.1%
Delaware	37	67.9%	65.4%	44.8%	14.8%
Minnesota	38	59.4%	60.0%	48.1%	8.7%
Hawaii	39	70.0%	64.2%	53.5%	5.9%
Kentucky	40	43.8%	54.7%	44.0%	7.6%
Oregon	41	60.1%	59.1%	41.2%	12.8%
Ohio	42	35.2%	38.6%	36.1%	1.9%
Pennsylvania	43	52.9%	51.8%	47.7%	2.6%
Maine	44	56.7%	56.8%	50.7%	4.8%
Rhode Island	45	60.4%	56.7%	54.8%	2.2%
California	46	70.1%	67.7%	52.0%	10.9%
Illinois	47	49.5%	51.9%	45.4%	4.7%
New Jersey	48	51.2%	56.4%	50.1%	4.5%
Vermont	49	59.7%	63.3%	58.9%	3.4%
New York	50	66.6%	58.3%	53.0%	3.8%
10 Lowest Ranked States*	-	**56.2%**	**56.1%**	**49.0%**	**5.2%**
U.S. Average*	-	**65.9%**	**65.1%**	**50.5%**	**10.0%**

* Equal-weighted averages

Net Domestic in-Migration as % of Population	Non-Farm Payroll Employment Growth	2009 Unemployment Rate
0.5%	22.7%	5.7%
3.9%	14.2%	7.3%
11.5%	26.2%	8.4%
0.4%	14.3%	4.8%
7.2%	17.1%	10.4%
2.5%	30.7%	5.6%
7.9%	24.3%	8.0%
1.8%	13.2%	6.7%
5.9%	9.7%	9.7%
4.3%	5.3%	10.1%
4.6%	**17.8%**	**7.7%**
16.0%	36.8%	11.6%
-4.8%	14.9%	4.2%
2.4%	7.3%	7.0%
0.6%	10.4%	6.4%
0.9%	4.1%	9.0%
-6.9%	2.8%	6.6%
1.6%	5.1%	9.7%
-0.9%	1.2%	9.4%
3.0%	18.7%	7.4%
-0.2%	1.4%	10.0%
6.3%	9.9%	10.7%
-2.8%	17.2%	8.2%
0.1%	5.6%	8.4%
3.0%	14.0%	8.9%
-2.4%	5.8%	6.6%
-4.5%	-7.8%	14.0%
0.7%	5.9%	7.9%
-1.4%	5.6%	5.9%
-1.4%	11.7%	7.0%
3.4%	9.7%	6.5%
6.3%	8.1%	11.6%
-4.9%	3.2%	8.4%
3.8%	18.8%	6.3%
-2.3%	9.7%	4.7%
0.7%	17.7%	6.7%
-2.8%	3.4%	7.9%
5.4%	8.1%	7.9%
-0.5%	7.7%	7.9%
-3.4%	16.6%	7.0%
1.8%	5.8%	10.4%
4.4%	10.2%	11.4%
-3.1%	-2.1%	10.3%
-0.7%	5.6%	8.2%
2.7%	8.2%	8.2%
-3.3%	5.2%	11.9%
-3.9%	10.3%	11.6%
-5.0%	0.8%	9.8%
-4.8%	6.7%	8.9%
0.2%	7.4%	6.9%
-8.7%	6.8%	8.3%
-2.2%	**5.9%**	**9.6%**
0.8%	**10.4%**	**8.3%**

formance on three important variables: Personal Income Per Capita, Absolute Domestic Migration, and Non-farm Payroll Employment—each highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.

ALEC-Laffer State Economic Outlook Ranking

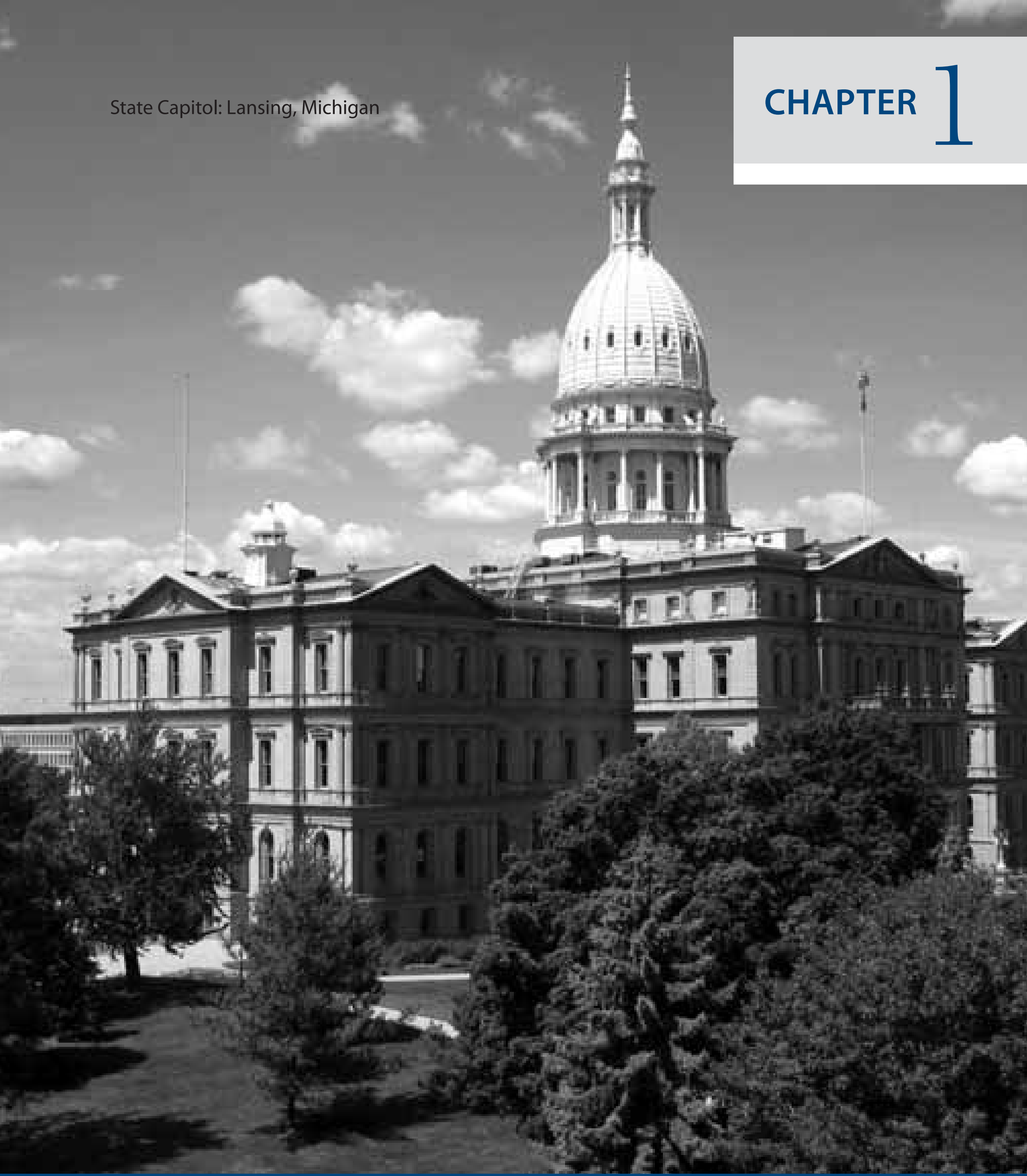
- Highest Marginal Personal Income Tax Rate
- Highest Marginal Corporate Income Tax Rate
- Personal Income Tax Progressivity
- Property Tax Burden
- Sales Tax Burden
- Tax Burden From All Remaining Taxes
- Estate Tax/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes
- Debt Service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

The second measure, the Economic Outlook Rank, is a forecast based on a state's current standing in 15 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.

As Justice Louis Brandeis famously remarked, the states are laboratories of democracy. The competitiveness rankings give you the chance to evaluate those laboratories for yourself.

Enjoy.

CHAPTER 1


State Capitol: Lansing, Michigan

The State of the States

The State of the States

It's 2010, and state lawmakers once again are navigating difficult economic landscapes and hoping for signs of recovery. Countless challenges remain. Wall Street's financial chaos and the massive loss of wealth from the crash in housing values and stocks sent states into a financial tailspin worse than any time in recent memory.

On the heels of an economically brutal 2009, when almost every governor and state legislator was forced to tackle a budget shortfall, and more than half the states raised a bevy of taxes, taxpayers now are facing an increase on every imaginable tax—from fees on hunting, fishing, and drivers' licenses, to income, sales, and cigarette taxes.

States in fiscal year (FY) 2010 were confronted with another miserable budget year.[1] Lawmakers already have closed collective budget shortfalls of $89.8 billion in FY2010, while $18.9 billion in budget gaps remain.[2] For fiscal years 2011-2012, states face additional budget gaps totaling $117.2 billion.[3] A new Government Accountability Office (GAO) report to Congress outlines the significant long-term fiscal problems facing states—and they're not pretty.[4]

One study by the Rockefeller Institute of Government found that 2009 state revenues fell "more sharply than at any time in the last fifty years."[5] Just in the first quarter of FY2010, tax collections were already down 8.3 percent from the year before. Early numbers for the second quarter of fiscal 2010 show collections are off 4.1 percent and the slight improvement from the previous quarter isn't something for which legislators should be proud. The Rockefeller Institute points out revenue improvements "were often driven by legislated tax increases rather than growth in the economy and tax base."[6]

Many states used budget gimmicks, accounting tricks, and one-time revenue raisers to get through last year's tough times. But they are running out of magical fiscal rabbits to pull out of their hats. State rainy-day funds were heavily utilized to reduce cuts in fiscal 2010 budgets, but those funds are quickly being emptied.[7]

Further, federal stimulus funds for state budget stabilization will soon run out, leaving states between a rock and a hard place. New York's Lt. Gov. Richard Ravitch explains how the federal aid to the states was not the panacea it was made out to be:

> *"The net result is this: The federal stimulus has led states to increase overall spending in these core areas (transportation, education, and health care), which in effect has only raised the height of the cliff from which state spending will fall if stimulus funds evaporate."*[8]

"If the stimulus funds evaporate," the lieutenant governor says? In an ideal world, such a bailout would and should have never occurred. And still, some big spenders in Congress are looking to spend billions more on another bailout of the states.[9] In Chapter 4, we point out how more federal aid will not solve the fiscal problems of the states, but in fact, further exacerbate their long-term challenges.

States Spent and Spent and Spent, Now the Bills Are Due

The major driver of the state fiscal meltdown is that states partied hard during the bull-market expansion of the 1990s and then again during several years of the past decade. The spending splurge in state government has not been well publicized but was very real, especially between 2004 and 2008 when state governments dramatically expanded. We warned in previous editions of this publication that the good times would not last forever. They never do. As the great Yogi Berra would say, "This is like déjà vu all over again."

State lawmakers and governors could not resist loading up spending while revenues poured into state coffers. When the times were good, states added new programs for fully funded pre-kindergarten, expanding Medicaid to those with incomes often double the poverty level, building space launch programs, providing laptops to every public school student, while building convention centers, sports stadiums, and casinos. Nothing was unaffordable.

"We thought the good times would last forever," is what state legislators have told us in recent months. Others said that it was "impossible to say 'no' to special interest groups with all that money pouring in."

And the spending totals confirm this "spend and forget about tomorrow" mentality. Data from the U.S. Census Bureau show that total state and local spending, in inflation-adjusted 2007 dollars, grew an average of 41.5 percent from 1997 to 2007.

Unsurprisingly, California made the list of big spenders this year, and as we address at greater length in Chapter 3, the Golden State has long served as a laboratory experiment on how states shouldn't budget. Just to preview, California relies heavily on income taxes on the wealthy and on businesses to pay its bills. When revenues surged during the middle of the decade, thanks to huge increases in capital gains revenues, the state budget rose to $99 billion from $75 billion, a 31 percent increase between 2003 and 2007.[10] That was almost double the 17 percent increase in population plus inflation. When revenues from the rich collapsed, the state found itself roughly $40 billion in the red—while issuing $3.2 billion in IOUs.[11] Even more alarmingly, Jamie Dimon, chairman of JP Morgan Chase, warns that California now poses a *greater* risk of default than Greece.[12] The Tax Foundation explains what states should take away from the Golden State's tragic fall into debt:

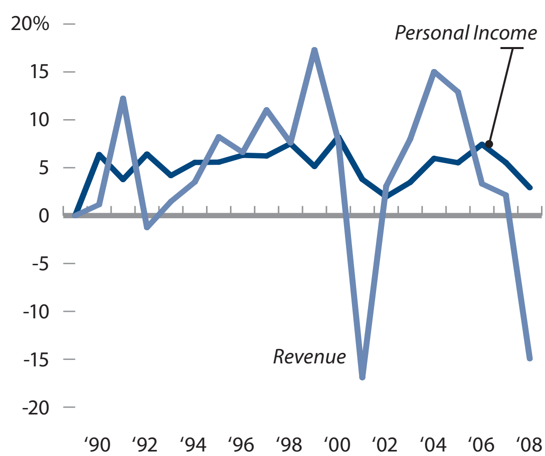
> *"The lesson to be learned from California is twofold: States should not assume that revenue surges in good times will continue indefinitely, and the more reliant a state is on high-income earners, the bigger hit they sus-*

TABLE 1
Biggest Spending States: Total State and Local Expenditure Growth, 1997-2007

State	Growth (%)
Arizona	73.1
Nevada	67.8
Wyoming	65.1
Florida	61.1
California	54.9

Source: U.S. Census Bureau

FIGURE 1
California Tax Revenue: The Boom and Bust Cycle



Source: California Department of Finance *tain when those revenue surges end. Therefore legislators should adopt wise spending and tax policies that recognize and prepare their states for these realities."*[13]

However, some states rarely learn, as evidenced by California's tax hikes on the rich in 2009. These tax increases will only exacerbate the boom-and-bust cycle of revenues that has plagued the Golden State for years, as Figure 1 shows.

America's Protected Class

We also note that states have done little to cut back on their bloated payrolls or their extravagant pay packages, which have led to the colossal problem of overpromised and underfunded state pension systems described below. In fiscal year 2008, even as the fiscal storm was gathering and unemployment was rising, states and localities *added* 338,000 employees.[14] Remember, this was as the private sector *lowered* its employment levels by 289,000.[15] States were in denial of the financial troubles ahead. As our friend Chris Edwards, an economist at the Cato Institute, put it: "Government debt has soared during good times and bad. During recessions, politicians say that they need to borrow to avoid spending cuts. But during boom times, such as from 2003 to 2008, they say that borrowing makes sense because an expanding economy can handle a higher debt load."[16]

What is even more remarkable is the surge in pay and the increasing gap between public and private-sector compensation. In 2008, wages and benefits of $1.1 trillion accounted for half of total state and local government spending.[17] This is not surprising, considering that government employees now earn more than 45 percent more a year on average than private-sector workers.[18] Working for state and local governments has become so lucrative that one Ohio resident recently compared it to "winning the lottery."[19]

To properly understand the magnitude of the problem, we turn to none other than the liberal, former California Speaker Willie Brown:

"The deal used to be that civil servants were paid less than private-sector workers in exchange for an understanding that they had job security for life.

"But we politicians, pushed by our friends in labor, gradually expanded pay and benefits to private-sector levels while keeping the job protections and layering on incredibly generous retirement packages that pay ex-workers almost as much as current workers.

"Talking about this is politically unpopular and potentially even career suicide for most officeholders. But at some point, someone is going to have to get honest about the fact that 80 percent of the state, county and city budget deficits are due to employee costs.

"Either we do something about it at the ballot box, or a judge will do something about it in Bankruptcy Court. And if you think I'm kidding, just look at Vallejo."[20]

We couldn't have said it better ourselves.

Benefits for Government Workers: The Ticking Fiscal Time Bomb

As Speaker Brown points out, the high costs of public employment do not stop at wages. We stress that if policymakers do not properly address the crisis in public pensions, current state budget problems will begin to look trivial.[21] Legislators have overpromised public pension and healthcare benefits for years. For instance, California's pension obligations have risen by 2,000 percent in the past decade, according to Gov. Arnold Schwarzenegger. As the governor put it, "We are about to get run over by a locomotive."[22]

For years, employers in the private sector have been moving in the direction of versatile, 401(k) style retirement accounts. However, a vast majority of the 20 million state and local government workers in the United States have kept their generous, defined-benefit pension plans. Despite the lofty promises made by policymakers, public employee retirement plans have been neglected over the years and have become huge liabilities that severely threaten the financial health of many states. In fact, as of 2006, states had accumulated nearly $360 billion in unfunded pension obligations, according to a new ALEC study of the 50 states, "State Pension Funds Fall off a Cliff."[23] Other estimates place the obligations significantly higher.[24]

The authors of the ALEC study, Dr. Barry Poulson at the University of Colorado, and Dr. Art Hall at Kansas University, sampled state data for 2008 in an attempt to measure the current magnitude of the problem. According to their findings, only 9 percent of state pension plans met the government standard as "safe." Defined-benefit pension plans are considered safe by government standards if they have enough assets to support at least 80 percent of pension benefit obligations.

Illinois wins the dubious award of having the worst funded pension system in America—at a meager 46.1 percent funded level. Keep in mind, the private sector deems defined-benefit pension plans to be "critical" if the funded portion of the plan is less than 65 percent. This is bad news for taxpayers throughout the United States, especially for residents of Colorado and Kansas. According to the ALEC study, these two state pension plans have the highest per-capita unfunded pension liabilities in the nation at $3,624 and $2,962 respectively. The problems in Colorado are so acute that legislators predict they cannot fund payments to retirees beyond 2031.[25]

Much of the current data regarding liabilities in public employee pensions was taken before the recent economic downturn, and the ALEC study's authors warn the problem is much worse today since stock market losses have not been fully realized in many official government pension statistics. A new GAO report shows that state and local pension assets realized an average 27.6 percent loss in value in just one year's time![26] A study conducted by the Pew Center on the States shows which state pension funds took the hardest financial losses from the economic downturn.[27]

Unbelievably, some Far Left fringe groups, such as the "Progressive States Network," actually try to convince legislators there is no pension crisis fac-

TABLE 2 | **Investment Losses in 2008 for Select State Pension Plans**

State	Plan Name	Investment Loss
Pennsylvania	Pennsylvania State Employees' Retirement System	-28.70%
Ohio	Ohio Public Employees Retirement System	-26.80%
Pennsylvania	Pennsylvania Public School Employees' Retirement System	-26.50%
California	California Public Employees' Retirement System	-23.00%
Illinois	Teachers' Retirement System of the State of Illinois	-22.30%
Oregon	Oregon Public Employees Retirement System	-22.20%
Indiana	Indiana Employees' Retirement Fund	-21.00%
Virginia	Virginia Retirement System	-21.00%
Maryland	State Retirement and Pension System of Maryland	-20.00%
Missouri	Missouri Public School Retirement System	-19.30%
New Jersey	New Jersey Division of Pensions and Benefits	-19.00%
North Carolina	North Carolina Retirement System	-14.00%
Georgia	Georgia Teachers Retirement System	-13.10%

Source: Pew Center on the States

ing states, calling it "Right-wing fear mongering."[28] How can they say that with a straight face?

Elected officials need to properly monitor the status of their pension funds and bring more accountability to the process. As the chairman of ALEC's Tax and Fiscal Policy Task Force, Indiana Sen. Jim Buck, put it, "If legislators continue in their state of denial towards pension and retiree health care obligations, they will quickly face overwhelming financial odds in these areas." Utah Sen. Dan Liljenquist put the problem this way: "This is like a chemical spill. … [T]he first thing you have to do is contain it. Then you need to clean it up. This is a disaster that's already happened. We'll be in cleanup for a long time."[29]

The first step is for states to increase transparency by meeting the guidelines established by the Governmental Accounting Standards Board (GASB). States should be required to show how they plan to eliminate unfunded liabilities in pension plans within a 30-year time frame. Also, the budget gimmicks which have raided pension funds for years must come to an end.

However, the only long-term solution will be to replace current defined-benefit plans with 401(k) style defined-contribution plans for new employees.[30] Michigan and Alaska have transitioned newly-hired state employees into defined-contribution plans and other states are moving in that direction.[31] This essential reform would constrain the growth of unfunded liabilities and would establish a portable defined-contribution plan for new employees that, over time, would reduce the government's dependence on expensive and less predictable defined-benefit plans.[32]

If state lawmakers fail to enact fundamental reforms in the area of public employee pensions, the long-term financial health of the states could be compromised—and taxpayers will certainly be left on the hook.

Government Health Care Benefits: Busting Budgets

If you think state underfunding of pensions is chilling, health care and other post employment benefit (OPEB) plans for government workers are in complete disrepair.[33] The Pew study estimates that states have a collective unfunded liability of more than $550 billion in these OPEB plans.[34] Sadly, only two states (Alaska and Arizona) had more than 50 percent of the assets needed to meet their OPEB liabilities.[35]

Consider the example of Maryland, one of our favorite breeding grounds for liberal policies. According to the state's most recent Consolidated Annual Financial Report (CAFR), OPEB benefits are 99.2 percent *unfunded*. In fact, Maryland's overpromised and underfunded plan falls behind by an additional $1 billion *per year*.[36]

What can lawmakers do to curtail the massive liabilities state health care benefits place on the books? As we have come to expect from one of our favorite governors, Indiana's Mitch Daniels has developed a free-market solution to tackle the problem. As Gov. Daniels recently penned in *The Wall Street Journal*, the Hoosier State has given state workers an option to transition into flexible Health Savings Accounts (HSA).[37] Today, 70 percent of Indiana's 30,000 state employees have chosen to take advantage of these consumer driven reforms—and taxpayers are already realizing millions in savings.[38]

The colossal problem of unfunded liabilities for government pensions and health care benefits isn't limited to the state level. In fact, in some cases, the problem is even more acute at the local level—crippling municipal budgets throughout America. In towns like Everett, Mass., former employees with as little as six years of service can receive lifetime health care benefits—costing taxpayers up to $1 million for each retiree.[39]

As the chief financial officer in Lynn, Mass., put it, "It has got to be dealt with—or we will all go bankrupt."[40]

The status quo of states severely underfunding pensions and health care benefits for government employees is clearly not sustainable. If lawmakers do not undertake fundamental reforms to transition away from current defined-benefit plans and toward private-sector plans, the gargantuan liabilities will threaten the financial viability of the states indefinitely.

Asking for More from Taxpayers: America's Forgotten Special Interest Group

Nearly every state has a balanced budget requirement within their constitutions, and furthermore, unlike Washington, D.C., state treasuries cannot print money. With these constraints and the additional restrictions placed on states by accepting so called federal "stimulus" funds, how are state lawmakers able to avoid economically damaging tax increases?

Well, for starters, some don't even try. If the fiscal stimulus plan was meant to circumvent higher state taxes, then it was a grand failure, because most states raised taxes and fees in 2009. In response to the state fiscal crisis, 29 states raised taxes and fees last year by nearly $24 billion, according to a study from the National Governors Association (NGA) and National Association of State Budget Officers (NASBO).[41] On top of that, the National Association of State Workforce Agencies reports that businesses in a minimum of 35 states will see their unemployment insurance taxes rise in 2010.[42]

To give you a more in-depth look at which states are asking more from taxpayers—and in the process making their states less competitive—we have put together our very own top 10 list of biggest state losers for 2010.

The tax hikes in California, Hawaii, New Jersey, New York, and North Carolina are supposed to be "temporary." We'll believe that when we see it. In too many cases, as lawmakers get addicted to the promise of more revenue, these so-called "temporary" tax hikes soon enough become permanent fixtures in state tax codes.

TABLE 3 | **The 10 Biggest Losers**

State	
California	Raised its personal income tax rates across the board by 0.25%. The state also raised its sales tax to 8.25% from 7.25%—with local add-ons the combined sales tax rate now exceeds 10% in some localities.
Connecticut	Raised its income tax to 6.5% from 6% on individuals with incomes above $500,000, and it increased cigarette taxes.
Delaware	Raised its highest income tax rate by one percentage point to 6.95% on all earners with incomes above $60,000 and also increased cigarette taxes.
Hawaii	Raised its income tax to 11% on earnings over $200,000 and also increased taxes on smokes. Hawaii is now tied with Oregon for the nation's highest statewide income tax rate.
Massachusetts	Raised its sales tax to 6.25% from 5%.
New Jersey	Raised three income tax brackets, with the highest rising to 10.75% on millionaires, increased cigarette taxes, and increased the tax on spirits and wine by 25%. This is after New Jersey just raised its income tax two years earlier.
New York	Raised income taxes again, along with taxes on beer and wine. The highest income tax rate is now 8.97% for those state residents who earn more than $500,000. Because New York City imposes an add-on income tax, the Big Apple now applies the highest income tax in the country at 12.35%.
North Carolina	In addition to raising taxes on cigarettes, beer, wine, and spirits, lawmakers added a 2% income tax "surcharge" for those who earn more than $60,000 and a 3% surcharge for those earning more than $150,000. Legislators also increased the state sales tax to 5.75% from 4.5%.
Oregon	In addition to raising fees and an assortment of other taxes, the state income tax was hiked to 11% on income over $250,000, which puts the state in a tie for the highest in the nation.
Wisconsin	Raised its income tax rate to 7.75% on incomes above $225,000 and also increased cigarette taxes.

Source: Americans for Tax Reform, Tax Analysts, Tax Foundation

Return of the Class Warriors

In 2009, class warfare was declared in state capitals. In the face of a rising tide of red ink, state legislatures from Trenton to Honolulu—that chose not to live within their means—took aim at the wallets of the rich to pay their bills and fill budget shortfalls.

This was a record year for tax increases on the "rich," and we suspect these fights will be played out once again in 2010. Many other states indeed tried to raise income tax rates on high-income earners but failed. Before the tax revolt of 1978 started in California with Proposition 13, some states like Delaware had tax rates as high as 19.8 percent.[43] It's a good bet that "progressive" legislatures will continue to try to raise rates on businesses and high-income residents in an effort to soak the rich. However, because high personal income tax rates are also paid by small business owners and operators, this will be a job killer.[44]

In Chapter 3, we explain in greater detail why taxing the rich has always been economically disastrous and a failure in terms of raising revenues. But for now, we would like to point out Maryland's recent follies.

Politicians in Annapolis created a millionaire tax bracket, raising the top marginal income-tax rate to 6.25 percent. And because residents in such cities as Baltimore and Bethesda also pay local income taxes, the combined state and local tax rate can go as high as 9.3 percent.[45]

Already, Maryland has seen a one-third decline in tax returns from millionaire households. The rich have literally disappeared from the state tax collectors' sights.[46] Instead of the state coffers gaining the extra $107 million the politicians predicted, millionaires paid $257 million less in taxes than they did last year—even at higher rates.[47] A Bank of America Merrill Lynch analysis of federal tax return data on people who migrated from one state to another found that Maryland lost $1 billion of its net tax base in 2008 by residents moving to other states. That's income that's now being taxed and is financing services in Virginia, South Carolina, and elsewhere.[48]

The experience in Montgomery County (one of the crown jewels of Maryland's progressives) is worthwhile to note. The county—one of America's wealthiest—lost a whopping $4.6 billion in taxable income between 2007 and 2008 alone! County Executive Isiah Leggett says some wealthy residents who own homes in other states are establishing residency elsewhere. Officials believe the state's millionaire tax is a factor."[49] That's "progressive" policy in action.

Of course, the majority of that loss in millionaire filings is the result of the recession. This only reinforces our argument that depending on the rich to finance government is ill-advised: Progressive tax rates can create mountains of cash during good times, but that cash can certainly vanish during recessions. For additional evidence, consult California, New York, and New Jersey.

No one disputes that some rich Marylanders moved out of the state when the tax rates rose. It's easier than the redistributionists think. Christopher Summers, president of the Maryland Public Policy Institute, notes, "Marylanders with high incomes typically own second homes in tax friendlier states like Florida, Delaware, South Carolina, and Virginia. So it's easy for them to change their residency."[50] The situation in Maryland is now so bad, even committed liberal class warriors like Gov. Martin O'Malley are opposing the extension of the millionaire's tax.[51]

State lawmakers almost always overestimate how popular tax hikes on the rich are. A recent poll from Scott Rasmussen shows that only 34 percent of Americans support hiking taxes on those who earn more than $100,000 per year.[52] In the 1990s, tax-hiking governors all over the country were thrown out of office, including Mario Cuomo of New York, James Blanchard of Michigan, James Florio of New Jersey, and Lowell Weicker of Connecticut. Most recently, Jon Corzine of New Jersey was defeated after raising tax rates twice on the rich. Voters were angry at the way Mr. Corzine had failed to create jobs, failed to balance the budget, and failed to ease one of the highest property tax burdens in the nation.

Ironically, New Jersey's income tax was created in 1976 to reduce the same property taxes that have increased every year since 1978.[53]

These massive tax increases have driven residents out of the Garden State in droves—with their wealth not far behind. A new study by the Boston College Center on Wealth and Philanthropy found that New Jersey lost an estimated $1 billion in charitable giving between 2004 and 2008 alone.[54] According to Hans Dekker, president of the Community Foundation of New Jersey, this was "a result of a significant decline in the amount of wealth moving into the state and an increase in the amount of wealth leaving." Mr. Dekker goes on to write:

> *"Any serious discussion on this problem and its solution must, therefore, include a careful look at those elements of New Jersey's tax structure that impact charitable giving. This includes the lack of a state tax deduction for charitable giving, an estate tax exemption that begins taxing a family's life savings at $675,000, and our income tax rates including the 'millionaire's tax.' As one attorney explains, 'the income tax raises the issue of leaving the state and the estate tax seals the deal.'"*[55]

This is a sad reminder of the unintended—and devastating—consequences of punitive tax rates. Unfortunately, these unmitigated political and economic disasters don't seem to dissuade the current crop of politicians from continuing down the same road.

Predatory Taxes

The political Left is not content in just going after high-income earners—in many cases they are attempting to use the tax code to change social behavior through what some call "sin" taxes. Once again, in 2009, one of the most popular revenue raisers for state lawmakers was increasing the tobacco tax. At least 14 states and the District of Columbia raised their cigarette taxes in 2009.

However, as states attempt to use "predatory" tax policy on certain politically unpopular products, they often find the promise of higher revenue goes up in smoke. Case studies from the states show us that tobacco tax increases are an extremely poor method of increasing revenue, as high tobacco taxes at the state level often simply encourage smokers to avoid the tax by buying tax-free cartons. Take the case of New Jersey: In fiscal year 2007, the state's cigarette tax not only missed its revenue projection by $52 million, but the state actually collected $22 million less than it did in the previous year.[56] In other words, they actually lost money after their massive tobacco tax increase. The Garden State ran headfirst into the Laffer Curve: Raising the cigarette tax led to diminishing returns in tax collections and more red ink in Trenton.

Anti-smoking advocates exalt that this proves that high taxes on cigarettes reduce smoking. Yes, when you tax something you get less of it; however, much of the revenue decline came from people changing their buying habits, including purchas-

TABLE 4 | **Cigarette Taxes Per Pack**

State	2008	2009
Arkansas	$0.56	$1.15
Connecticut	$2.00	$3.00
Delaware	$1.15	$1.60
Florida	$0.34	$1.34
Hawaii	$2.20	$2.60
Kentucky	$0.30	$0.60
Mississippi	$0.18	$0.68
New Hampshire	$1.33	$1.78
New Jersey	$2.58	$2.70
North Carolina	$0.35	$0.45
Pennsylvania	$1.35	$1.60
Rhode Island	$2.46	$3.46
Vermont	$1.99	$2.24
Wisconsin	$1.77	$2.52
District of Columbia	$2.00	$2.50

Source: Tax Foundation

ing cigarettes on the Internet, Native American reservations, and in cross-border exchanges from lower-tax states.[57]

New Jersey residents are still lighting up; they're simply buying fewer Camels and Marlboros at stores located inside the Garden State. Retailers in Delaware ought to be sending thank-you notes to lawmakers in Trenton, since smokers can save about $20 in taxes per carton by stocking up when they're in Delaware. While the number of smokers predictably decreased after Maryland doubled its tax to $2.00 per pack, cigarette purchases increased in Pennsylvania, West Virginia, and even D.C.[58] Avoiding Maryland's high cigarette taxes has become a big business. According to researchers, Maryland may now be the number one smuggling destination in America.[59]

In New York City, where the combined city and state tax is more than $4.00 a pack, smugglers sell bootlegged cigarette packages and cartons on street corners much like drug dealers. It's estimated that the city fails to collect taxes on half the cigarettes smoked in the Big Apple.[60] Californians smoke 300 million untaxed packs of cigarettes a year thanks to the Internet, smuggling, and out-of-state sales.[61] For consumers, tax-free on-line sales of cigarettes are only a mouse click away, and these purchases now cost the states more than $1 billion a year in lost tobacco taxes, according to the Campaign for Tobacco Free Kids.[62]

Many high tobacco tax states, says Patrick Fleenor of the Tax Foundation, aren't losing revenues from their high tobacco taxes yet, "but they are getting close to that tipping point."[63] One state near the tipping point is Kansas. Currently, Gov. Mark Parkinson is advocating a major tax increase in the Sunflower State, which would push the tax cost per pack to $1.34, while quadrupling the tax on other tobacco products. One small problem though—Kansas's neighbor, Missouri, levies a tax of only 17 cents per pack of cigarettes, the second lowest cigarette tax in America. Therefore, the hundreds of thousands of residents in Johnson County (Kansas's most heavily populated) would be only a short drive away from significant savings on tobacco products.

Kansas House Majority Leader Ray Merrick recently told the story of QuikTrip store #227, which occupies land on the Kansas-Missouri state line. The company has decided to cease operating on the Kansas side of the line and build a new location 100 feet away—in Missouri. Why? According to store manager Doug Chmiel, "There are certain economic advantages to being on the Missouri side."[64] Lower taxes and regulation costs will save the store an estimated $1 million per year—and this is even before the proposed cigarette tax would make Kansas even less competitive.[65] Meanwhile, Kansas is foregoing $1.4 million in revenue per year as QuikTrip moves 100 feet to escape high taxes.[66]

Utah lawmakers recently passed a hefty cigarette tax increase. The official fiscal note showed a modest increase in revenue; however, the projected revenue was overshadowed by the predicted cost to businesses. As it turns out, the fiscal note was correct. Almost immediately after the ink dried on the tax increase, Utah's oldest smoke shop in downtown Salt Lake City announced it would close its doors before the tax goes into effect.[67]

Another problem with cigarette taxes is that many states, including Maryland and Wisconsin, are raising cigarette taxes to pay for expanded health care coverage. This is a recipe for fiscal disaster because states are then relying on a steeply declining revenue source to pay for health care programs with exploding future costs.

State cigarette tax collections also are going to fall even faster because the U.S. Congress recently raided this tax source and raised the federal cigarette tax to $1 a pack from 39 cents per pack to offset the costs of the children's health care expansion (SCHIP). The Heritage Foundation calculates that to make those budget numbers add up, some 22 million Americans are going to have to take up smoking—and soon.[68] And here we thought governments were trying to discourage people from smoking.

Beyond the proposal to significantly increase tobacco taxes in Kansas, Gov. Parkinson has told state lawmakers all possible budget cuts have already been made, therefore "requiring" a bevy of tax increases.[69] An 18 percent increase in the state sales tax, taxes on alcoholic beverages, and even the "Slurpee tax" (on sugary drinks) have been proposed by those who believe there is no other way. This paternalism through the tax code has hit a record pace. "I have never seen it work where a government tells people what to eat and what to drink," said Coca-Cola Chief Executive Officer Muhtar Kent. "If it worked, the Soviet Union would still be around."[70]

When you see cigarette taxes hiked in Tobacco Road, N.C., and alcohol taxes increased in Bourbon Country, Ky. (as was the case in 2009), you know states are on a desperate money grab. This reminds us of the famous line from Ronald Reagan, "If it moves, tax it; if it keeps moving, regulate it; and if it stops moving, subsidize it." As budget shortfalls continue to deepen, nearly every state has proposed a bevy of these targeted revenue raisers, practicing what we like to call "tax adventurism."

Necessary Tax Increases?

If you listen to some politicians and pundits today, you may believe that states have cut all the fat and have absolutely no option other than to increase taxes to solve their budget shortfalls. Nothing could be further from the truth. Predictably, pro-tax lawmakers often threaten to cut the most popular (and visible) areas of the state budget in order to pressure other lawmakers into raising taxes. This is what we like to call the Washington Monument theory of budgeting (named after the infamous incident where the U.S. Park Service threatened to reduce the operating hours for the popular tourist attraction if funding wasn't restored: in the end though, they kept their funding).

The Washington Monument budgeting strategy is intended to perpetuate the myth that tax increases are the only solution to a budget problem. We all have witnessed this strategic tactic where politicians propose cuts to the most popular spending programs first in hope the public believes there is no fat in government. The most heinous example of this ploy comes from the Detroit school district, which "due to budget reductions" actually asked parents of schoolchildren to provide toilet paper for the schools.[71] We couldn't make this up if we tried.

Some on the political Left seem to think that every state budget problem was caused by "reckless" tax cuts, but in the light of the massive increases in state spending over the past decade, we think it's fairly clear for an objective observer to see where the real problem lies. To augment our case, a report from Americans for Tax Reform shows us that "despite the fact that overall tax cuts did take place in FY2007 and FY2008, states have raised taxes and fees by nearly $23 billion (on net) since the last recession."[72]

The Solution: Reasonable Spending Limitation

To further document the fact that current budget shortfalls are the result of state overspending, consider this: If states would have simply allowed their spending to grow at the rate of population plus inflation (PPI) growth, they would (almost without exception) be sitting on budget *surpluses* instead of facing deficits. According to a study by two policy analysts at the Reason Foundation, on average, state general fund spending doubled PPI between 2002 and 2007. Only one state (Wisconsin) grew its spending less than PPI during that period.

The implications are quite clear, according to the Reason study:

> *"If legislatures had chosen to be responsible, they could have maintained all current state services, increased spending to compensate for inflation and population growth, and still enacted a $500 billion tax cut."*[74]

Researchers at the Beacon Hill Institute at Suffolk University show that Massachusetts could have avoided its current fiscal turmoil through limiting spending growth to PPI.[75] If the Bay State would have implemented this system a decade ago, it could have eliminated its structural deficit and avoided the recent $1.32 billion tax hike while maintaining inflation adjusted spending per capita.[76] Additional research from the Beacon Hill Institute has shown the significant economic benefits of state spending limitation. Using data from 1997 to 2004, their research shows that states could have utilized spending limitation to increase their gross state product per capita by anywhere from 2.72 to 6.68 percent.[77]

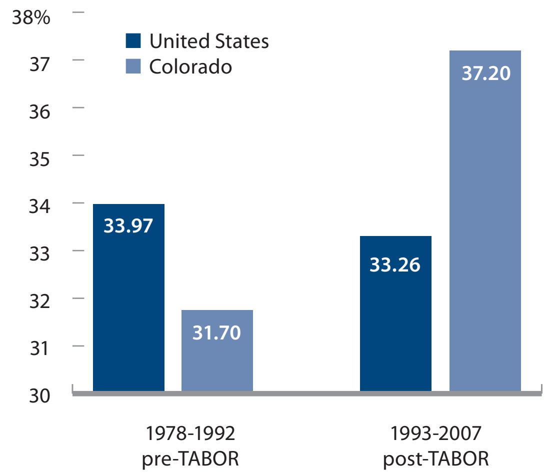
The concept of limiting the growth of taxes or spending to PPI is not new. For decades, academic researchers have promoted the benefits of having an institutional constraint on the growth of government.[78] In last year's edition of this publication, we discussed one of the early attempts at meaningful spending restraint, the Gann Amendment, which was passed by California voters in 1979. The most recent example of a state that successfully implemented meaningful spending restraint is Colorado. The Centennial State was able to restrain government spending and tax burdens beginning in the early 1990s through its Taxpayers' Bill of Rights (TABOR), limiting the growth of government to a reasonable formula of population plus inflation growth. Taxes could be increased, but it took a vote of the people to do so.

Following the low-tax-plus-limited-government formula, Colorado has developed one of the most competitive business climates in the nation, not to mention giving taxpayers back billions of their hard-earned dollars through refunds and lowering tax rates across the board.[79] Between fiscal years 1997 and 2007 alone, Colorado taxpayers received $6.7 billion in TABOR-provided tax relief.[80] The economic growth followed, as Colorado boasted one of the most competitive and fastest growing economies in the nation, as shown in Figure 2.

However, even in the face of this tremendous economic success story, the progressives have spent tremendous resources trying to demonize Colorado's TABOR. Fully documenting the disingenuous attacks against TABOR could take years. Why are liberals so scared of TABOR? It's because constitutional spending limitation in the model of TABOR restricts the wild spending increases which funds their constituency—big government.

Despite the barrage of misleading attacks from the Left, lawmakers from Texas to New York are calling for responsible state spending caps to prevent the next crisis in state overspending.[81]

FIGURE 2 | **Colorado's Per Capita Income Growth Before and After TABOR**



Source: National Taxpayers Union

Priority-Based Budgeting

Another spending reform is gaining traction as a responsible alternative to tax increases. It is actually rather simple for most individuals and businesses: prioritize in order to avoid spending beyond your means.

As it turns out, even with lobbying by public employee unions against necessary budget reductions to correct for state overspending, most taxpayers want government to live within its means. Even residents in the liberal havens of California and New York overwhelmingly prefer spending restraint over tax increases, with polls coming in at 50 to 13 percent and 58 to 30 percent, respectively.[82] And because these taxpayers may be the most experienced in modern history at taking it on the chin during rough budget times, we suggest you pay close attention.

State lawmakers in Washington proved that you can eliminate budget shortfalls by prioritizing government spending.[83] In the wake of the 9/11 recession, lawmakers in Olympia found their budget $2.4 billion in the hole, which at the time was the largest shortfall in state history.[84] Democrat Gov. Gary Locke (now serving as Secretary of Commerce in the Obama Administration) worked with the legislature to develop what they called the "Priorities of Government" reform for the state budget.[85]

Washington's priority-based budgeting required budget writers to ask and answer the following questions:[86]

1. How much money does the state have?
2. What is the existing and forecasted revenue?
3. What does the state want to accomplish?
4. What are the essential services we must deliver to citizens?
5. How will the state measure its progress in meeting those goals?
6. What is the most effective way to accomplish the state's goals with the money available?

Another important element of priority-based budgeting is called the "yellow pages test," which follows the premise that government shouldn't be in the business of providing services that the private sector can provide. Because the yellow pages test almost always results in services being delivered at a lower cost and higher quality, this is a win-win option for cash strapped states.[87]

With the priority-based budgeting approach, Washington lawmakers developed the core functions of government and closed the large budget shortfall—without having to ask for more from taxpayers. As Gov. Locke explained:

> *"We exhaustively studied all that we do—examining some 1,400 state government activities. Then, like a family on a very tight budget, we sat down and looked at how we've typically spent our money. We decided how we now need to spend it to get the results we want."*[88]

Already, in 2010, several states have introduced legislation to create a system of priority-based budgeting to replicate the success of the Washington model.[89] If only every state would follow that approach.

Some Cheerful News

After all the doom and gloom about budget shortfalls, pension liabilities, and tax increases, it's important to look at the glass half full. The one silver lining from all of these state tax actions is that several actually cut taxes and many others are working toward tax relief to enhance their competitiveness during these tough times.

TABLE 5 | **2009 Tax Relief**

State	Tax Relief
Vermont	Lowered income tax rate to 9.4% from 9.5%.
North Dakota	Reduced its personal income tax rates to 4.86% from 5.54%, while reducing property taxes.
Louisiana	Adjusted its tax brackets to provide tax relief.

Source: Tax Analysts, Tax Foundation

One very notable absence from this list is the state of Ohio, which was scheduled to implement the last remaining installment of legislation to reduce the state's personal income tax. Unfortunately for taxpayers in the Buckeye State, Gov. Ted Strickland led an all out effort to suspend this important tax relief. While the governor brags of leading the nation in "green jobs" creation, the state's anti-growth policies have taken their toll on the state's economic outlook—ranking a meager 42nd in this publication. In the last decade alone, on net, more than 350,000 Ohioans have picked up and left the state.[90]

Other Tax Cutting Efforts

One of the near misses for tax cutters in 2009 took place in Georgia. Sponsored by ALEC member and former Rep. Tom Graves, the (appropriately named) JOBS Act aimed to provide economic stimulus through meaningful tax relief.[91] As Rep. Graves explained:

> *"We recognize that the greatest stimulus for a robust economy comes from an economic environment that encourages opportunity, productivity, and innovation. It's the hard-working people of Georgia—not big government—that are the key to our economic prosperity."*[92]

Among other things, this pro-growth legislation would have phased out the corporate income tax and eliminated the burdensome inventory tax on businesses. Alas, in one of the worst vetoes of the year, Gov. Sonny Perdue axed this promising legislation. However, Rep. Graves and others have introduced similar legislation in 2010.

So far in 2010, the leaders for increasing state competitiveness seem to be in South Carolina. Recently, the South Carolina House of Representatives voted (105-9) to eliminate their corporate income tax in an effort to rebuild their state's economy. As House Speaker Bobby Harrell pointed out, "Our state's future hinges on the strength of our economy and the private sector's ability to grow and create jobs."[93] This will send a clear message to businesses looking to move or expand: South Carolina is open for business.

Reducing corporate taxes infuriates the class warriors who want to soak big business. However, the truth is, when states tax businesses, there is nothing they can do but pass the burden on to individuals. Businesses don't pay taxes, people do. Real people—not inanimate business entities—pay the true burden of business taxes. This transfer happens in three ways. The first to pay are the employees—people who make lower wages or perhaps lose their raises, or even their jobs. Next are the millions of Americans who have investments in corporations—people who earn a lower return in their 401(k). Finally, and inevitably, millions of consumers pay more for products they purchase.

Numerous states are considering the elimination of their personal or corporate income taxes to promote economic growth. Ohio Rep. John Adams recently explained why his economically beleaguered state needs fundamental, pro-growth reform:

> *"Some naysayers are perfectly happy with this economic status quo, but I believe Ohio deserves better. The only way to reenergize the state economy is to eliminate the job-killing income tax and revamp the way our state does business."*[94]

As we fully explain in this year's section on Missouri, efforts to repeal state income taxes would drastically move states in the direction of economic competitiveness.

Americans Still on the Move

The U.S. Census Bureau revealed that in 2008, a smaller percentage of Americans moved from their principal residence than at anytime in more than 20 years. In the early 2000s, about 14 percent of Americans relocated each year. In 2008, that number fell to 10 percent, according to demographer Joel Kotkin.[95] The housing recession has kept homeowners pinned to their homes, with few available or willing buyers. Interstate migration was down, too. States that have been migration winners, like Florida and Nevada, saw, for the first time, a reversal of fortune in 2008 and early 2009 because of the housing bubble burst and its aftershocks on commercial real estate and jobs. However, their policy fundamentals remain strong (especially since both states avoid personal income taxes).[96]

But what is still undeniable is that over the past 25 years, tens of millions of Americans have voted with their feet against anti-growth policies that reduce economic freedom and opportunity in states mostly located in the Northeast and Midwest. Some new numbers released by the Census Bureau reveal the full extent to which America has become a nation of movers and shakers (literally).[97] The data show:

- In a typical year, 40 million Americans change their home address.
- This means that more than one in eight Americans moves each year.
- About one-third of all relocators move across state lines.
- Over the last three decades, there has been a 25 percent increase in people residing in a state other than the one in which they were born.

The big winners of this interstate competition for jobs and growth have generally been states in the South and West, such as Texas, Tennessee, Georgia, and Florida. The big losers have been in the rustbelt regions of the Northeast and Midwest. The demoralizing symptoms of economic despair in declining states like New York, Michigan, Pennsylvania, Illinois, and New Jersey include lost population, falling housing values, a shrinking tax base, business out-migration, capital flight, high unemployment rates, and less money for schools, roads, and aging infrastructure.

The decline of California is probably the best evidence we can present of the impact of poor state policymaking on the economic pulse of a state. As Karl Rove points out, for the first time since becoming a state in 1850, California will probably not gain a congressional seat after the 2010 census.[98] Table 6 shows that in the 10 years through 2008, California had the second largest net domestic population outflow of any state in the nation.

There's an old saying that high taxes don't redistribute wealth, they redistribute people. That is precisely what we have found in the research that went into writing this book. The lesson from New York and California is that progressive policymakers cannot build a Berlin Wall around their state to keep their taxpayers inside.

TABLE 6 | **Net Domestic Migration, 1999-2008**

+ = inflow / - = outflow

Rank	State	Total Migration
Top 10		
1	Florida	+1,324,743
2	Arizona	+747,852
3	Texas	+735,816
4	North Carolina	+578,253
5	Georgia	+572,636
6	Nevada	+418,487
7	South Carolina	+283,237
8	Tennessee	+265,505
9	Washington	+199,981
10	Colorado	+193,952
Bottom 10		
41	Pennsylvania	-81,976
42	Connecticut	-96,455
43	Louisiana	-306,666
44	Massachusetts	-322,287
45	Ohio	-354,748
46	New Jersey	-418,928
47	Michigan	-445,493
48	Illinois	-637,979
49	California	-1,422,247
50	New York	-1,700,021

Source: U.S. Census Bureau, ALEC-Laffer State Economic Competitiveness Index

Conclusion

A recent article in *Forbes Magazine* ought to be required reading for all state policymakers.[99] Do states need to act more like brands? As Mike Linton, the former Chief Marketing Officer for both eBay and Best Buy, explains: Of course they do.

> *"Like any brand, a state that can't retain its most valuable customers will inevitably decline. Lose your business base, job generation engines and revenue growth, and you don't have a good long-term outlook.*
>
> *"For California, even the presence of Stanford University, Hollywood, Google and Sand Hill Road can't stop that decline. Fifty years ago, Michigan was a hot brand. Look where it is now. Unlike brands, which can decline over a*

> *matter of years, states that don't meet their citizens' needs will decline over decades."*[100]

No lawmaker wants to be saddled with a broken brand like Michigan, California, or New York. With every action state lawmakers undertake, they should ask themselves the question: Does this help or hurt the competitiveness brand of our state?

As we highlight throughout this publication, states do not make policy changes inside a vacuum. If anyone doubts this phenomenon, they should take a drive to the Michigan-Indiana state line, where Gov. Mitch Daniels has put up a billboard that reads: "Come on IN for lower taxes, business and housing costs." Idaho Gov. C.L. "Butch" Otter just penned a "love letter" to neighboring businesses in high-tax Oregon.[101] After recently passing massive tax increases on individuals and businesses (which Nike's Phil Knight calls "Oregon's Assisted Suicide Law II"), Idaho is looking like an attractive option for businesses, and Gov. Otter is quite happy to remind them.

For states to improve their economic brands, lawmakers must navigate these challenging budget times while avoiding the economically damaging tax increases that will assuredly make things worse. While it should be intuitive, states cannot tax, borrow, or spend their way to prosperity.

The ideas in this publication are not about Republican or Democrat—they are about the direction of a state: economic prosperity or malaise. The beauty of the American experiment is that each one of these United States gets to choose which path it will follow.

ENDNOTES

1 According to the National Association of State Budget Officers, 46 states begin their fiscal years on July 1.

2 National Association of State Budget Officers. "State Fiscal Update." February 2010.

3 *Ibid.*

4 U.S. Government Accountability Office. "State and Local Governments' Fiscal Outlook Update." March 2010.

5 Boyd, Donald J. and Dadayan, Lucy. "Sales Tax Decline in Late 2008 Was the Worst in 50 Years." The Nelson A. Rockefeller Institute of Government. State Revenue Report No. 75. April 2009.

6 Dadayan, Lucy. "Final Quarter 2009 Brought Still More Declines in State Tax Revenue." The Nelson A. Rockefeller Institute of Government. February 23, 2010.

7 Silverblatt, Rob. "States Drain Rainy Day Funds." Stateline.org. August 27, 2009.

8 Ravitch, Richard. "Washington and the Fiscal Crisis of the States." *The Wall Street Journal*. January 8, 2010.

9 DeHaven, Tad. "Another State and Local Bailout." Cato at Liberty. March 12, 2010.

10 Henchman, Joseph. "A Golden Opportunity: California's Budget Crisis Offers a Chance to Fix a Broken Tax System." Tax Foundation Fiscal Fact No. 170. May 18, 2009.

11 Quinn, James. "California: Arnold Schwarzenegger declares 'fiscal emergency.'" *The Telegraph* (UK). July 2, 2009.

12 Quinn, James. "California is a Greater Risk than Greece, Warns JP Morgan Chief." *The Telegraph* (UK). February 26, 2010.

13 Henchman, Joseph. "A Review of Significant State Tax Changes During 2009." Tax Foundation Fiscal Fact No. 204. December 21, 2009.

14 U.S. Bureau of Labor Statistics.

15 *Ibid.*

16 Edwards, Chris. "Debt Aggravates Spending Disease." Cato at Liberty. September 28, 2009.

17 Edwards, Chris. "Employee Compensation in State and Local Governments." Cato Tax and Budget Bulletin. January 2010.

18 *Ibid.*

19 Strickland, Ted. "Ohio State of the State Address." January 26, 2010.

20 Brown, Willie. "Homeland Security Chief Takes Responsibility." *San Francisco Chronicle*. January 3, 2010.

21 Laing, Jonathan. "The $2 Trillion Hole." *Barron's*. March 15, 2010.

22 Welch, Matt. "California's 2000% Pension Spike." *Reason Magazine*. January 26, 2010.

23 Hall, Arthur P. and Poulson, Barry W. "State Pension Funds Fall off a Cliff." American Legislative Exchange Council. January 2010.

24 Novy-Marx, Robert and Rauh, Joshua. "The Intergenerational Transfer of Public Pension Promises." Research Paper No. 08-13. The University of Chicago, Graduate School of Business. September 2008.

25 Shaffer, Brandon and Penry, Josh. "Securing PERA a Priority." *The Denver Post*. January 8, 2010.

26 U.S. Government Accountability Office. "State and Local Governments' Fiscal Outlook Update." March 2010.

27 "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform." The Pew Center on the States. February 2010.

28 "No Crisis in Public Retirement Systems: Debunking the Hype and the Attacks on Employee Benefits." Progressive States Network. February 22, 2010.

29 Evensen, Jay. "Pension Crisis a Ticking Time Bomb for States." *Deseret News*. February 21, 2010.

30 ALEC's Tax and Fiscal Policy Task Force has developed model legislation for states looking to transition into defined-contribution pensions.

31 Lauzen, Chris and Poulson, Barry. "Is There A Gorilla In Your Backyard?" *Inside ALEC*. American Legislative Exchange Council. May 2009.

32 Williams, Jonathan. "State Pensions Need Reform." *Inside ALEC*. January/February 2010.

33 U.S. Government Accountability Office. "State and Local Government Retiree Health Benefits." November 2009.

34 "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Road to Reform." The Pew Center on the States. February 2010.

35 *Ibid.*

36 State of Maryland. "Comprehensive Annual Financial Report." June 30, 2008.

37 Daniels, Mitch. "Hoosiers and Health Savings." *The Wall Street Journal*. March 1, 2010.

38 *Ibid.*

39 Murphy, Sean P. "Runaway Health Costs are Rocking Municipal Budgets." *The Boston Globe*. February 28, 2010.

40 *Ibid*.

41 National Association of State Budget Officers. Fiscal Survey of the States. December 2009.

42 State Net. "Capitol Journal." February 15, 2010.

43 Delaware Tax Statistics. Available at: http://www.finance.delaware.gov.

44 Dubay, Curtis. "Seven Myths About Taxing the Rich." The Heritage Foundation. August 3, 2009.

45 "Maryland's Mobile Millionaires." Review and Outlook, *The Wall Street Journal*. March 12, 2010.

46 Fabel, Leah. "Millionaires flee Maryland taxes." *Washington Examiner*. May 27, 2009.

47 "Maryland's Mobile Millionaires." Review and Outlook, *The Wall Street Journal*. March 12, 2010.

48 *Ibid*.

49 "Montgomery Sees Huge Decline in Taxable Income." WTOP.com. February 25, 2010.

50 "Millionaires Go Missing." *The Wall Street Journal*. May 27, 2009.

51 Suderman, Alan. "Millionaires Leave Montgomery Causing Budget Woes." *Washington Examiner*. February 25, 2010.

52 "34% Favor Raising Taxes on Those Making More than $100,000." *Rasmussen Reports*. February 17, 2010.

53 Norcross, Eileen. "Florida's Budget and the State's Outlook: Education Spending." Mercatus Center. February 16, 2010.

54 Dekker, Hans. "N.J.'s Flight of the Wealthy Hurts Charities." NJ.com. February 16, 2010.

55 *Ibid*.

56 Laffer, Arthur B., Moore, Stephen, and Williams, Jonathan. "Rich States, Poor States." 2nd Edition. American Legislative Exchange Council. 2009.

57 Williams, Jonathan. "Cigarette Taxes: No Answer for State Budget Woes." *Inside ALEC*. American Legislative Exchange Council. November/December 2008.

58 Kilmer, Marc. "Did Cigarette Tax Increase Do More Harm than Good?" *The Baltimore Sun*. March 17, 2010.

59 Kilmer, Marc. "High Taxes = High Profits for Smugglers." The Maryland Public Policy Institute. February 17, 2010.

60 Fleenor, Patrick. "California Schemin': Cigarette Tax Evasion and Crime in the Golden State." Tax Foundation. *Special Report No. 145*. October 2006.

61 "Dope Smokers." Review and Outlook, *The Wall Street Journal*. September 7, 2007.

62 *Ibid*.

63 *Ibid*.

64 Glynn, Earl. "Kansas to Lose $1.3 million in Taxes Every Year When Quiktrip Moves 100 Feet into Missouri." *Kansas Watchdog*. August 26, 2009.

65 Williams, Jonathan. "Positioning Kansas for Economic Growth with Competitive Tax Policies." Kansas Policy Institute, Policy Analysis. Spring 2010.

66 Glynn, Earl. "Kansas to Lose $1.3 million in Taxes Every Year When Quiktrip Moves 100 Feet into Missouri." Kansas Watchdog. August 26, 2009.

67 House, Dawn. "Tobacco Tax Hike to Close Utah's Oldest Smoke Shop." *The Salt Lake Tribune*. March 18, 2010.

68 Bucci, Michelle and Beach, William. "22 Million New Smokers Needed: Funding SCHIP Expansion with a Tobacco Tax." The Heritage Foundation. July 11, 2007.

69 Moon, Chris. "Gov. Parkinson Says Kansas Tax Increase is Necessary." *Wichita Business Journal*. January 20, 2010.

70 Dickson, David M. "Hard-pressed Leaders Pass Nuisance Taxes." *The Washington Times*. September 28, 2009.

71 Henchman, Joseph. "State Budget Shortfalls Present a Tax Reform Opportunity." *Tax Foundation Special Report*. No. 164. February 2009.

72 Cobb, Kelly and Gleason, Patrick. "2009 State Tax Trends." Americans for Tax Reform. Fall 2010.

73 Flynn, Michael and Summers, Adam B. "Failed States." *Reason Magazine*. May 2009.

74 *Ibid*.

75 Tuerck, David G., Head, Michael, and Conte, Frank. "Massachusetts Fiscal Policy: The Legend v. the Facts." Beacon Hill Institute at Suffolk University. January 2010.

76 *Ibid*.

77 Tuerck, David and Bachman, Paul, *et al*. "A TABOR for Ten: Applying a Taxpayers' Bill of Rights to Ten States." Beacon Hill Institute at Suffolk University. June 2006.

78 Buchanan, James and Tullock, Gordon. "*The Calculus of Consent*." University of Michigan Press. 1962.

79 New, Michael. “Taxpayer Protection in 2009.” *Inside ALEC*. American Legislative Exchange Council. April 2009.

80 Moody, J. Scott and Poulson, Barry W. “Setting the Record Straight on Colorado’s Taxpayer Bill of Rights.” The Maine Heritage Policy Center. October 11, 2009.

81 Embry, Jason. “Perry Calls for New Limits on Taxes, Spending.” *The Statesman*. January 6, 2010.

Also see: Levy, Steve. “Rescue N.Y. from Fiscal Doom: a Likely Candidate for Governor Lays out His Plan to Slash Spending.” *New York Daily News*. March 18, 2010.

82 The Field Poll. March 2, 2010.

Also see: “New York State Voters High on Medical Marijuana, Quinnipiac University Finds; Freeze State Workers’ Pay, Voters Say 3-1.” Quinnipiac University. February 4, 2010.

83 Williams, Bob. “Performance-Based Budgeting.” *Inside ALEC*. American Legislative Exchange Council. April 2009.

84 Locke, Gary. “Washington: State of the State Address.” Democratic Leadership Council. January 14, 2003.

85 “Citizens Weigh in as Priority Based Budget Preparations Continue.” Office of Financial Management State of Washington. June 8, 2004.

86 Mercier, Jason. “Feds Point to Washington as Example of Priority Based Budgeting.” Evergreen Freedom Foundation. February 22, 2005.

87 Gilroy, Leonard. “Annual Privatization Report.” Reason Foundation. August 6, 2009.

88 Locke, Gary. “Washington: State of the State Address.” Democratic Leadership Council. January 14, 2003.

89 See: “State Rep. Kim Thatcher Announces Core Functions Legislation.” *Inside ALEC*. American Legislative Exchange Council. January/February, 2010.

Also see: Vaad, Glenn. “Mission, Goals and Outcomes Key to Priority-Based Budgeting in Colorado.” *Inside ALEC*. American Legislative Exchange Council. April 2010.

90 See Ohio Rankings on page 106.

91 Moore, Stephen. “A Peach of a Tax Plan.” *The Wall Street Journal*. April 23, 2009.

92 Graves, Tom. “Georgia’s Real Economic Stimulus.” *Inside ALEC*. April 2009.

93 Fitts, Mike. “House Passes Sweeping Economic Development Bill.” *Charleston Regional Business Journal*. March 5, 2010.

94 Adams, John. “Ohio Must Change Fiscal Policies to Revitalize Economy.” *Inside ALEC*. American Legislative Exchange Council. April 2010.

95 Kotkin, Joel. “Moving to Reloville, America’s Cross-Country Careerists.” *The Wall Street Journal*. July 24, 2009.

96 Nash, Tim and Williams, Jonathan, *et al*. “4 Reforms for Florida in a Difficult Economy.” Ash Center for Democratic Governance and Innovation, Harvard Kennedy School of Government. March 1, 2010.

97 U.S. Census Bureau.

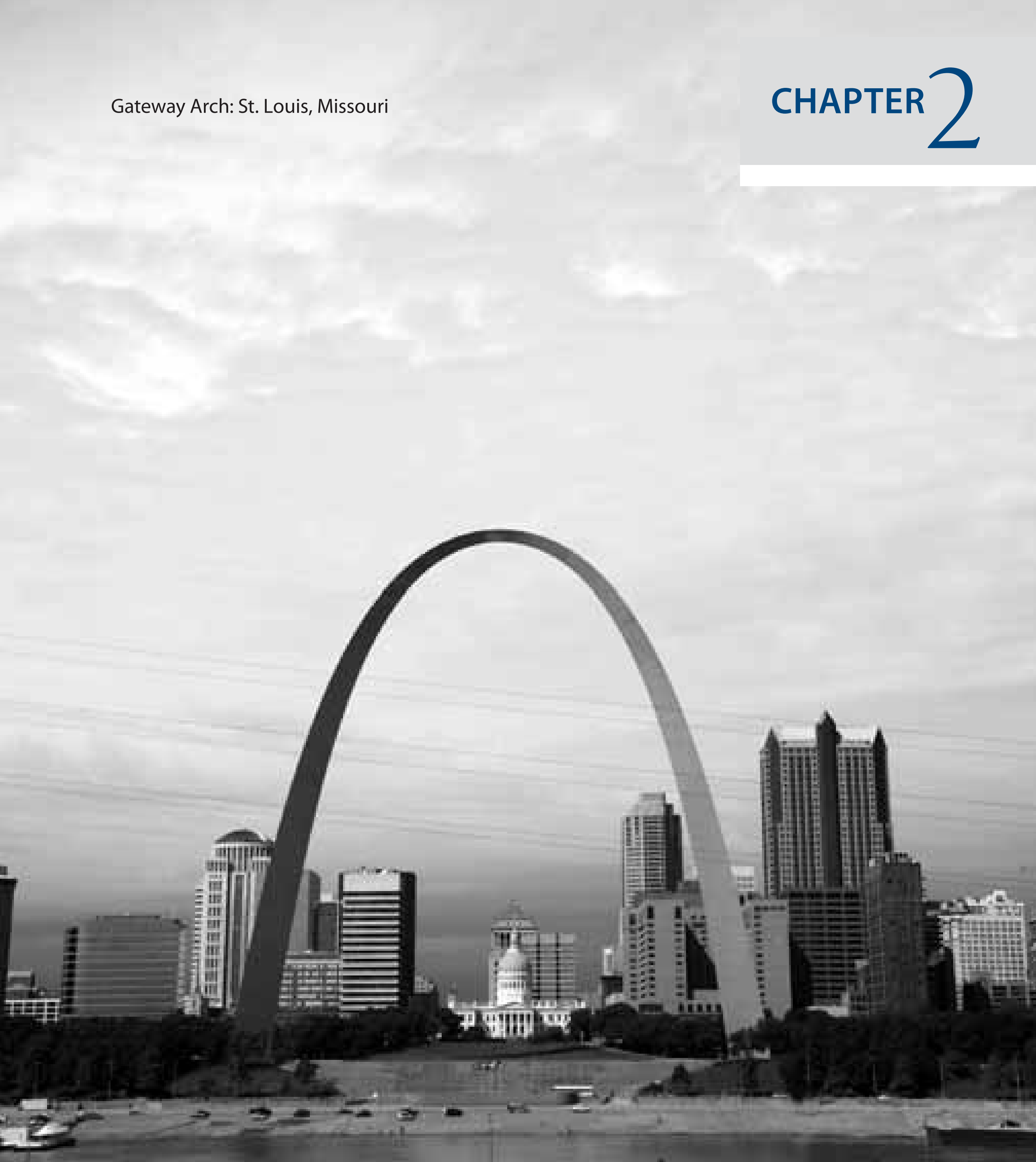
98 Rove, Karl. “The GOP Targets State Legislatures.” *The Wall Street Journal*. March 4, 2010.

99 Williams, Jonathan. “Escape from New York.” *The New York Post*. April 19, 2009.

100 Linton, Mike. “Do States Need to Act More Like Brands?” *Forbes*. October 14, 2009.

101 *Ibid*.

102 Otter, Butch C.L. “Love Letter to our Neighbors: Idaho is Open for Your Business.” The Office of the Governor. March 8, 2010.



Gateway Arch: St. Louis, Missouri

CHAPTER 2

The Missouri Compromise

The Missouri Compromise

We structure our discussion in this chapter largely around Missouri. As unlikely as it may seem, this middle-aged, middle-income, Midwestern state is pushing the envelope on its way toward fundamental tax reform. Instigated by the state's Show-Me Institute think tank, State Rep. Ed Emery, and others in the legislature, a proposal to eliminate both Missouri's personal income tax and corporate income tax in favor of a revenue-neutral sales tax increase is edging ever closer to becoming a constitutional amendment.

Only one state—Alaska in 1980—has removed its personal income tax. For Alaska, that decision was fairly easy to make. During oil boom years in the early 1980s, Alaskans saw huge new revenues coming in from the state's severance tax on oil. For Missouri, however, there is no such easy revenue answer. Missouri lawmakers do not have a relatively painless tax they can levy to offset elimination of the personal and corporate income taxes. Still, although Missouri's revenue replacement could prove difficult politically, the benefits from reform could be enormous if the process is administered well and the constitutional amendment is carefully crafted.

The State of Missouri

The "Show-Me State" is a state fairly representative of the nation as a whole. The former border state—a slave state that sided with the Union during the Civil War—is centrally located within the continental United States. It has Northern, Midwestern, and Southern neighbors, and has a mix of urban and rural areas internally. The land making up present-day Missouri was obtained from France as part of the Louisiana Purchase and eventually admitted into the Union as the 24th state in 1821. Missouri, with a population of about 6 million people, is now the 18th most populous state, and the 21st largest state by area, encompassing 69,704 square miles. Missouri also has a state population density (86.9 people per square mile) closest to the national average (86.8) than any other state.

The state has become something of a bellwether politically, with Missouri's residents having voted for the president-elect in all but two elections since 1904. Currently, the state's elected U.S. representatives are split as evenly as possible with one Republican and one Democrat senator, five Republican and four Democrat House members, a Democrat governor, and a Republican lieutenant governor.

Economically, Missouri gross state product (GSP) in 2008 was $238 billion, or about 1.7 percent of the nation's gross domestic product (GDP). That works out to per capita personal income of $36,631, which ranks 29th in the nation. The state's economy is varied, with Missouri home to the second largest number of farms in the United States, with mining, manufacturing, tourism, services, and a number of other industries also contributing to its output.

Income from those professional pursuits is taxed in 10 different earnings brackets at the personal level, with marginal personal income tax rates ranging from 1.5 percent to 6.0 percent—7.0 percent with the addition of local Kansas City income tax rates. The state sales tax rate is 4.225

percent (9.35 percent with Kansas City's local add-ons), and the state's maximum statutory corporate income tax rate is 6.25 percent, which becomes 5.81 percent after federal deductibility and local levies are taken into account. The state does not levy an estate tax. The minimum wage in Missouri does not exceed the federally mandated $7.25. Missouri is not a right-to-work state.[1]

Finally, one attribute for which Missouri is probably most famous is its Gateway Arch in St. Louis. Admittedly, we have a special fondness for this architectural wonder: It's the world's largest Laffer Curve!

The Proposal

Although not presently complete, a summary of Missouri's contemplated tax reform is very similar to the summary of Missouri Senate Bill SJR 29:

> *"Upon voter approval, this proposed constitutional amendment replaces the state individual and corporate income tax, the corporate and bank franchise tax, and state sales and use tax with a tax on the sale, use, or consumption of new tangible personal property and taxable services equal to five and eleven-one hundredths percent beginning January 1, 2012. Component parts or ingredients of a new tangible personal property to be sold at retail, federal government purchases, and business-to-business transactions including agriculture will be exempt from the new tax while all other exemptions and tax credits will be eliminated. The enactment of any new exemptions will require a two-thirds affirmative vote by the General Assembly and approval by the Governor. The conservation sales tax, the soil and parks sales tax, and local sales taxes will be recalculated to produce substantially the same amount of revenue.*
>
> *"Each qualified family will receive a sales tax rebate based on the federal poverty level guidelines to offset the sales tax on basic necessities. The Tax Adjustment Commission is created to recommend a one-time adjustment to the new sales tax rate to ensure revenue-neutrality. A rate adjustment may only be recommended to the General Assembly upon a unanimous vote of the Commission. A concurrent resolution, offered in the House of Representatives, must be adopted by both houses and sent to the Governor in order to make the one-time rate adjustment recommended by the Commission."*
>
> This act is identical to HJR 56 (2010).[2]

Is Such a Reform Feasible? Understanding the Downside Risk by Comparing Missouri and Tennessee

We suspect many a Missourian will ask, "How can we do that?" And by "how," they're not inquiring into the legislative steps needed to phase out the tax, but rather how can the state operate without an income tax?

At present Missouri collects 68 percent of its state revenues from its income taxes. Whether its current fiscal system is ideal or not, the state exists and it's functioning. Missouri is by no means the worst performing state in the nation, and is far from being in a desperate situation where "something" has to be done. If you'll forgive a backhanded compliment, Missouri is no California. In fact, we ranked Missouri's Economic Outlook 15 out of the 50 states in the 2010 ALEC-Laffer State Economic Competitiveness Index.

Missouri's decision whether to enact serious tax reform is not one forced on it by necessity, but by a choice to improve its current system. And whenever changes are made out of choice, not necessity, the old Latin phrase *Primum non nocere* (first do no harm) applies. It is this reform's first serious hurdle. Why fix something if it ain't broke? What's the downside?

To understand what Missourians could expect, Tennessee—and its experience without an income tax—provides a good example. Just from the numbers alone, Missouri and Tennessee have a lot in common. From our perspective, the most significant difference between the two states is how each

TABLE 7 | **Missouri vs. Tennessee, various metrics**

	Missouri	Tennessee
Gross State Product (2008, millions)	$237,797	$252,127
10-Year Growth (1998-2008)	44.8%	56.7%
Gross State Product per Capita (2008)	$39,923	$40,402
10-Year Growth (1998-2008)	34.20%	39.89%
Gross State Product per Employee (2008)	$85,155	$90,791
10-Year Growth (1998-2008)	39.12%	48.90%
Personal Income (2008, millions)	$208,255	$213,359
10-Year Growth (1998-2008)	51.3%	59.7%
Personal Income per Capita (2008)	$34,781	$33,887
10-Year Growth (1998-2008)	40.6%	43.0%
Population (2008)	5,956,335	6,240,456
10-Year Growth (1998-2008)	7.9%	12.0%
Net Domestic Migration (2008-09)	-124	20,605
10-Year Sum as % of Population	0.77%	4.18%
Nonfarm Payroll Employment (2008)	2,792,525	2,777,017
10-Year Growth (1998-2008)	4.1%	5.3%
Public Employees per 10,000 (2008)	555.19	528.32
Percent of Total State Workforce Unionized (2008)	11.20%	5.50%
Personal Income Tax Rate (state and local)	7.00%	0%
Corporate Income Tax Rate (state and local)	5.81%	6.50%
Sales Tax Rate (state)	4.23%	7.00%
Individual Income Taxes (2007, millions)	$5,168	$253
Corporate Taxes (2007, millions)	$391	$1,121
State Sales Taxes (2007, millions)*	$5,020	$8,454
Property Taxes (2007, millions)	$5,258	$4,375
Alcoholic Beverages Taxes (2007, millions)	$31	$250
Total Taxes (2007, millions)	$19,193	$18,364
10-Year Growth (1997-2007)	52.38%	72.82%

*Sales tax revenue numbers are state only, whereas other revenue numbers are state and local
Source: Laffer Associates

chooses to collect its revenues. If Missouri's tax reform were to be enacted, Missouri would look a lot like Tennessee.

Today, Tennessee has no broad-based personal income tax (à la the tax reform proposal for Missouri) but does have a corporate income tax, which would be eliminated in Missouri. Tennessee also has lower property taxes than Missouri, and derives the bulk of its revenues from a broad-based sales tax (again à la the tax reform proposal for Missouri) with combined state and local sales tax rates in the range of 9-plus percent.

In short, if Missouri lawmakers were to enact this tax reform constitutional amendment, they would transform their political economy into something very similar to Tennessee's. And, Tennessee's current political economy really does work. In fact, from the metrics, the Volunteer State's fiscal system works quite a bit better than does Missouri's fiscal system. In Table 7, we have listed some of the key metrics for both Missouri and Tennessee.

Table 7 shows, from a 30,000 foot perspective, that Missouri's reform proposal can work. There exists a real life example where a tax policy very similar to Missouri's proposed system does work. Tennessee as a state is quite similar to Missouri, and Tennessee's tax/fiscal structure is quite similar to the tax/fiscal structure being proposed for Missouri. In addition, Tennessee has performed far better than Missouri without any major advantages such as special taxes on oil or gambling. If Missouri did nothing other than exactly copy the tax structure of Tennessee, they could virtually eliminate any chance of a major downside contingency.

In 2008, Tennessee had a gross state product (GSP) $15 billion higher than Missouri's GSP, and that difference is increasing rapidly. Tennessee recently passed Missouri in GSP per capita and is far ahead of Missouri in GSP per employee. Tennessee also is attracting people from the rest of the nation, whereas Missouri is a notch above breaking even in net domestic in-migration over the past decade.

Tennessee's tax receipts are slightly less than Missouri's but are growing quite a bit faster. In fact, over the past decade, Tennessee's total tax receipts have risen a lot faster than has Tennessee's GSP while Missouri's tax receipt growth has exceeded Missouri's GSP growth only slightly. Tennessee's total tax revenues grew by 72.8 percent versus Missouri's 52.4 percent. So much for an income tax solving a state's budget problems. What's the downside then of Missouri's proposed tax reform? Not much at all.

A Cross-State Comparison: States Without an Income Tax vs. States With the Highest Income Tax Rates

The entire case to be made for Missouri's tax reform hinges on improving the overall performance of Missouri's economy. Because Missouri's proposed tax reform would remove all income taxes in favor of higher sales taxes (in Missouri both the state sales tax rate and sales tax base would increase), the first evidence to be marshaled for or against Missouri's tax reform is a comparison of those states without broad-based income taxes (as would be the case if the tax reform proposal were implemented) with those states that have the highest rates on broad-based income taxes (as is the current case in Missouri).

In Table 8 (on page 26), we list all nine states that do not have a broad-based income tax, the U.S. state average for personal income tax rates, Missouri's rates, and the nine states with the highest state marginal personal income tax rates. For each of these states and the U.S. average of all states, columns are provided for the current 1) Top Marginal Personal Income Tax Rate, 2) Gross State Product Growth, 3) Population Growth, 4) Non-farm Payroll Employment Growth, 5) Gross State Product Per Capita Growth, 6) Gross State Product Per Employee Growth, and 7) Growth of Total State Tax Receipts, all for the 10-year period 1998-2008.

The numbers in Table 8 are truly striking. For total GSP growth, the states with no personal income tax rate (PIT) have on average outperformed those states with the highest PIT rates by 26.5 percentage points over the past decade; they have outperformed the U.S. average by 20 percentage points. Moreover, during that same period, the nine states without a personal income tax nearly doubled Missouri's GSP growth.

For a state like Missouri, which had a 45 percent GSP growth over the past decade, each additional 10 percent in growth would be an additional $24 billion of gross state product over the coming decade. Just catching up to the national average in growth would add $50 billion to Missouri's GSP, while joining the states with no income tax would add $100 billion to Missouri's gross state product. That's a lot of money.

Now, quite a bit of the extra growth in average gross state product between the states with the

TABLE 8 | **The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates**

10-Year Economic Performance (1998-2008 unless otherwise noted)

State	Top PIT Rate*	Gross State Product Growth	Population Growth	Non-Farm Payroll Employment Growth**
Alaska	0.00%	106.8%	11.0%	17.2%
Florida	0.00%	78.4%	19.0%	17.1%
Nevada	0.00%	106.2%	41.1%	36.8%
New Hampshire	0.00%	53.5%	9.6%	9.7%
South Dakota	0.00%	77.9%	7.8%	14.3%
Tennessee	0.00%	56.7%	12.0%	5.3%
Texas	0.00%	94.5%	20.6%	18.7%
Washington	0.00%	64.9%	13.8%	14.0%
Wyoming	0.00%	137.6%	8.6%	30.7%
9 States with no PIT* **	**0.00%**	**86.28%**	**15.95%**	**18.20%**
U.S. Average***	5.69%	66.34%	10.08%	10.39%
Missouri	7.00%	44.76%	7.87%	4.05%
9 States with Highest Marginal PIT Rate* **	**9.92%**	**59.81%**	**6.32%**	**8.44%**
Ohio	8.24%	35.2%	1.9%	-2.1%
Maine	8.50%	56.7%	4.8%	8.2%
Maryland	9.30%	68.8%	8.7%	11.7%
Vermont	9.40%	59.7%	3.4%	7.4%
New York	10.50%	66.6%	3.8%	6.8%
California	10.55%	70.1%	10.9%	10.3%
New Jersey	10.75%	51.2%	4.5%	6.7%
Hawaii	11.00%	70.0%	5.9%	16.6%
Oregon	11.00%	60.1%	12.8%	10.2%

*Highest marginal state and local personal income tax rate imposed as of 7/1/09 using the tax rate of each state's largest city as a proxy for the local tax. The effect of the deductibility of federal taxes from state tax liability is included where acceptable. New Hampshire and Tennessee tax dividend and interest income only.
** 1998-2008
*** Equal-weighted averages

highest and lowest income tax rates comes from higher population growth and higher employment growth. And here, again, Missouri is trailing the rest of our sample by a significant amount.

For those states with no personal income taxes, average population growth over the past decade was about 15.95 percent, or 9.6 percentage points higher than the average of those nine states with the highest personal income tax rates, almost 6 percentage points higher than the U.S. average, and more than 8 percentage points higher than Missouri. And, for non-farm payroll employment growth, the average difference was a similar 9.76 percentage points higher (18.2 percent versus 8.44 percent) for the states with no income taxes versus the highest personal income tax rate states, almost 8 percentage points for the U.S. average, and 14-plus percentage points for Missouri.

Gross State Product Per Capita Growth	Gross State Product Per Employee Growth	Total State Tax Receipts Growth***
86.3%	76.5%	105.3%
49.9%	52.3%	104.8%
46.1%	50.8%	128.7%
40.0%	40.0%	72.4%
65.0%	55.7%	63.4%
39.9%	48.9%	72.8%
61.3%	63.8%	88.3%
44.9%	44.5%	68.2%
118.8%	81.8%	161.3%
61.36%	**57.13%**	**96.12%**
51.39%	50.40%	74.20%
34.20%	39.12%	52.38%
50.29%	**47.27%**	**73.86%**
32.7%	38.1%	58.2%
49.5%	44.8%	57.9%
55.2%	51.0%	82.4%
54.4%	48.6%	81.2%
60.5%	56.0%	77.6%
53.4%	54.1%	91.1%
44.6%	41.6%	87.7%
60.5%	45.9%	70.6%
41.8%	45.2%	58.1%

Source: Laffer Associates

Combining GSP growth with population growth and employment growth helps us measure the critical standard of living and productivity metrics—growth in GSP per capita and per worker. For those states with no personal income taxes, average GSP per capita growth over the past decade was about 61.36 percent, or 11.07 percentage points higher than the average of those nine states with the highest personal income tax rates, 9.97 percentage points higher than the U.S. average, and an unbelievable 27.16 percentage points higher than Missouri.

During the past 10 years, if Missouri had just caught up with the average of the states with no income tax, the average Missouri resident's income would be more than $12,000 higher. That is amazing. Taxes really do matter.

And, for growth in GSP per employee, the average differences were slightly less, but a still significant 9.86 percentage points higher (57.13 percent versus 47.27 percent) for the no tax states versus the highest personal income tax rate states, 16.73 percentage points for the U.S. average, and 18.01 percentage points for Missouri!

The evidence is clear: States without an income tax outperform in every conceivable fashion than their higher-taxed brethren and have more tax revenues.

Given the data at hand, it is hard to imagine any more conclusive results from a cross-section time series of states that could be obtained in favor of Missouri's tax proposal. Like many states in our current economic climate, Missouri needs help, and from the looks of it, a switch from onerous income taxes to broad-based sales taxes is exactly what the doctor ordered.

States that have Adopted an Income Tax

In the previous section, we compared the economic performance of the nine states with no personal income tax to the nine states with the highest income tax rates. While the results were as robust and conclusive as we could have imagined, there still are a number of lingering concerns. For example, each state in the United States has its own unique characteristics, and even when characteristics are shared with a few other states, it is difficult to disentangle the effects. In this section we have tried to narrow the focus by providing a before-and-after comparison of states that have actually adopted a state income tax. The states are exactly the same—in terms of

TABLE 9 | **The State Income Tax: Before and After**

| Five more state data sets appear on pages 30/31 |

	Connecticut						
		1986-1990	**CAGR**	**1991-1995**	**CAGR**	**1996-2000**	**CAGR**
i	GSP growth	46.77%	7.98%	22.05%	4.07%	32.81%	5.84%
ii	GSP % of Total U.S. GSP	1.74%	(6.43%)*	1.67%	(4.97%)	1.66%	(6.15%)
iii	PI per Capita relative to U.S.	151.43%	-	148.23%	-	146.19%	-
iv	Population as % of Total U.S.	1.33%	-	1.27%	-	1.22%	-
v	Tax Revenues as % of Total U.S.***	1.72%	-	1.78%	-	1.85%	-
	New Jersey						
		1971-1975	**CAGR**	**1976-1980**	**CAGR**	**1981-1985**	**CAGR**
i	GSP growth	45.55%	7.80%	59.79%	9.83%	64.60%	10.48%
ii	GSP % of Total U.S. GSP	3.66%	(9.62%)	3.33%	(11.17%)	3.41%	(8.85%)
iii	PI per Capita relative to U.S.	128.28%	-	119.32%	-	120.49%	-
iv	Population as % of Total U.S.	3.47%	-	3.31%	-	3.20%	-
v	Tax Revenues as % of Total U.S.***	3.62%	-	3.56%	-	3.70%	-
	Ohio						
		1967-1971	**CAGR**	**1972-1976**	**CAGR**	**1977-1981**	**CAGR**
i	GSP growth	35.80%	6.31%	50.57%	8.53%	53.52%	8.95%
ii	GSP % of Total U.S. GSP	5.42%	(7.42%)	5.04%	(10.16%)	4.68%	(11.48%)
iii	PI per Capita relative to U.S.	114.57%	-	108.96%	-	102.39%	-
iv	Population as % of Total U.S.	5.25%	-	5.04%	-	4.81%	-
v	Tax Revenues as % of Total U.S.***	4.12%	-	4.00%	-	3.84%	-
	Rhode Island						
		1966-1970	**CAGR**	**1971-1975**	**CAGR**	**1976-1980**	**CAGR**
i	GSP growth	36.57%	6.43%	39.45%	6.88%	61.43%	10.05%
ii	GSP % of Total U.S. GSP	0.44%	(7.51%)	0.40%	(9.62%)	0.36%	(11.17%)
iii	PI per Capita relative to U.S.	116.66%	-	106.38%	-	98.33%	-
iv	Population as % of Total U.S.	0.46%	-	0.46%	-	0.43%	-
v	Tax Revenues as % of Total U.S.***	0.45%	-	0.46%	-	0.43%	(11.33%)
	Pennsylvania						
		1966-1970	**CAGR**	**1971-1975**	**CAGR**	**1976-1980**	**CAGR**
i	GSP growth	39.59%	6.90%	49.91%	8.43%	51.50%	8.66%
ii	GSP % of Total U.S. GSP	5.72%	(7.51%)	5.41%	(9.62%)	4.98%	(11.17%)
iii	PI per Capita relative to U.S.	113.47%	-	110.13%	-	104.72%	-
iv	Population as % of Total U.S.	5.88%	-	5.63%	-	5.34%	-
v	Tax Revenues as % of Total U.S.***	5.38%	-	5.67%	-	5.32%	-
	Maine						
		1964-1968	**CAGR**	**1969-1973**	**CAGR**	**1974-1978**	**CAGR**
i	GSP growth	40.92%	7.10%	52.34%	8.78%	60.36%	9.91%
ii	GSP % of Total U.S. GSP	0.39%	(7.89%)	0.38%	(8.86%)	0.38%	(10.59%)
iii	PI per Capita relative to U.S.	94.35%	-	92.95%	-	88.21%	-
iv	Population as % of Total U.S.	0.51%	-	0.49%	-	0.50%	-
v	Tax Revenues as % of Total U.S.***	0.43%	-	0.43%	-	0.43%	-

*Numbers in parantheses below state GSP CAGR represent U.S. GSP CAGR during the same time period

**GSP by state is available beginning in 1963, pre-income tax figures cover only periods where data is available

***Taxes as % of U.S. Total are from 2007

			Top PIT	
2001-2005	**CAGR**	**2008**	**1991**	**Current**
20.47%	3.80%	-	1.50%	6.50%
1.59%	(4.84%)	1.53%	-	-
146.72%	-	141.50%	-	-
1.19%	-	1.15%	-	-
1.71%	-	1.70%	-	-
1986-1990	**CAGR**	**2008**	**1976**	**Current**
45.58%	7.80%	-	2.50%	10.75%
3.79%	(6.43%)	3.35%	-	-
140.12%	-	128.10%	-	-
3.15%	-	2.86%	-	-
3.89%	-	3.90%	-	-
1982-1986	**CAGR**	**2008**	**1972**	**Current**
37.42%	6.56%		3.50%	7.93%
4.24%	(7.33%)	3.33%	-	-
100.23%	-	89.33%	-	-
4.55%	-	3.78%	-	-
4.01%	-	3.43%	-	-
1981-1985	**CAGR**	**2008**	**1971**	**Current**
57.48%	9.51%	-	5.25%	6.50%
0.36%	(8.85%)	0.33%	-	-
99.44%	-	103.16%	-	-
0.41%	-	0.35%	-	-
0.42%	(9.51%)	0.37%	-	-
1981-1985	**CAGR**	**2008**	**1971**	**Current**
39.75%	6.92%	-	2.30%	7.05%
4.48%	(8.85%)	3.91%	-	-
100.19%	-	101.29%	-	-
5.06%	-	4.09%	-	-
4.90%	-	4.07%	-	-
1979-1983	**CAGR**	**2008**	**1969**	**Current**
57.38%	9.49%	-	6.00%	8.50%
0.37%	(9.00%)	0.35%	-	-
83.54%	-	89.01%	-	-
0.49%	-	0.43%	-	-
0.44%	-	0.47%	-	-

Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau

unique characteristics—before and after they put in place an income tax, save for the fact that they put in place an income tax.

At various times over the past 50 years, 11 states have adopted a state income tax. By looking at the after-effects of each state's decision, we can do as much of an apples-to-apples comparison as possible. This time-series analysis should help Missouri make a reasoned choice, if in fact there is a noticeable effect on a state's prosperity when it puts in an income tax. The logic is that taking away an income tax will have the opposite effect of putting an income tax in place.

The 11 states where income taxes were initiated (from the most recent ones to least recent) 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).[3]

In Table 9, we have listed for each of the above 11 states their gross state product (GSP) growth rates five years prior to putting in place an income tax. Then, we list the states' growth rates in five-year intervals for the 15 years following their inception of an income tax. The first and other odd columns are growth in GSP over the five-year periods and alternating even columns are compound annual growth rates (CAGR) of the proceeding column. Also at the very end of Row i., we have listed the states' initial highest personal income tax rate and what the highest tax rate is now.

In the next Row ii., the odd columns are the states' GSP percentage of total U.S. gross state product for the dates listed above and in parentheses annual total U.S. gross state product growth for the preceding five years. For the next three rows, Rows iii., iv., and v., we do the same comparisons only for personal income (PI) per capita relative to U.S. personal income per capita, population as a percentage of U.S. total population, and for state and local tax revenues as a percentage of total U.S. state and local tax revenues.

What we find absolutely astonishing is the size of each of these 11 states' economies as a

TABLE 9 | **The State Income Tax: Before and After**

continued from pages 28/29

	Illinois						
		1964-1968	**CAGR**	**1969-1973**	**CAGR**	**1974-1978**	**CAGR**
i	GSP growth	42.66%	7.36%	44.23%	7.60%	57.99%	9.58%
ii	GSP % of Total U.S. GSP	6.52%	(7.89%)	6.16%	(8.86%)	5.89%	(10.59%)
iii	PI per Capita relative to U.S.	133.11%	-	126.67%	-	120.53%	-
iv	Population as % of Total U.S.	5.53%	-	5.41%	-	5.22%	-
v	Tax Revenues as % of Total U.S.***	5.28%	-	5.70%	-	5.51%	-
	Nebraska						
		1963-1967	**CAGR**	**1968-1972**	**CAGR**	**1973-1977**	**CAGR**
i	GSP growth**	29.00%	5.23%	54.43%	9.08%	62.34%	10.18%
ii	GSP % of Total U.S. GSP	0.67%	(5.99%)	0.68%	(6.21%)	0.72%	(10.41%)
iii	PI per Capita relative to U.S.	108.01%	-	105.95%	-	104.80%	-
iv	Population as % of Total U.S.	0.75%	-	0.73%	-	0.72%	-
v	Tax Revenues as % of Total U.S.***	0.60%	-	0.64%	-	0.63%	-
	Michigan						
		1962-1966	**CAGR**	**1967-1971**	**CAGR**	**1972-1976**	**CAGR**
i	GSP growth**	28.95%	5.22%	31.73%	5.67%	52.25%	8.77%
ii	GSP % of Total U.S. GSP	5.08%	(4.79%)	4.85%	(5.70%)	4.44%	(10.16%)
iii	PI per Capita relative to U.S.	129.97%	-	121.17%	-	114.21%	-
iv	Population as % of Total U.S.	4.34%	-	4.36%	-	4.26%	-
v	Tax Revenues as % of Total U.S.***	4.75%	-	4.75%	-	3.77%	-
	Indiana						
		1960-1963	**CAGR**	**1964-1968**	**CAGR**	**1969-1973**	**CAGR**
i	GSP growth**	n/a	n/a	44.85%	7.69%	49.44%	8.37%
ii	GSP % of Total U.S. GSP	2.61%	n/a	2.60%	(7.89%)	2.48%	(8.86%)
iii	PI per Capita relative to U.S.	113.84%	-	112.94%	-	106.91%	-
iv	Population as % of Total U.S.	2.55%	-	2.55%	-	2.54%	-
v	Tax Revenues as % of Total U.S.***	2.27%	-	2.40%	-	2.14%	-
	West Virginia						
		1960-1961	**CAGR**	**1962-1967**	**CAGR**	**1968-1972**	**CAGR**
i	GSP growth**	n/a	n/a	20.35%	3.77%	36.69%	6.45%
ii	GSP % of Total U.S. GSP	n/a	n/a	0.60%	(7.89%)	0.70%	(7.42%)
iii	PI per Capita relative to U.S.	85.55%	-	87.36%	-	85.28%	-
iv	Population as % of Total U.S.	0.97%	-	0.94%	-	0.87%	-
v	Tax Revenues as % of Total U.S.***	0.77%	-	0.76%	-	0.68%	-

*Numbers in parantheses below state GSP CAGR represent U.S. GSP CAGR during the same time period

**GSP by state is available beginning in 1963, pre-income tax figures cover only periods where data is available

***Taxes as % of U.S. Total are from 2007

share of the total U.S. economy (Row ii., Table 9) prior to their introducing an income tax. Some of the declines are rather large. Connecticut, for example, went from 1.74 percent of total U.S. GSP in the 1986-1990 period to 1.53 percent in 2008. New Jersey fell from 3.66 percent of U.S. GSP in the 1971-75 period to 3.35 percent in 2008. From 1967 to 1971, Ohio was 5.42 percent of total U.S. GSP, yet in 2008 it was only 3.33 percent. And lastly our beloved Michigan, which never seems to get a break, went from 5.08 percent in the 1962-1966 period to 2.70 percent in 2008.

1979-1983	CAGR	2008	1969	Current
34.73%	6.14%	-	2.50%	3.00%
5.28%	(9.00%)	4.47%	-	-
109.76%	-	106.66%	-	-
4.98%	-	4.24%	-	-
5.25%	-	3.97%	-	-
			Top PIT	
1978-1982	CAGR	2008	1968	Current
54.51%	9.09%	-	7.00%	6.84%
0.68%	(10.13%)	0.59%	-	-
95.77%	-	94.92%	-	-
0.69%	-	0.59%	-	-
0.64%	-	0.54%	-	-
1977-1981	CAGR	2008	1967	Current
43.57%	7.50%	-	2.60%	6.85%
4.09%	(11.48%)	2.70%	-	-
106.51%	-	88.80%	-	-
4.10%	-	3.29%	-	-
4.57%	-	3.15%	-	-
1974-1978	CAGR	2008	1964	Current
58.06%	9.59%	-	2.00%	4.30%
2.41%	(10.59%)	1.80%	-	-
102.38%	-	85.79%	-	-
2.47%	-	2.10%	-	-
2.07%	-	1.85%	-	-
1973-1977	CAGR	2008	1962	Current
74.00%	11.71%	-	6.00%	6.50%
0.73%	(10.16%)	0.44%	-	-
86.38%	-	77.56%	-	-
0.86%	-	0.60%	-	-
0.69%	-	0.61%	-	-

Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau

TABLE 10 | **Personal Income Per Capita**

Relative to the United States

State	Prior to Income Tax	2008
	1964-1968	CAGR
Connecticut	151.43%	141.50%
New Jersey	128.28%	128.10%
Ohio	114.57%	89.33%
Rhode Island	116.66%	103.16%
Pennsylvania	113.47%	101.29%
Maine	94.35%	89.01%
Illinois	133.11%	106.66%
Nebraska	108.01%	94.92%
Michigan	129.97%	88.80%
Indiana	113.84%	85.79%
West Virginia	85.55%	77.56%

Source: U.S. Bureau of Economic Analysis

TABLE 11 | **Gross State Product**

Relative to the United States

State	Prior to Income Tax	2008
Connecticut	1.74%	1.53%
New Jersey	3.66%	3.35%
Ohio	5.42%	3.33%
Rhode Island	0.44%	0.33%
Pennsylvania	5.72%	3.91%
Maine	0.39%	0.35%
Illinois	6.52%	4.47%
Nebraska	0.67%	0.59%
Michigan	5.08%	2.70%
Indiana	2.61%	1.80%
West Virginia	n/a	0.44%

Source: U.S. Bureau of Economic Analysis

And then there are the critical measures of the change in a state's gross state product and personal income per capita relative to the United States as a whole (Tables 10 and 11). Personal income per capita is the closest measure to be found that represents the state's standard of living; gross state product is the truest measure of a state's output.

Just look at the declines in personal income per capita relative to the overall country (see Table 10). It's more than depressing; it's an absolute tragedy when you realize just how much opportunity the citizens of these 11 states have lost following their adoption of a state income tax.

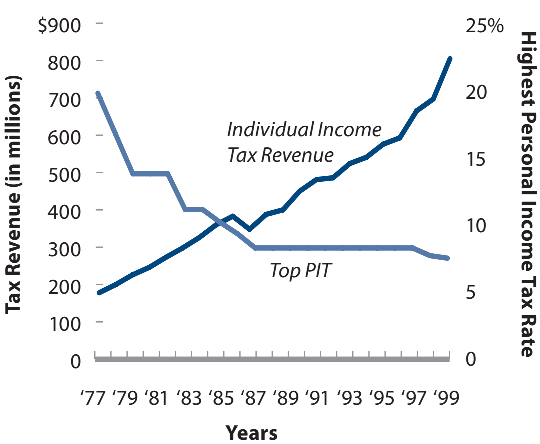
Declines in gross state product relative to the overall United States tell the same sad story as the loss in personal income per capita relative to the country. Lower output means fewer jobs, fewer goods produced, and a diminished capacity for prosperity and wealth generation. Slower growth should never be the goal of any jurisdiction, and it's clear that income taxes have a decidedly negative impact on growth.

The income experiments for each state that has instituted a personal income tax has been an abject failure. In each case the state's economy has become a smaller portion of the overall U.S. economy, and the state's citizens have had their standard of living dramatically reduced. Based on these results, we say with confidence that eliminating the income tax will improve a state's economic lot in life.

Tax Revenues and a Quick Trip Back in Time to Delaware

As an anecdote of what can happen when dramatically reducing a state's income tax rate, we point to Delaware's experience over the past 30 years. Back in 1978, Arthur Laffer was integrally involved with tax reform in Delaware when Gov. Pete du Pont sought to reduce the state's incredibly high marginal income tax rate, which at the time was 19.8 percent. As it happens, Gov. du Pont was successful beyond anyone's wildest imagination: The top rate fell from 19.8 percent in 1978 and now stands at 6.95 percent.

FIGURE 3
Delaware's Rate Cuts Enhanced State Revenues



Source: U.S. Census Bureau

Unsurprisingly, when Gov. du Pont proposed his tax rate reduction plan, he was met with a chorus of criticism much of which was centered on the loss of tax revenues and the dire consequences the revenue shortfall would have on the state's ability to help the poor, minorities, and the disadvantaged. He persevered, and Figure 3 shows the results of his courage and hard work.

With results like those, every Missouri lawmaker should ask himself why he doesn't give this theory a chance to prove itself again.

Tables 12 and 13 look at state and local tax revenues as a percentage of total U.S. tax revenues and state tax revenues as a percentage of total U.S. revenue accordingly, in the 11 states that have adopted a state income tax over the last 50 years. In nine of the 11 states that have added an income tax, the percentage of that state's revenue as a percentage of total U.S. tax revenue in 2007 has fallen relative to where it was prior to adoption. Michigan's share of U.S. tax revenue fell precipitously from 4.69 percent prior to implementing an income tax to 2.91 percent in 2007.

The Stability of Tax Receipts

In the previous sections of this study we focus extensively on measures of state prosperity and, to a lesser extent, on overall tax receipts. But another major issue that state and local governments face has to do with the *stability* of tax receipts. In our current economic environment, this is huge.

When tax receipts are volatile, states usually experience a shortfall of revenue during tough times, and excess revenues during good times. Revenue fluctuations move exactly counter to government spending needs.

State and local governments spend too much during good times on marginal projects solely because they can. Then when bad times come, they are "forced" to raise taxes and/or cut back on desperately needed projects. Volatility of revenues and spending needs is antithetical to good governance. Therefore, for a state to function efficiently, it is better to have less volatile revenues.

In Table 14, we have reproduced from the

TABLE 12

Tax Revenue as a Share of Total U.S. Tax Revenue

State and Local

State	Prior to Income Tax	2007
Connecticut	1.72%	1.65%
New Jersey	3.80%	4.03%
Ohio	4.25%	3.61%
Rhode Island	0.45%	0.38%
Pennsylvania	5.30%	4.10%
Maine	0.43%	0.44%
Illinois	5.49%	4.32%
Nebraska	0.65%	0.56%
Michigan	4.69%	2.91%
Indiana	2.30%	1.66%
West Virginia	0.72%	0.48%

Source: U.S. Census Bureau

TABLE 13

Tax Revenue as a Share of Total U.S. Tax Revenue

State

State	Prior to Income Tax	2007
Connecticut	1.72%	1.70%
New Jersey	3.62%	3.90%
Ohio	4.12%	3.43%
Rhode Island	0.45%	0.37%
Pennsylvania	5.38%	4.07%
Maine	0.43%	0.47%
Illinois	5.28%	3.97%
Nebraska	0.60%	0.54%
Michigan	4.75%	3.15%
Indiana	2.27%	1.85%
West Virginia	0.77%	0.61%

Source: U.S. Census Bureau

Rockefeller Institute's "State Revenue Report"—with slightly updated data—the annual change in the year over year numbers ending in June 2009 versus June 2008 for each state's personal income tax (PIT), corporate income tax (CIT), sales tax, and total tax revenues.

By relying on sales taxes (and property taxes on a local level) rather than on income taxes, government revenue fluctuations, over bad and good times alike, are lower. Simply put, sales taxes are more stable and reliable sources of revenue than income taxes.

As you see in Table 14 (see page 34), personal income tax receipts for all states were down 13.37 percent for the 12-month period ending June '09 from the same period ending June '08. Corporate income tax receipts were down 11.7 percent. Notice, however, that sales tax receipts were down only 4.63 percent.

Meanwhile, of the 39 states with a personal income tax, corporate income tax, and sales tax, the sales tax component of total tax revenue experienced the smallest percentage decrease (or largest percentage increase) in 33 of those 39 states. In the other six states, the sales tax experienced the second smallest decrease.

Missouri's Sales Tax, Effectuating the Tax Swap[4]

In order to gauge Missouri's ability to make the tax swap from a state income tax to a state sales tax, let us continue with our example, comparing the tax structure in Missouri with that of Tennessee. Missouri levies a state personal income tax of 6 percent beginning at $9,000 of income. The state also levies a state sales tax of 4.225 percent, 3 percent of which goes to general revenue. Counties and municipalities have the authority to levy additional sales taxes, and due to large variation in the local portion of the sales tax, the cumulative sales tax ranges from 4.73 percent in rural Ripley County to 8.24 percent in the city of St. Louis.

Tennessee, on the other hand, has no state personal income tax but levies a state sales tax of 7 percent, all of which goes to general revenue. Counties and municipalities have the authority to levy an additional sales tax of up to 2.75 percent. There is thus less variability in the sales tax rate throughout Tennessee, ranging from 8.5 percent in Johnson County to 9.75 percent in Haywood County.

The main difference in the structure of the sales tax in Tennessee versus the structure in Mis-

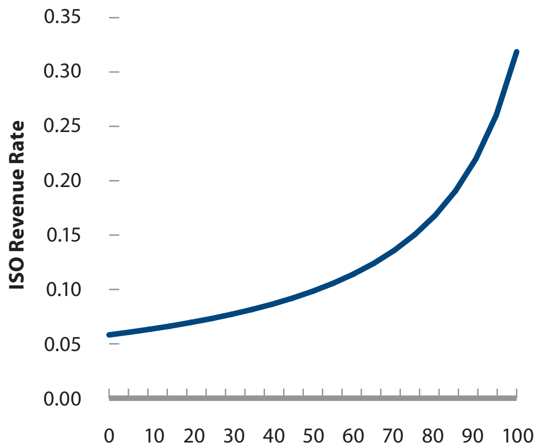
TABLE 14 | Year Over Year Percent Change in State and Local Tax Revenue by Major Tax
Change from July 2007-June 2008 to July 2008-June 2009

	Personal Income Tax	Corporate Income Tax	Sales Income Tax	Total Tax
Alabama	-6.03%	-6.80%	-5.24%	-3.77%
Alaska	NA	-51.11%	NA	-35.35%
Arizona	-27.99%	-24.52%	-15.39%	-15.41%
Arkansas	-4.52%	1.08%	-1.49%	-0.92%
California	-20.24%	21.09%	-8.83%	-10.75%
Colorado	-13.07%	-35.41%	-8.14%	-9.46%
Connecticut	-15.01%	-26.95%	-7.21%	-11.58%
Delaware	-9.55%	-32.40%	NA	-9.03%
Florida	NA	-16.95%	-8.29%	-9.31%
Georgia	-12.24%	-26.34%	-7.02%	-11.30%
Hawaii	-13.34%	-25.35%	-6.03%	-8.45%
Idaho	-18.28%	-25.21%	-10.48%	-13.14%
Illinois	-11.02%	-11.66%	-5.86%	-7.18%
Indiana	-10.83%	-7.75%	8.13%	-1.47%
Iowa	-4.95%	-28.48%	16.53%	0.17%
Kansas	-7.24%	-29.76%	-1.66%	-7.15%
Kentucky	-4.82%	-26.98%	-0.70%	-2.04%
Louisiana	-7.43%	-23.87%	-4.69%	-6.93%
Maine	-13.84%	-22.45%	-4.54%	-8.29%
Maryland	-12.37%	1.86%	2.73%	-4.74%
Massachusetts	-16.52%	-17.91%	-5.32%	-12.21%
Michigan	-10.73%	-56.84%	14.73%	-2.63%
Minnesota	-10.66%	-25.13%	-3.86%	-6.33%
Mississippi	-4.22%	-15.68%	-3.47%	-3.77%
Missouri	-6.78%	-27.43%	-6.13%	-5.65%
Montana	-4.93%	1.57%	NA	-2.06%
Nebraska	-7.19%	-14.78%	-1.95%	-5.92%
Nevada	NA	NA	-12.78%	-3.86%
New Hampshire*	-16.47%	-19.57%	NA	-8.21%
New Jersey	-15.40%	-14.98%	-8.15%	-11.20%
New Mexico	-41.81%	-27.25%	-2.15%	-9.76%
New York	-15.34%	-3.03%	-4.61%	-10.31%
North Carolina	-13.04%	-25.27%	-5.82%	-10.03%
North Dakota	16.65%	-19.86%	14.54%	4.44%
Ohio	-12.72%	-26.20%	-6.68%	-7.14%
Oklahoma	-9.05%	-4.88%	3.33%	-4.16%
Oregon	9.38%	-45.76%	NA	2.62%
Pennsylvania	-8.25%	-20.74%	-4.25%	-6.61%
Rhode Island	-11.98%	-25.62%	-3.82%	-6.80%
South Carolina	-16.40%	-25.39%	-9.92%	-11.66%
South Dakota	NA	-30.21%	3.30%	0.90%
Tennessee*	-23.82%	-18.85%	-6.81%	-8.44%
Texas	NA	NA	1.00%	-4.32%
Utah	-10.55%	-37.69%	-11.21%	-11.36%
Vermont	-14.46%	2.33%	-5.09%	-1.79%
Virginia	-9.10%	-19.53%	-5.56%	-10.08%
Washington	NA	NA	-8.10%	-6.49%
West Virginia	2.55%	-21.96%	0.02%	-1.90%
Wisconsin	-3.78%	-27.06%	-4.24%	-2.84%
Wyoming	NA	NA	-4.24%	-2.84%
U.S.**	**-13.37%**	**-11.70%**	**-4.63%**	**-8.09%**

*NH and TN do not have a personal income tax, but they do tax interest and dividends so they both show personal income tax revenues.
**Total tax revenues for all states not including Washington, D.C.

Source: The Rockefeller Institute

FIGURE 4 | **ISO-Revenue Line: Missouri Sales Tax Rate and Base Combinations**



Source: Missouri Office of Administration, U.S. Bureau of Economic Analysis; Laffer Associates calculations

souri, however, is that Tennessee has a larger sales tax base—services are eligible for taxation in Tennessee while they are not in Missouri. In addition, Tennessee raises a significant amount of revenue through special categorical taxes, such as cigarette taxes and franchise taxes.

Eliminating the Missouri state income tax and replacing it with a sales tax would require raising an additional $5.6 billion via the state sales tax in order for the tax swap to be revenue-neutral. The increase in revenues can be achieved by: a) increasing the sales tax rate, b) broadening the sales tax base, or c) some combination of a and b.

In Figure 4, we display an estimated ISO-revenue line for the state of Missouri, depicting the different combinations of state sales tax rate and the percentage of all sales within the state that could be exempt from a sales tax that would generate the necessary sales tax revenues (Figure 4). The sales tax rate would need to be raised, and the base would need to be broadened, but the locus of combinations is feasible.

Conclusion

Missouri's proposal of eliminating the state income tax via a revenue-neutral increase in the state sales tax would represent a positive change for the state. First, the downside of the tax swap appears to be minimal, if not non-existent—Tennessee currently has a tax structure very similar to the one being proposed in Missouri and has an economy that is performing better than Missouri's. Just as importantly, Missouri seems poised to experience significant gains from the tax swap.

Appendix

The Tennessee Department of Revenue estimates revenue lost due to various sales tax exemptions. If we assume the economic composition in the two states is similar, we can then extrapolate the revenue lost from those same exemptions in Missouri.

TABLE 15 | **Revenue Lost Due to Sales Tax Exemption, Tennessee Actual and Missouri Estimate**
Services not subject to sales tax today

	Tennessee			Missouri		
	Total Size (in millions)	% of GDP	Revenue Lost (in millions)	Total Size (in millions)	% of GDP	Revenue Lost (in millions)*
State GDP	**262,834.7**	**100.00%**	**-**	**242,278.4**	**100.00%**	**-**
State Budget	**27,518.4**	**10.47%**	**-**	**22,940.0**	**9.47%**	**-**
Health Care & Social Services (for-profit)	**10,748.6**	**4.09%**	**752.4**	**9,908.0**	**4.09%**	**694.3**
Physicians & Dentists	6,212.9	2.36%	434.9	5,727.0	2.36%	401.3
Other Health Practitioners	735.7	0.28%	51.5	678.2	0.28%	47.5
Hospitals	1,240.0	0.47%	86.8	1,143.0	0.47%	80.1
Nursing & Residential Care Facilities	1,182.9	0.45%	82.8	1,090.3	0.45%	76.4
Outpatient Care Centers	451.4	0.17%	31.6	416.1	0.17%	29.2
Medical & Diagnositic Laboratories	354.3	0.13%	24.8	326.6	0.13%	22.9
Other Selected Health Services	150.0	0.06%	10.5	138.3	0.06%	9.7
Social & Community Services	421.4	0.16%	29.5	388.5	0.16%	27.2
Construction Services	**10,470.0**	**3.98%**	**732.9**	**9,651.1**	**3.98%**	**676.3**
Construction of Buildings	3,462.9	1.32%	242.4	3,192.0	1.32%	223.7
Heavy & Civil Engineering Construction	1,447.1	0.55%	101.3	1,334.0	0.55%	93.5
Specialty Trade Contractors	5,560.0	2.12%	389.2	5,125.2	2.12%	359.2
Professional & Technical Services	**10,075.7**	**3.83%**	**705.3**	**9,287.7**	**3.83%**	**650.9**
Accounting, Tax Return Prep., & Payroll	1,321.4	0.50%	92.5	1,218.1	0.50%	85.4
Advertising & Public Relations	454.3	0.17%	31.8	418.8	0.17%	29.3
Architectural Studies	347.1	0.13%	24.3	320.0	0.13%	22.4
Engineering Services	2,108.6	0.80%	147.6	1,943.7	0.80%	136.2
All other Architectural, Engineering, & Related Services	202.9	0.08%	14.2	187.0	0.08%	13.1
Specialized Design Services	241.4	0.09%	16.9	222.5	0.09%	15.6
Computer Systems Design & Related Services	667.1	0.25%	46.7	615.0	0.25%	43.1
Legal Services (profit & non-profit)	2,314.3	0.88%	162.0	2,133.3	0.88%	149.5
Management, Scientific, & Technical Consulting	2,130.0	0.81%	149.1	1,963.4	0.81%	137.6
Scientific Research & Development (profit & non-profit)	288.6	0.11%	20.2	266.0	0.11%	18.6

	Tennessee			Missouri		
	Total Size (in millions)	% of GDP	Revenue Lost (in millions)	Total Size (in millions)	% of GDP	Revenue Lost (in millions)*
Health Care & Social Services (non-profit)	**6,670.0**	**2.54%**	**466.9**	**6,148.3**	**2.54%**	**430.9**
Hospitals	5,534.3	2.11%	387.4	5,101.4	2.11%	357.5
Nursing & Residential Care Facilities	384.3	0.15%	26.9	354.2	0.15%	24.8
Outpatient Care Centers	372.9	0.14%	26.1	343.7	0.14%	24.1
Other Selected Health Services	94.3	0.04%	6.6	86.9	0.04%	6.1
Social & Community Services	284.3	0.11%	19.9	262.1	0.11%	18.4
Administrative & Support Services	**5,170.0**	**1.97%**	**361.9**	**4,765.7**	**1.97%**	**334.0**
Collection Agencies & Credit Bureaus	321.4	0.12%	22.5	296.3	0.12%	20.8
Employment Services	2,938.6	1.12%	205.7	2,708.7	1.12%	189.8
Investigation & Security Services	624.3	0.24%	43.7	575.5	0.24%	40.3
Mail, Document Reproduction, & Call Centers	228.6	0.09%	16.0	210.7	0.09%	14.8
Services to Buildings & Dwellings	1,057.1	0.40%	74.0	974.5	0.40%	68.3
Finance, Insurance & Real Estate	**3,832.9**	**1.46%**	**268.3**	**3,533.1**	**1.46%**	**247.6**
Investment Banking, Securities Brokerage, & Related	1,277.1	0.49%	89.4	1,177.3	0.49%	82.5
Insurance Agents & Related	991.4	0.38%	69.4	913.9	0.38%	64.0
Real Estate Agents & Brokers	1,564.3	0.60%	109.5	1,441.9	0.60%	101.1
Media Advertising Sales	**1,891.4**	**0.72%**	**132.4**	**1,743.5**	**0.72%**	**122.2**
Newspaper Advertising	560.0	0.21%	39.2	516.2	0.21%	36.2
Radio Advertising	290.0	0.11%	20.3	267.3	0.11%	18.7
Television Advertising (Broadcast & Cable)	1,041.4	0.40%	72.9	960.0	0.40%	67.3
Personal Services	**1,220.0**	**0.46%**	**85.4**	**1,124.6**	**0.46%**	**78.8**
Coin-operated Laundry	40.0	0.02%	2.8	36.9	0.02%	2.6
Death Care Services	221.4	0.08%	15.5	204.1	0.08%	14.3
Diet & Weight Loss	24.3	0.01%	1.7	22.4	0.01%	1.6
Hair, Nail, & Skin Care Services	545.7	0.21%	38.2	503.0	0.21%	35.3
Non-profit Amusement & Membership Organizations	388.6	0.15%	27.2	358.2	0.15%	25.1
Transportation Services (local trucking only)	**840.0**	**0.32%**	**58.8**	**774.3**	**0.32%**	**54.3**
Information Services	**835.7**	**0.32%**	**58.5**	**770.4**	**0.32%**	**54.0**
Data Processing Services	337.1	0.13%	23.6	310.8	0.13%	21.8
Movie Production & Sound Recording Studios	95.7	0.04%	6.7	88.2	0.04%	6.2
Cable TV Subscriptions (exempt amount)	210.0	0.08%	14.7	193.6	0.08%	13.6
Newspaper Subscriptions & Sales	192.9	0.07%	13.5	177.8	0.07%	12.5
Educational Services	**634.3**	**0.24%**	**44.4**	**584.7**	**0.24%**	**41.0**
Educational Services (for-profit)	570.0	0.22%	39.9	525.4	0.22%	36.8
Educational Services (non-profit)	64.3	0.02%	4.5	59.3	0.02%	4.2
TOTAL	**52,388.6**	**19.93%**	**3,667.2**	**48,291.3**	**19.93%**	**3,384.2**

*At a 7% tax rate

Source: TN State Department of Revenue; The Show-Me Institute

TABLE 16 | **Revenue Lost Due to Sales Tax Exemption, Tennessee Actual and Missouri Estimate**
Goods not subject to sales tax today

	Tennessee			MIssouri		
	Total Size (in millions)	**% of GDP**	**Revenue Lost (in millions)**	**Total Size (in millions)**	**% of GDP**	**Revenue Lost (in millions)***
State GDP	**262,834.7**	**100.00%**	-	**242,278.4**	**100.00%**	-
State Budget	**27,518.4**	**10.47%**	-	**22,940.0**	**9.47%**	-
Sales Taxes	**27,486.9**	**10.46%**	**1,924.1**	**25,337.2**	**10.46%**	**1,775.6**
Gasoline	6,956.0	2.65%	486.9	6,412.0	2.65%	449.3
Diesel fuel	2,699.0	1.03%	188.9	2,487.9	1.03%	174.4
Gasoline/diesel for agriculture	188.5	0.07%	13.2	173.7	0.07%	12.2
Prescription drugs, insulin, & related	5,208.0	1.98%	364.6	4,800.7	1.98%	336.4
Prescription drug samples	651.1	0.25%	45.6	600.2	0.25%	42.1
Energy fuels sold for residential use	4,659.5	1.77%	326.2	4,295.1	1.77%	301.0
Energy and water sales to man. for direct processing	1,620.7	0.62%	113.5	1,494.0	0.62%	104.7
Industrial and farm machinery and equipment	2,626.3	1.00%	183.8	2,420.9	1.00%	169.7
Packaging sold for resale or use	1,469.9	0.56%	102.9	1,354.9	0.56%	95.0
School books and lunches	301.0	0.11%	21.1	277.5	0.11%	19.4
Membership dues of civic organizations & associations	294.6	0.11%	20.6	271.6	0.11%	19.0
Prescription eyewear & optical goods	241.6	0.09%	16.9	222.7	0.09%	15.6
Newspaper periodicals	192.6	0.07%	13.5	177.5	0.07%	12.4
Motor vehicles sold to active-duty or non-resident military personnel	115.6	0.04%	8.1	106.5	0.04%	7.5
Physical fitness facility fees	86.7	0.03%	6.1	79.9	0.03%	5.6
Railroad rolling stock, materials and repairs	69.6	0.03%	4.9	64.1	0.03%	4.5
Film and transcription rentals	61.9	0.02%	4.3	57.1	0.02%	4.0
Fertilizers, pesticides, seeds, and related items	44.3	0.02%	3.1	40.8	0.02%	2.9
Total	**27,486.9**	**10.46%**	**1,924.1**	**25,337.2**	**10.46%**	**1,775.6**

Source: TN State Department of Revenue; The Show-Me Institute
* At a 7% tax rate

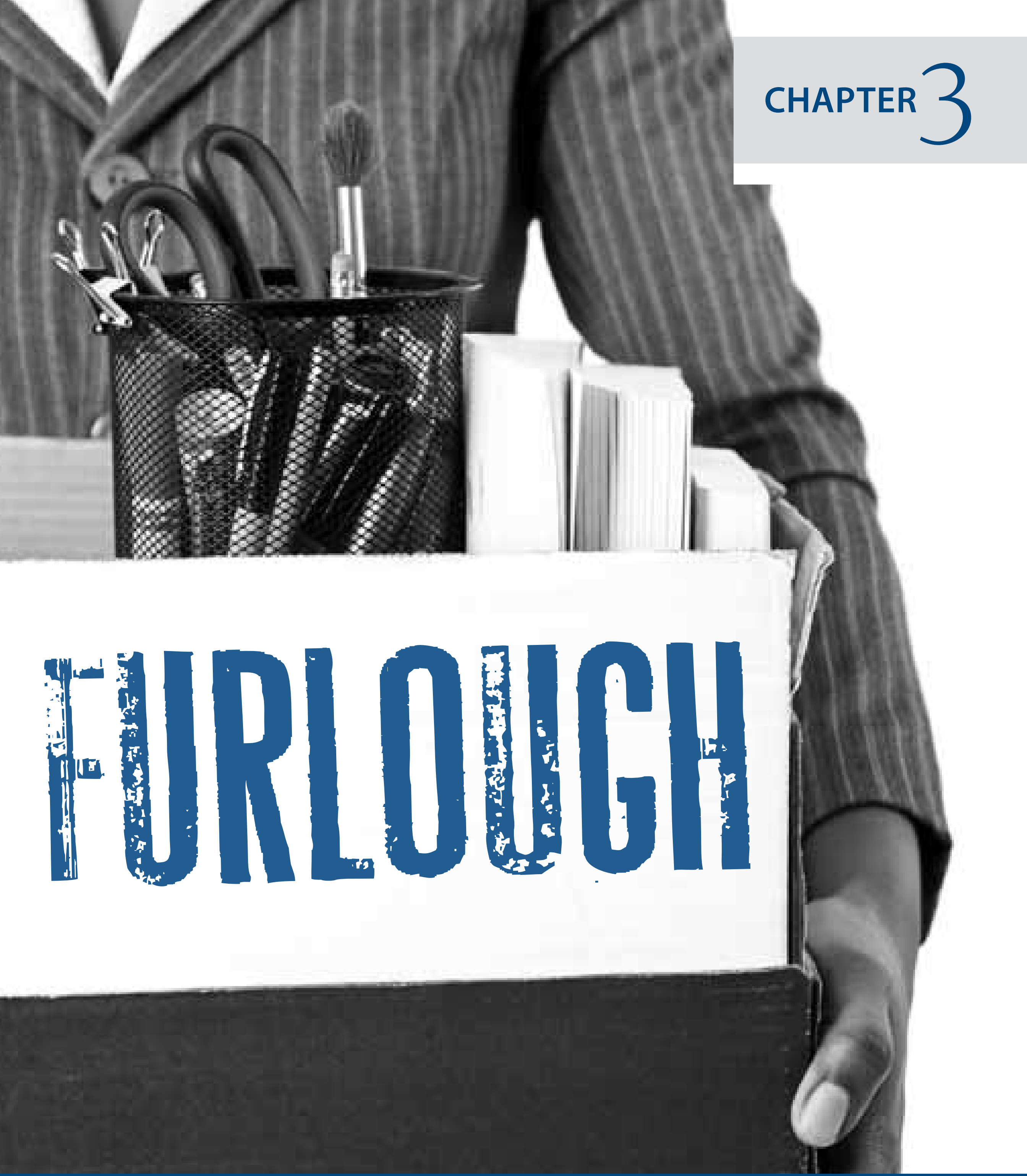
ENDNOTES

1 For a complete economic overview of Missouri, see page 96.

2 Missouri State Senate. Government Accountability and Fiscal Oversight Committee. "SJR 29: Replaces All Taxes on Income with a Sales and Use Tax." 95th General Assembly, Second Regular Session. January 12, 2010.

3 *Facts and Figures on Government Finance*. 38th edition. Tax Foundation. 2004.

4 This analysis was provided to us by Professor Joseph Haslag of the University of Missouri and the Show-Me Institute.



California, Michigan, New Jersey, and New York

LESSONS ON HOW **NOT** TO GOVERN A STATE

California, Michigan, New Jersey, and New York

LESSONS ON HOW **NOT** TO GOVERN A STATE

Almost every state is facing rough times during the Great Recession. Some, however, merit special attention for being extraordinarily bad. California, Michigan, New Jersey, and New York are cases in point for what states should not do to fix their economies and patch their budget holes.

What sets these four laggards apart isn't just the depths of their fiscal problems during this current financial crisis. No, these states have confronted perpetual budget problems throughout *most of the past decade*. New York faced a $6 billion deficit *before* the stock market crash. California had a $20 billion deficit. Michigan and New Jersey had to enact large tax increases in 2007 to pay their bills—again, before the crisis hit.

In our rankings of states' economic outlook, California ranks 46th, Michigan ranks 26th, New Jersey 48th, and New York 50th. To the other 46 states, watch and learn.

States That Do Everything Wrong

Years ago, California, Michigan, New Jersey, and New York were among America's most prosperous

TABLE 17 | **The Progressive Troika** 1=best / 50=worst

	California	New Jersey	New York
State and Local Per Capita Spending (2007)	$10,810	$10,085	$12,859
Rank	**47**	**46**	**49**
Highest Marginal Personal Income Tax Rate (state and local)	10.55%	10.75%	12.62%
Rank	**46**	**47**	**50**
Highest Marginal Corporate Tax Rate (state and local)	8.84%	9.00%	15.95%
Rank	**46**	**40**	**50**
Right to Work State	No	No	No
Unemployment Rate (March 2010)	12.5%	9.9%	8.8%
Absolute Domestic Migration (cumulative 1999-2008)	-1,422,247	-418,928	-1,700,021
Rank	**49**	**46**	**50**
Percentage of Unionized Workers (2009)	17.2%	19.3%	25.2%

Source: U.S. Census Bureau, ALEC- Laffer State Economic Competitiveness Index and U.S. Bureau of Labor Statistics and fastest-growing states. California was the unrivaled technology center of the globe, New York its financial capital, and Michigan was the center of the automobile universe. Today, each is suffering from devastating budget deficits as the bills from years of tax-and-spend governance come due.

We will bring the spotlight back on Michigan later in this chapter, but for now we focus on how California, New Jersey, and New York have become models of "progressive" policies: heavy government "investment," forced unionization, an intrusive government role in health care, and most important, high tax rates on the rich. The results have not been so kind, as shown in Table 17.

Government Spending

Total state and local government spending per capita is $12,859 in New York (second highest after Alaska), $10,810 per person in California (fourth), and $10,085 in New Jersey (fifth).[1] Does this public-sector "investment" translate into jobs? For some, yes. From 2000 to 2007, the New Jersey Business & Industry Association calculates that nine of every 10 new Garden State jobs were in the government sector.[2]

Powerful Unions

Across the country, the unionized share of the workforce is 12.8 percent. Compare that with the percentage of unionized workers in California, 17.2 percent, New Jersey, 19.3 percent, and New York, 25.2 percent. But that's not all. These three are also non-right-to-work states, have expensive minimum wage requirements, and provide among the nation's richest public employee pensions.[3] Each of these brings tremendous costs to states.

The idea that unions play a positive role in the economy is countered by the data seen above. Many, including President Obama, seem to believe union power is a ticket to the middle class. But if that's the case, why aren't workers grabbing tickets to the middle class instead of tickets to other states? These heavily unionized states suffer severely from outmigration: New York ranks first, California second, and New Jersey fifth.[4] Such effects are compounding: A study by the National Institute for Labor Relations Research found that over the past decade these and other like states (mostly in the Northeast) had one-third the job growth of states with low union penetration.[5]

Government Health Care

New York, New Jersey, and California are among the leading states for government spending and intervention in the medical market. A 2009 study by the Pacific Research Institute ranked the states on the basis of government regulation of health care and found that New York is the most regulated, while New Jersey ranks sixth and California seventh.

"New York," the report declares, "suffers from government health programs that are out of control, a grossly overregulated private insurance market, and almost completely uncompetitive provider markets."[6]

Have government controls and Medicaid expansions (public options) lowered costs? Not according to the America's Health Insurance Plans. For family coverage, the national average cost of annual premiums in 2008 was roughly $10,956—in California it was $11,040, in New Jersey $12,684, and in New York $12,864.[7]

As a result, California and New York have more than one-third of their residents uninsured or in Medicaid—much higher than the national average of 25 percent.[8] More government involvement in health care in California, New Jersey, and New York has raised costs and often reduced private coverage. That's hardly a model for the nation.

Soaking the Rich: Effects on State Economies

In California, New York, and New Jersey, taxing the rich has become the idealized solution to fixing their economies. Just as President Obama plans to pay for his government "investments" through higher tax rates on high-income earners, these states are doing the same. Our troika of liberal states are champions of soaking the rich—or at least trying to become champions.

According to the Tax Foundation's state-and-local tax burden calculation, New Jersey is the highest in the nation, with New York coming in at second, and California placing sixth.[9] New York City boasts the highest business tax rate across all states and cities at 15.95 percent. Of the 10 highest property tax counties in America, seven are located in New Jersey.[10]

Despite all this taxation, which is used as the rationale to increase state revenue, these states are home to a record amount of red ink and unbalanced budgets. Even after myriad tax increases, our three problem states are still billions in the red. Earlier this year, New York reported its main bank account was nearly completely empty.[11]

The Manhattan Institute found that three-quarters of the loss in revenue this year in Albany is a result of reduced income-tax payments by rich people—even though the state keeps raising taxes on high earners.[12]

California's debt burden has multiplied so fast that it now has the worst bond rating of any state. Last summer, Fitch Ratings lowered California's rating to BBB—the same as Puerto Rico's.[13] Currently, Gov. Arnold Schwarzenegger and state legislators are pleading with Washington, D.C., to command the other 49 states to pay off its IOUs. In our opinion, citizens in these 49 states don't owe California anything.

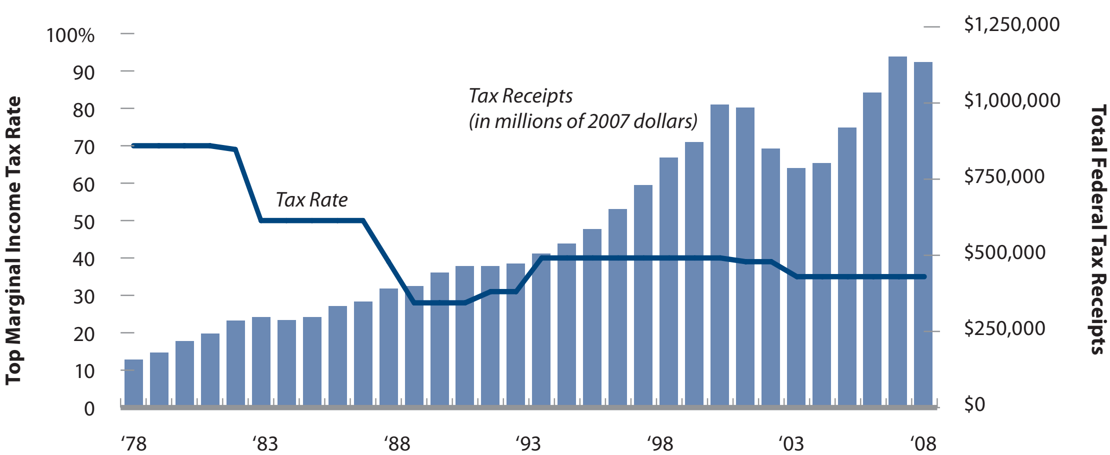
Generally, to solve such fiscal crises, politicians lobby for taxing the "rich." Will they ever learn? An analysis at the federal level provides a helpful starting point to see how such harmful policies don't work for the feds or the states.

First, higher tax rates at the federal level rarely increase federal tax revenue collections as static estimates suggest. This is because the most important factor that explains revenue growth is *not* the tax rate, but rather the state of the economy.

Second, raising taxes on the rich is a lousy way to increase revenues (see Figure 5). We found that the rich today pay 41 percent of the income tax, which is up from less than 20 percent back in 1980. But here is the amazing reality about that statistic: Before the Reagan tax cuts in the early 1980s, the highest federal personal income tax rate was 70 percent, versus 35 percent today. In other words, the tax rate has been cut in half on the rich, but the share of taxes paid by the rich has doubled. As Figure 6 shows, the richest 1 percent of taxpayers now pay more in income taxes than the bottom 95 percent.[14] Believe it or not, the same Bush tax cuts, assailed by the Left as a give-away to the rich, actually made the tax code *more* progressive.[15] This is amazing but true.

So what does this tell us about raising taxes on the rich? If you want to get more out of them, don't raise their taxes. As the old line goes, taxes

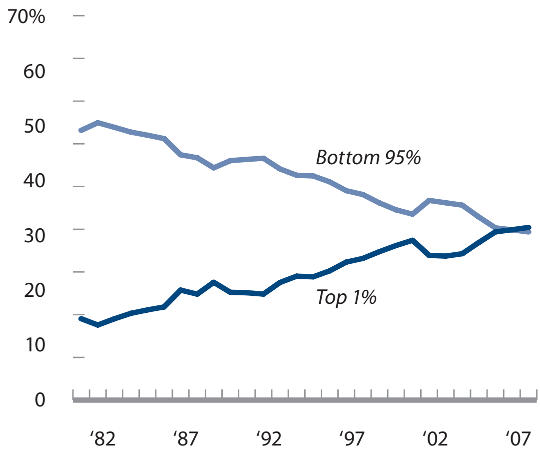
FIGURE 5 | **The Laffer Curve Effect**



Source: U.S. Office of Management and Budget, Budget of the United States Government, *Fiscal Year 2008*

FIGURE 6

Share of Income Taxes Paid: Top 1% vs. Bottom 95%



Source: Tax Foundation

don't redistribute wealth; they redistribute people.

In the following sections, we demonstrate just how detrimental high tax rates on the rich are to state economies. Again, the Big Three—New Jersey, New York, and California—are models for just how bad high tax rates can be for states.

The "Taxes Don't Matter" Argument

What the Evidence Shows

Tax-raising governors have been emboldened by some recent Left-wing studies, such as one from the Center for Budget and Policy Priorities, that suggests, "Tax increases, particularly tax increases on higher income families, may be the best available option."[16] A recent letter to New York Gov. David Paterson signed by 100 economists, advised the Empire State to "raise tax rates for high income families right away."[17]

In California, where taxes are perhaps more destructive than anywhere else, the state politicians continue to point to studies that suggest taxes aren't the problem at all. According to a news story by Dan Walters, a long-established political reporter in Sacramento, "Public Policy Institute of California (PPIC) also issued another study saying the state faces a critical shortage of college trained workers, and many economists, such as Steve Levy of the Center for the Continuing Study of the California Economy, argue that the state needs to spend more on education and infrastructure to secure its economic future."[18]

So the nation's premier example of a "tax and spend" state evidently has to spend and tax even more to rediscover prosperity?

These analyses ignore the real-world evidence of the "moving van effect." People, capital, and businesses are mobile. That is to say they can leave unfriendly economic states and move to tax-friendly states. This is true now more than ever as the gap between states with high income taxes and those with low income taxes has widened. The financial incentive to move away from high-tax states is now more rewarding. In last year's book we documented the incentives for people to leave high-tax California and move to Texas, where there is no income tax, and showed that the former state is sinking in red ink, while the latter continues to grow.

Did the greater prosperity in states like Texas just happen by chance? No. Dozens of academic studies—both old and recent—have discovered nearly irrefutable statistical evidence that high state and local taxes repel jobs and businesses.

Martin Feldstein, the former president of the National Bureau of Economic Research, co-authored a famous study in 1998 called, "Can State Taxes Redistribute Income?" It should be required reading for today's state lawmakers. It concludes: "Since individuals can avoid unfavorable taxes by migrating to jurisdictions that offer more favorable tax conditions, a relatively unfavorable tax will cause gross wages to adjust. … A more progressive tax thus induces firms to hire fewer high skilled employees and to hire more low skilled employees."[19]

And more recently, our friend, Dr. Barry Poulson of the University of Colorado, examined the many factors that explain why some states grew richer than other states over the period 1964 to 2004 and found "a significant negative impact of higher marginal tax rates on state economic growth."[20] In other words, soaking the rich is in-effective; it makes workers in the tax-raising state poorer over time.

The progressives nevertheless continue to cling to the belief that people and businesses don't move in response to tax rates. A study by economists at Princeton is cited often by tax raisers as evidence that there is no migration effect from high tax rates. But other studies conclusively refute that finding. Examining IRS tax return data by state, E.J. McMahon measured the impact of large income tax rate increases on the rich in Connecticut, which raised its tax rate in 2003 to 5 percent from 4.5 percent, New Jersey, which raised its rate to 8.97 percent from 6.35 percent in 2004, and New York, which raised its tax rate to 7.7 percent from 6.85 percent in 2003. Over the period from 2002 to 2005, the "soak the rich" tax hikes were followed by a significant reduction in the number of rich people paying taxes in each of these states relative to the national average.

This result was all the more remarkable given that these were years when the stock market boomed and Wall Street gains were in the trillions of dollars. Examining data from a 2008 Princeton study on New Jersey's tax hike on the wealthy, we found there were 4,000 "missing" half-millionaires in New Jersey after that tax took effect.[21] New Jersey now has one of the largest budget deficits in the nation.

How does this hurt the poor and the middle class? Rich people tend to be successful business owners; when they are repelled from a state, they take jobs away with them. This is why states with high income taxes can't create jobs.

Spending Doesn't Necessarily Mean Success

Those who disapprove of tax competition complain that lower state taxes only create a zero-sum game where states "race to the bottom" and cut off services to the poor as taxes fall. Opponents claim that tax cutting inevitably means lower-quality schools, police protection, and court systems for all Americans. This argument is just plain wrong.

Take, for example, the "Live Free or Die" state of New Hampshire, where there is no income or sales taxes, and yet it has high-quality schools and excellent public services. Using the most recent fourth- and eighth-grade test scores available for reading and mathematics from the National Assessment of Educational Progress (NAEP), the students in New Hampshire public schools produce the fourth highest test scores in the nation. This is despite the fact that New Hampshire annually spends about $1,500 less per pupil than the average state, and, incredibly, $5,000 less per pupil than nearby New York, which ranks 25th in student test scores.[22]

Tax Incentives Do Matter

Many progressives don't think that investors, CEOs, and small businesses are influenced by taxes—except for one: Hollywood filmmakers, who have become the biggest recipients of corporate tax breaks throughout the states in recent years.

When New York was considering lifting its Hollywood tax breaks, actor and liberal activist Alec Baldwin sounded off, "I'm telling you right now if these tax breaks are not reinstated into the budget, film production in this town is going to collapse, and television is going to collapse and it's all going to go to California."[23] Well, well—apparently taxes *do* matter, at least when it comes to filming "30 Rock" in Manhattan.

According to the Motion Picture Association of America, nearly 40 states have corporate tax carve-outs or generous cash rebates to lure movie studios into their states. In Michigan, producers negotiated a 40-42 percent tax credit on their production costs.[24] A bipartisan bill introduced in the Texas legislature and supported by Gov. Rick Perry would allocate $60 million into the Texas Film Incentive Program. Members of the Screen Actors Guild held a rally in front of the state capitol urging the tax breaks.

In some cases these state tax credits even exceed a company's tax liabilities, which means that Disney, Dreamworks, and others can get a net cash subsidy from state taxpayers. "In many states, today, movie producers actually pay a negative tax," says a Tax Foundation report on the subject.[25]

The Hollywood studios are experts at playing state suitors against one another. In the midst of California's recent $42 billion budget showdown, producers threatened to leave the state if the legislature didn't offer more inducements. Lawmakers in Sacramento gave the industry a new $250 million deal to stay put.

The film "Annapolis," about the Naval Academy, was supposed to be shot in Maryland—home of the Naval Academy—but producers negotiated a better offer in Pennsylvania shortly before filming was set to begin, so they packed the trucks and drove up the interstate to save $10 million in taxes. Also, a film based on the John Grisham novel, "The Runaway Jury," is set in Mississippi but filmed in Louisiana, again, thanks to tax incentives.

Of course, this is the same Hollywood film industry whose members fund causes and candidates that favor raising taxes on everyone else. A few years ago, director Rob Reiner funded a successful California initiative to raise the state income tax rate to more than 10 percent. Unlike a film shoot, which can relocate on a moment's notice, your average small businessman in Encino is stuck paying the highest tax rate in the country—at least until he gives up and moves to Reno.

Soak the Rich, Unbalance the Budget

We call it the California, Michigan, New Jersey, and New York disease: Increase taxes, let the unions run amok, punitively regulate businesses —and watch the jobs disappear.

Even New York Gov. David Paterson had to admit that increasing tax rates on the wealthy hasn't worked out so well for his state's finances. In early 2009, he declared, "You heard the mantra. 'Tax the rich. Tax the rich.' We've done that. We've probably driven jobs and people out of the state."[26]

Despite such disappointing results, governors and state lawmakers seem incapable of remembering this lesson in public finance. In state capitals all over the country, socking it to the rich is the new miracle cure for state budgets that are bleeding red ink. In the past two years, at least 10 states—California, Connecticut, Delaware, Hawaii, Maryland, New Jersey, New York, North Carolina, Oregon, and Wisconsin—have imposed tax "surcharges" on the wealthy to try to balance their budgets. The strategy has been a dud. In almost every case, the amount of money plucked from the rich has been far below what budget forecasters had hoped for, and most of these states are right back where they started—with hulking deficits. As we discussed in Chapter 1, Maryland is the latest to learn this lesson the hard way.

There's no doubt that the main explanation for the state revenue slump is the economic meltdown, which has shrunk the incomes of very wealthy Americans. But a related problem is that states have discovered that those who are still rich are getting harder to fleece. They've disappeared from tax rolls or found clever ways to shelter their incomes from state revenue agents. New York's rich-man surtax was expected to deliver an extra $1 billion in revenues, but the governor's office now says that only about half that much has come in.[27]

California, New Jersey, and New York each imposes at or near the highest tax rates in the nation on the rich and rates that are twice as high as the national average. Our examination of the data from the state revenue offices discovered that in 2007 these jurisdictions collected between 40 and 50 percent of their income tax revenues from the wealthiest 1 percent of tax filers (see Table 18).

That taxing strategy can work very well in good times. Remember California's famous $1 bil-

TABLE 18 | **Soaking the Rich**

	Income Tax Share Paid by top 1%*	Top Tax Rate
California	48%	10.55%
New Jersey	46%	10.75%
New York	41%	8.97%

* This is percent paid of those making more than $500,000 a year or the richest 1.3% of tax filers.

Sources: State and city revenue offices; Manhattan Institute; California Tax Commission; and Tax Foundation lion-plus windfall from Google stock option payments or the revenue surpluses in New York City during the days of big fat Wall Street bonuses? Alas, the model crashes and burns when stocks or the economy goes bust. California and New York already have discovered this excruciating lesson twice in the past decade when their coffers were drained entirely and borrowing hit all-time highs. But, in 2009, both states again tried to fix their budgets with another tax arrow flung at the rich. Unfortunately, many high-income earners have left, meaning that bankrupt Albany now gets 8.97 percent of none of their income.

New York City Mayor Michael Bloomberg once called Manhattan a "luxury good," meaning that people are willing to pay a premium to live there. The polls in Sacramento say much of the same thing about living in the Golden State. But what these jurisdictions are discovering is there are limits. The rich will pay more to live in Santa Barbara or Manhattan penthouses for sure, but not hundreds of thousands or even millions of dollars more—compared to the tax savings of living and running the business in Austin, Palm Beach, Nashville, Seattle, or countless other cities in states where there is no income tax at all.

And, again, when the rich escape, they often take more than their own direct tax payments. They also take their businesses and jobs with them. That's the collateral damage high tax rates have on the middle class and poor. As we pointed out in our Missouri case study, over the past decade, the nine states without a personal income tax have seen more than twice the amount of job growth than the nine states with the highest personal income tax rates.

None of this seems to matter to the Robin Hood redistributionists. There is already a move afoot by the liberals who run Sacramento, Trenton, and Albany to make the "temporary" tax surcharges on the rich permanent. Many states are looking to raise taxes on the rich in 2010 because they have "the ability to pay." But the lesson from California, New Jersey, and New York is they also have the ability to leave.

New Jersey Hits Rock Bottom

Few states are facing a fiscal cardiac arrest as severe as New Jersey. The story of New Jersey further proves this chapter's contention that high taxes result in unfavorable outcomes for states.

When Gov. Jim McGreevey entered office in January 2002, he proclaimed the state was facing a $5 billion budget deficit and dire action was needed to clean up the mess left by his predecessor. Alas, he quickly backtracked on his campaign pledge not to raise taxes.

This ushered in an unprecedented period of tax increases. For the next four years, New Jersey legislators raised taxes each year. From fiscal year 2002 to 2006, state taxes were increased by a cumulative $6.05 billion.[28] At the same time, the state issued massive debt to continue spending.

TABLE 19 | **New Jersey's Finances on Shaky Ground**
1=best / 50=worst

	Data	Rank
Personal Income Per Capita Growth (1998-2008)	48.4%	27
Absolute Domestic Migration Cumulative Growth (1998-2008)	-418,928	46
Non-Farm Payroll Employment Cumulative Growth (1998-2008)	6.7%	32
Top Marginal Personal Income Tax Rate	10.75%	47
Top Marginal Corporate Income Tax Rate	9.00%	40
Property tax Burden (per $1,000 of personal income)	$50.57	48
Overall Economic Outlook	-	48

Source: ALEC-Laffer State Economic Competitiveness Index

Steve Malanga, an economist at the Manhattan Institute, calculates that, "In 2004 alone, New Jersey netted a loss of more than $1 billion in personal income from out-migration according to IRS data."[29] Meanwhile, even with all of these income tax increases, property taxes in New Jersey were the third highest in the land. This was rated as the most important issue to the voters in 2009, behind jobs.

Former Gov. Jon Corzine walked into office like McGreevey, pledging not to raise taxes on the campaign trail, but reneged upon entering office and subsequently raised taxes twice during his time in office. In November 2009, he lost his re-election bid, despite spending tens of millions of dollars out of his own wallet. The word across the state was that New Jersey could not afford four more years of Corzine and "drunken spending in Trenton."

The working class turned against Corzine in the election despite his pleas that his agenda was supposed to help the poor and middle classes. But the tax burden ratcheted down on nearly everyone. At tax rallies across the state, a common banner read, "Gov. Corzine Taxed My Sign" after the governor raised the sales tax rate by 1 percent.

Mr. Corzine's fall from grace, despite his "progressive" policies, is almost an instant replay of what happened in the state in 1993. Christie Todd Whitman's political success story has become the stuff of legends.

In her 1993 race to unelect Gov. James Florio, Whitman had sagged so low in the polls that her campaign had been given last rites by every political pundit on the East Coast, including James Carville, who publicly guaranteed a Florio victory. With two months to go, Whitman embraced a 30 percent income tax rate cut plan conceived by supply-siders Steve Forbes and Larry Kudlow. Seldom in the history of American politics has any single idea in a state election been more uniformly reviled by the news media than this one. For good reason: The Whitman plan was the absolute antithesis of Florio's progressive populism. When her tax plan was implemented, the state economy rebounded and the budget was balanced—at lower tax rates.[30]

Michigan's Industrial Policy Belly Flop

As if New Jersey's tax mess isn't enough, we turn our attention back to the tragic lessons learned from Michigan.

In 2007, Gov. Jennifer Granholm signed into law one of the largest tax increases in Michigan history, with most of the $1.4 billion coming from business. The personal income tax was raised to 4.35 percent from 3.9 percent. Moreover, the governor placed a 22 percent surcharge on top of the already burdensome Michigan business tax. The tax money was dedicated to the likes of education, public works, job retention, and corporate subsidies. Gov. Granholm and her union allies called these "investments," and the exercise was widely applauded as a prototype of "progressive" budgeting.

Every state has seen a big jump in joblessness since 2007, but with a 14.3 percent unemployment rate, Michigan's job picture is by far the worst. Over 750,000 private-sector payroll jobs have vanished since the start of the decade.[31] For every family that has moved into Michigan since 2007, two have sold their homes and left.

Meanwhile, the new business taxes didn't balance the budget. Instead, thanks to business closures and relocations, tax receipts are running nearly $1 billion below projections, and the deficit has climbed back to $2.8 billion. As the *Detroit News* put it, Michigan businesses continually are asked "to pay more in taxes to erase a budget deficit that, despite their contributions, never goes away." This is despite the flood of federal stimulus and auto bailout cash over the last year.[32]

Following her 2007 misadventure, Ms. Granholm promised, "I'm not ever going to raise taxes again."[33] That pledge didn't last long. Now she wants more out of hard-hit Michigan taxpayers.

Among the ideas under consideration: an income tax increase with a higher top rate, a sales tax on services, a freeze on the personal income tax exemption (which would be a stealth inflation tax on all Michigan families), a 3 percent surtax on doctors, and fees on bottled water and cigarettes. To their credit, Republicans who control the Michigan Senate are holding out for a repeal of the 22 percent business tax surcharge.

As for Ms. Granholm, she continues to bow to public-sector unions. There are now 637,000 public employees in Michigan compared to fewer than 500,000 workers left in manufacturing.[34] Government is the largest employer in the state, but the number of taxpayers to support these government workers is shrinking.

Michigan also has been the test case for the belief in Washington, D.C., and most state capitals nowadays, that government should "invest" in certain businesses—"clean tech," say, or manufacturing—to drive job creation. We hope these investments provide more return than they have in Michigan.

For the past 14 years, Lansing politicians have offered more than $3.3 billion in tax credits through the Michigan Economic Development Corporation. Since 2001, the state spent another $1.6 billion in outlays to create and retain jobs. The subsidies have ranged from tax breaks for Hollywood, to money for new industrial plants, to millions for TV ads starring Jeff Daniels and Tim Allen talking about business and tourism in the state.

It's one of the largest experiments in smokestack chasing in American history, but one thing it hasn't done is create jobs. An exhaustive new 100-page study by the Mackinac Center for Public Policy, a Michigan think tank, has reviewed where all the money has gone and what came of it. The study finds that for every 100 jobs that were promised with these tax credits over 14 years, only 29 arrived.[35] Dare we call this cash for clunkers?

Economist Michael Hicks, a business school professor at Ball State University, calculated the rate of return on the corporate tax credits. He found that for every $1 million in tax credits awarded there were 95 lost manufacturing jobs in the counties where the companies were located—a result that is "strongly statistically significant."[36] There was no gain in personal income in these counties. Perhaps more jobs would have been lost without the credits, but what is undeniably clear is that the businesses that got the government loot were not magnets for other employers.

Although many of these programs were created years ago, they since have been expanded 19 times under Gov. Granholm. Liberals cheered this "progressive" alternative to tax cutting. But the jobs lured to Michigan were so few that the programs were killed in 2007. The broadband program's legacy was $14.5 million of bad loans eaten by taxpayers. Then-State Senate Majority Leader Ken Sikkema, an original supporter of the telecom program, called it "one of the biggest flops in state government."[37]

An even bigger flop might be the Michigan Film Office. As we pointed out earlier in this chapter, the program provides movie producers —like Michael Moore—a 42 percent tax credit for rolling the cameras in Michigan. Because the credits are "refundable," however, they are mostly cash subsidies to the film industry to make movies. (Doesn't Michael have better ways to pad his wallet than fleecing Michigan taxpayers?)

The Michigan Senate Fiscal Agency recently found that, "If a film production company spent $10 million in Michigan, the State will gain less than $700,000 in income and sales tax revenues but will pay out about $4 million to the production company." In a state with one of the highest unemployment rates in the nation, taxpayers can expect to give out another $150 million in subsidies to Hollywood millionaires this year.[38]

Why doesn't this kind of industrial policy work? One reason is that the subsidies have to be financed by somebody, which means raising taxes more broadly on the rest of the state. The subsidized businesses may bring a few jobs, but the overall employment and investment impact is miniscule at best.

In Michigan, these programs were responsible for 0.25 percent of all new jobs created in the last decade, according to the Mackinac Center study.[39] Meanwhile, to pay for many of Ms. Granholm's favored companies, Michigan raised business taxes on other firms in 2007 by $1.4 billion. Despite all the giveaways, Michigan recently was ranked as having the third most anti-business climate among states in a survey of executives by *CEO* magazine. If Michigan had simply cut taxes for every business, as former Gov. John Engler did in the 1990s when the state briefly led the nation in new jobs, it's a good bet unemployment would be lower.

Escape from New York

This year, New York raised its tax rates yet again. The combined state and local income taxes in New York City are now the highest in North America. The Left argued that millionaires should pay more to keep city and state services in business. Liberal groups cheered on the policymakers in Albany and assured them that the rich can and will pay higher rates. But the budget deficit deepened and tax payments by the rich didn't show up.

It turns out the rich are sensitive to tax rates after all. Consider the case of billionaire businessman Tom Golisano, founder of Paychex, Co. and co-owner of the Buffalo Sabres. After Albany raised the tax rates, Mr. Golisano packed his belongings, and said adios to the state he had called home for decades.

We think it's best if Mr. Golisano tells his own story:[40]

> *"I LOVE New York. But how much should it cost to call New York home? Decades of out-of-control budgets, spending hikes and relentless borrowing have made New York simply too expensive. Politicians like to talk about incentives —for businesses to relocate, for example, or to get folks to buy local. After reviewing the new budget, I have identified the most compelling incentive of all: a major tax break immediately available to all New Yorkers. To be eligible, you need do only one thing: move out of New York state."*

Mr. Golisano then describes how he bought a home in Florida and did a series of simple things to gain Florida residency: registered to vote, changed his driver's license, and filled out a homestead certificate certifying that he would spend at least 184 days a year outside New York. He says this process saved him more than $5 million in New York taxes annually. Why did he do it?

> *"By moving to Florida, I can spend that $5 million on worthy causes, like better hospitals, improving education or the Clinton Global Initiative. Or maybe I'll continue to invest it in fighting the status quo in Albany. One thing's certain: That money won't continue to fund Albany's bloated bureaucracy, corrupt politicians and regular special-interest handouts.*
>
> *"In New York, the average total state and local tax burden is $5,260 for every man, woman and child. That's by far the highest in the country. Upstate New York has been particularly hard hit. Add unreasonable real-estate taxes to uncontrolled state spending, and you wind up with whole communities decimated. An unworkable assessment process compounds the problem further. The result: 15 of the 20 highest-taxed counties in America are right here in Upstate New York. While homeowners in other areas build equity, we just pay more taxes.*
>
> *"In the midst of economic turmoil, Gov. Paterson, Assembly Speaker Sheldon Silver, and Senate Majority Leader Malcolm Smith looked to the unions and special interests, who answered with one voice: raise taxes. That was irresponsible—and may just prove to be counterproductive. … They raised the marginal tax rate on the most successful (and most mobile) New Yorkers to 8.97 percent. Bottom line? By domiciling in Florida, which has no personal-income tax, I will save $13,800 every day. That's a pretty strong incentive."*

Indeed it is. But it's not just the super-rich who leave. Smaller-sized business owners do as well—with increasing frequency. The Associated Press reported last year that, "Nancy Bell is moving her Science First manufacturer of scientific products from the Buffalo site her father founded in 1960 to Florida, which aggressively courted her and her two business-partner sons. They are building a new facility there and, with the state's help, had 1,000 applications for 20 jobs."[41]

"It was the higher tax brackets, the so-called millionaire's tax that forced the move," Ms. Bell told the AP. "We feel we have to look to the future

… I'm leaving wonderful, wonderful friends. It's not our first choice. It's our 100th."[42]

What no one wants to address in Albany is how the fiscal crisis started. New York spent and spent and spent. The budget was $73 billion in 1999. By 2009, it was up to $130 billion. The average rate of growth of spending was 6 percent per year, even as the population leveled off and inflation fell to below 2 percent. One of the big budget boulders in New York is Medicaid spending. According to the *New York Post*, "The Empire State has the most expensive Medicaid program in the country—spending as much as Texas, Florida and Illinois *combined*."[43]

Even some class-warfare liberals in Albany admit they can't completely balance the budget by simply targeting the rich. So the 2010 budget was packed with some 100 new taxes, fees, fines, surcharges, and penalties to be paid by *all* New York residents. This is believed to have been the most new taxes ever proposed by a state in American history. New Yorkers should get ready to pay new charges for cell phone usage, fishing permits, health insurance, electric bills, and purchases of bottled water, cigars, beer, and wine.

Nowhere do high taxes on the rich make less economic sense than in New York. By keeping tax rates high, the politicians there have turned their guns against Wall Street—treating this vital and signature industry as if it were a pariah, not a gift.

Even the liberal governor of New York has chastised his own party for not understanding this reality.

"Wall Street is our Main Street," Gov. Paterson declared in a 2009 speech at the Museum of American Finance. Paterson did something rare for a New York politician: He defended the financial services industry, under attack for greed, big bonuses, and big profits. "The financial industry," he said, "is absolutely essential to cash-depleted Albany and New York City."[44] He's right. One-fifth of the state's tax revenues comes from the financial services industry, so eliminating bonuses to Wall Street workers is indeed counterproductive.

"If you say anything about corn in Iowa," Paterson noted, "they'll run you out of town. If you say anything about oil in Texas, they skin you up at the nearest tree. We need to stand behind the engine of our economy in New York—and the engine is Wall Street."[45]

"We're thrilled," Kathryn Wylde, CEO of the New York City Partnership, told the *New York Post*. "Gov. Paterson is the first major official in the country to contradict this populist notion that we should destroy our financial services sector and say that will be good for America. It will be horrible for America. He was courageous for saying so."[46] Too bad none of the other lawmakers in Albany or New York City feel that the financial services industry is a sheep to be continuously sheared.

The effects are unmistakable. In 2008, for the first time ever, more Fortune 500 companies called Texas home than New York. Many of those corporations once called New York or California home; they moved out because of high costs and high taxes. Our friend, Richard Vedder, economics professor at Ohio University, proclaims, "We know from migration statistics, it's very clear that no-income-tax states are receiving massive numbers of immigrants relative to income tax states. Those new people are coming from states that have income taxes."[47]

It's surprising that the stampede out of Manhattan has taken this long. The city that fashions itself as the "financial capital of the world" now levies some of the highest capital gains, dividend, and personal income tax rates in the country.[48] All of this for the privilege of doing business in the Big Apple. The progressives even want to raise taxes on hedge fund managers, which will only mean more Wall Streeters sprinting for the bridges.

Many American companies that move to new locations aren't outsourcing to places like China, India, or Mexico. They're outsourcing to low-tax and low-cost states like Florida, Tennessee, and Texas.

It's a competitive global marketplace and businesses are finding it harder every year to absorb the surcharge applied to calling California or New York home. That's why over the past decade, California has lost 1,422,247 people and New York has lost 1,700,021. And that was before the latest tax hikes on the rich were implemented in 2009.

But where are all these millionaire geese that are going to get plucked? The Speaker of the House, Sheldon Silver, dismissed the notion that higher tax rates on the remaining rich will hinder New York's road back to recovery. "We've done it before," he says. "There hasn't been a catastrophe."[49] Over the past decade, while Mr. Silver and his colleagues were raising tax rates, hundreds of thousands left the state. Many industrial areas in upstate New York look as debilitated today as Detroit. The budget deficit is in perpetual multi-billion dollar distress. This isn't a catastrophe?

When former Gov. George Pataki cut tax rates in the mid-1990s tax revenues exploded—thanks to resurgent growth. But increasing rates hasn't balanced the budget.

And so Albany keeps gambling that the state with the highest cost of doing business can raise taxes even further without paying a heavy price. We could soon be calling New York the Empire in Decline State.

Is There a Golden State Opportunity?

Things got so bad in California in 2009, that as the state teetered on the brink of bankruptcy, the politicians in Sacramento authorized officials to pay many of its outstanding bills with registered warrants that paid interest to holders. The state also forced many taxpayers to provide the government with an interest-free loan by increasing the tax withholding amount from worker paychecks. The state also forced retailers to pay their sales taxes in advance, thus exacerbating the cash crunch for department stores and shops. It reminds us of Harry and Lloyd in "Dumb and Dumber" when they say "That's as good as money, sir; those are IOUs." (Ironically, Jeff Daniels—who played Harry—is now touting the great business climate of the economic disaster we know as Michigan.)

But in May of 2009, California may have turned a corner, of sorts. California voters sent a blunt but welcomed message about runaway government. By rejecting nearly two-to-one the political establishment's $16 billion in higher taxes, spending gimmickry, and more borrowing, the voters said it's time for government to face the same spending limits that the recession is imposing on everyone else. Teachers unions, business leaders, and the politicians outspent initiative opponents by six-to-one, and they still lost. Gov. Schwarzenegger warned that if these initiatives were voted down, government services would have to be slashed, criminals released early, and public employees furloughed. But voters decided that as painful as these cuts may be, the alternative of letting the state's tax-and-spend machine continue was worse. We think they were right.

In response to the voter blow up, some politicians and interest groups in Sacramento argued for repealing the two-thirds majority vote requirement to raise taxes and pass a budget. Another possible political target is repeal of the Proposition 13 property tax limitation. Yet these are the only remaining restraints on the appetites of the political class. What the state needs instead are iron-clad restraints.

First, California needs a sturdy cap on the rate of spending growth. Thirty years ago this November, when California's economy was in a similar rut, three-quarters of the voters approved the famous Gann Amendment, which limited the annual growth rate of spending to population growth and inflation. The result was that California's annual average rate of spending growth after inflation fell to 2 percent through the 1980s from 9 percent in the 1970s. California's state per-capita expenditures fell to 16th in the nation, in 1990, from 7th in 1979. The economy soared, with GSP growing by 132 percent from 1979 to 1988—30 percent faster than the U.S. average. The Gann limits were effectively neutered, however, in 1988 and 1990, by initiatives that exempted education and transportation from the cap.

The next step is to fix California's steeply progressive and antigrowth tax code. California's 10.55 percent income tax and 8.25 percent sales tax are driving businesses and high-income taxpayers out of the state.[50]

The state's public employee pensions also need to be overhauled. According to a conservative estimate from the recent ALEC pension study, the Golden State's pension funds are more than $54.6 billion underfunded.[51] Public employees can retire after 30 years on the job, often in their early 50s, with lifetime retirement benefits at 90 percent of their final salary. Some retirees receive $200,000 a year or more in pensions. The solution is to follow Alaska's lead and require new workers to accept defined-contribution pensions like the 401(k) plans that are now dominant in the private workforce. Without such a reform, many California cities will go bust and the state's tax burden will grow inexorably. Despite the panic from Sacramento, the May vote was the best fiscal news out of California in 30 years. It showed that voters are paying attention to the games their elected leaders have been playing, and they have finally blown the whistle. However, we believe that without reasonable spending restraint and lower taxes in California, the future looks very bleak for the Golden State.

Conclusion: Learning from Failed Governance[52]

So what is the lesson from our four failed states: California, Michigan, New Jersey, and New York? Let's recap the common characteristic of these four near-bankrupt states so other states can avoid the virus of their debilitating economic policy prescriptions. We find these states have pursued liberal policy governance in four areas:

1. They all impose high taxes on the rich and on businesses. Each, except for Michigan, has a special tax rate on "millionaires."
2. California, New Jersey, and New York all spend well above the national average, thus requiring higher-than-average taxes to pay the piper.
3. They almost all try to provide special sweetheart incentives to businesses to locate inside their borders.
4. They all have very generous welfare and income transfer programs for those who do not work.

What are the consequences of these "progressive" policies?

1. Each state is losing population, especially high-income employers.
2. Each has a very high unemployment rate.
3. Each is a place where home values are rapidly declining because of outward migration.
4. Each has a chronic budget deficit problem that has not been solved with high taxes.
5. Each has seen a flight of capital and businesses to low income tax neighboring states.

Liberals argue that taxes and spending policies don't influence where businesses and Americans live and work. But there is no refuting the fiscal wreckage in these four progressive states. If the other 46 states want a roadmap to a balanced budget, we would start with advising them to avoid the California, Michigan, New Jersey, and New York models of governance.

ENDNOTES

1 State & Local Government Finance Data Query System. The Urban Institute-Brookings Institution Tax Policy Center. 2007.

2 "The Albany-Trenton-Sacramento Disease." Review and Outlook, *The Wall Street Journal*. June 26, 2009.

3 U.S. Bureau of Labor Statistics.

4 Laffer, Arthur, Moore, Stephen, and Williams, Jonathan. "Rich States, Poor States." 3rd Edition. American Legislative Exchange Council. 2010.

5 "Right to Work States Lead in Job Growth Consistent Over Time." National Institute for Labor Relations Research. April 15, 2008.

6 Graham, John. "2009 U.S. Index of Health Ownership." 3rd Edition. Pacific Research Institute. July 2009.

7 "The Albany-Trenton-Sacramento Disease." Review and Outlook, *The Wall Street Journal*. June 26, 2009.

8 *Ibid*.

9 "State and Local Tax Burdens." Tax Foundation.

10 Prante, Gerald. "New Jersey and New York Counties Rank Highest in Property Tax, Louisiana Parishes Lowest." Tax Foundation Fiscal Fact No. 198. October 28, 2009.

11 "New York Cashes Out: Albany's Zeros Empty the State's Main Bank Account." *NY Daily News*. January 3, 2010.

12 McMahon, Edmund J. Legislative testimony. Manhattan Institute. March 12, 2009.

13 Office of State Treasurer, California. July 2009.

14 Hodge, Scott. "Tax Burden of Top 1% Now Exceeds That of the Bottom 95%." Tax Foundation. July 29, 2009.

15 Prante, Gerald. "New IRS Data: Tax Code More Progressive in 2004 than in 2000." Tax Foundation Fiscal Fact No. 70. October 17, 2006.

16 Johnson, Nicholas. "Budget Cuts or Tax Increases at the State Level." Center on Budget and Policy Priorities. January 12, 2009.

17 Laffer, Arthur and Moore, Stephen. "Soak the Rich, Lose the Rich." *The Wall Street Journal*. May 18, 2009.

18 Walters, Dan. "Is California driving away job creation?" *The Sacramento Bee*. April 20, 2009.

19 Feldstein, Martin and Wrobel, Marian Vaillant. "Can state taxes redistribute income?" *Journal of Public Economics*, Elsevier, vol. 68(3). June 1998.

20 Laffer, Arthur and Moore, Stephen. "Soak the Rich, Lose the Rich." *The Wall Street Journal*. May 18, 2009.

21 Young, Cristobal, Varner, Charles, and Massey, Douglas S. "Trends in New Jersey Migration: Housing, Employment, and Taxation." Policy Research Institute, Princeton University. September 2008.

22 Laffer, Arthur, Moore, Stephen, and Williams, Jonathan. "Rich States, Poor States." 2nd Edition. American Legislative Exchange Council. 2009.

23 "Tax Me If You Can." Review and Outlook, *The Wall Street Journal*. March 14, 2009.

24 "Our View: The Blue Moon." *Midland Daily News*. March 5, 2010.

25 Luther, William. "Movie Production Incentives: Blockbuster Support for Lackluster Policy." Tax Foundation. January 2010.

26 Malanga, Steven. "Tax the Rich? How's That Working?" Real Clear Markets. October 7, 2009.

27 "Raising Taxes on the Rich: New York Worries About Losing Millionaires." The Associated Press. September 27, 2009.

28 National Association of State Budget Officers. Fiscal Survey of the States. 2001, 2002, 2003, 2004, and 2005. Based on author's calculations.

29 Malanga, Steven. "The Mob That Whacked Jersey." *City Journal*. Spring 2006.

30 Garfield, Reed. "Tax Cuts and Balanced Budgets: A Tour of Lansing and Trenton." Joint Economic Committee Report. October 1996.

31 U.S. Bureau of Labor Statistics. Author's calculations.

32 "The State of Joblessness." Review and Outlook, *The Wall Street Journal*. October 20, 2009.

33 McHugh, Jack. "Michigan Governor Promises: 'I'm Not Ever Going to Raise Taxes Again.'" *Budget and Tax News*, Heartland Institute. March 2008.

34 "The State of Joblessness: The Tragedy of Jennifer Granholm's Michigan." Review and Outlook, *The Wall Street Journal*. October 20, 2009.

35 LaFaive, Michael and Hohman, James. "The Michigan Economic Development Corporation: A Review and Analysis." Mackinac Center for Public Policy. August 31, 2009.

36 Hohman, James M. and Hicks, Michael J. “Michigan Economic Dysfunction Corporation.” Mackinac Center for Public Policy. October 5, 2009.

37 “The Michigan Example.” *The Wall Street Journal*. September 4, 2009.

38 “Our View: The Blue Moon.” *Midland Daily News*. March 5, 2010.

39 LaFaive, Michael D. and Hohman, James M. “A New Review of the Data.” Mackinac Center for Public Policy. August 31, 2009.

40 Golisano, Tom. “Adios, New York.” *The New York Post*. May 20, 2009.

41 “Risky Business: New York Taxes the Rich at Some Peril.” The Associated Press. September 23, 2009.

42 *Ibid.*

43 Parente, Stephen T. and Bragdon, Tarren. “Spreading New York’s bad medicine.” *The New York Post*. December 9, 2009.

44 Campanile, Carl. “Bully for Paterson: Gov Goes to Bat for Wall Street.” *The New York Post*. December 10, 2009.

45 *Ibid.*

46 *Ibid.*

47 Stanek, Steve. “Md. Millionaires Hit by Tax Bracket for Wealthy.” Heartland Institute, Budget and Tax News. July 1, 2008.

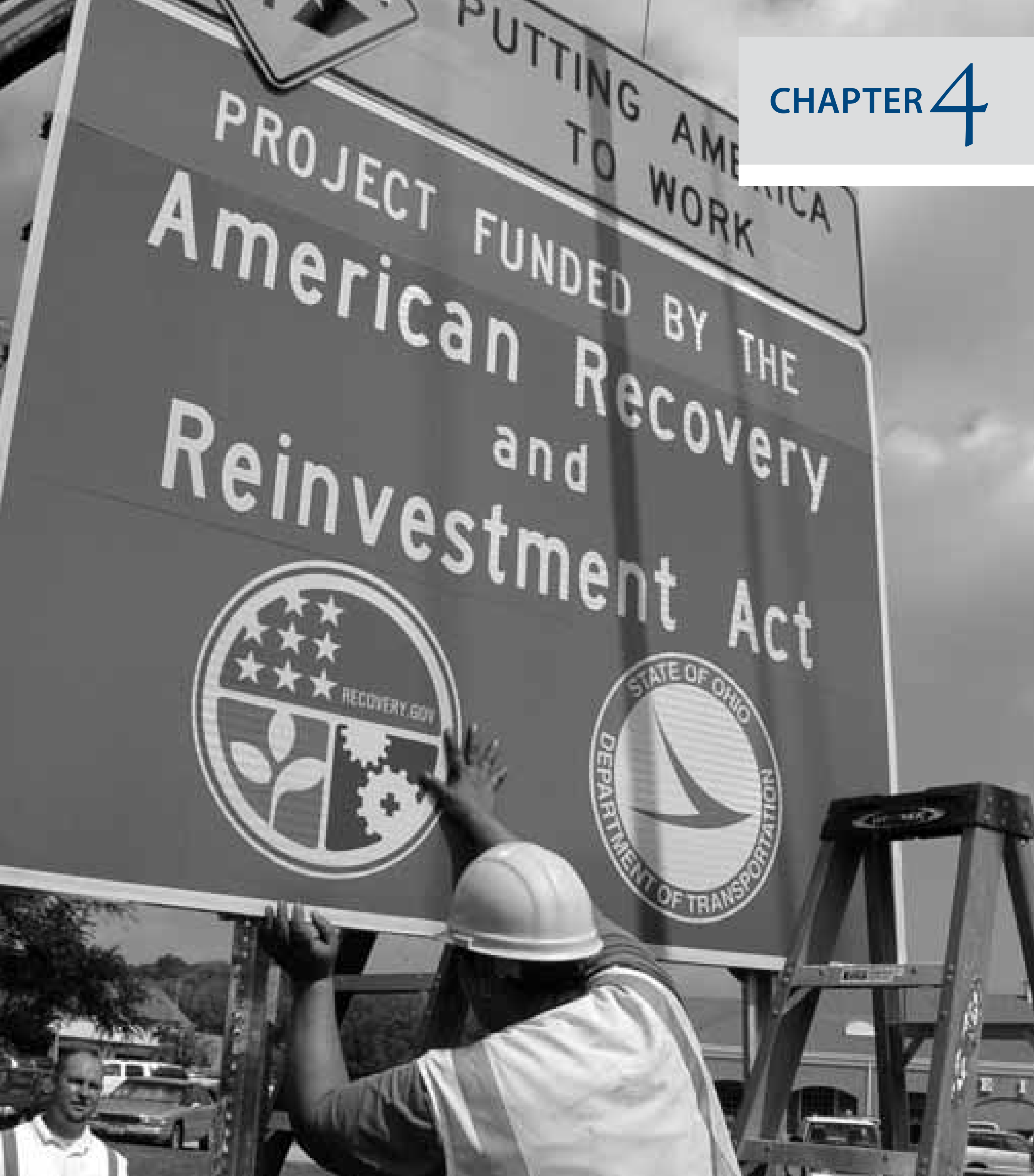
48 Williams, Jonathan. “Escape From New York.” *The New York Post*. April 19, 2009.

49 Gralla, Joan. “NY state doesn’t risk running out of cash – spokesman.” Reuters. February 3, 2009.

50 California State Board of Equalization. 2009.

51 Hall, Arthur, and Poulson, Barry. “State Pension Funds Fall Off a Cliff.” American Legislative Exchange Council. January 2010.

CHAPTER 4



The Washington Stimulus Curse

The Washington Stimulus Curse

"We believe that the stimulus money has put us in a deep, deep hole. We would have been better off without this money because we are prohibited from making the hard cuts that have to be made to match spending and revenues."

Speaker Kirk Adams, (AZ)

Why States Are Better Off Without the "Help" of Congress

One of the overriding lessons of 2009 is that the $787 billion in stimulus checks from Washington, D.C., have been more of a curse for states than a blessing. Governors and state legislators should keep this in mind as they continue to collect and, in many cases, lobby for more of the federal government's "free money" in the long-term. Federal aid does not help balance state budgets and does not help pull the national economy out of recession. In most cases, it actually makes economic conditions worse.[1]

"Demand-side" stimulus plans—prevalent in the 1970s, 2001, 2008, and 2009—fail to rescue the economy and further exacerbate states' fiscal problems. To be sure, an ALEC study conducted by Dr. Richard Vedder estimated that every additional $1 of state aid from Washington, D.C., increases state and local budget deficits by 62 cents.[2] This is a lesson many are unwilling to learn and therefore subsequently pay for time and again.

If the feds truly want to help states then they should cut federal spending and cut federal tax rates wherever and whenever they inhibit investment, saving, and work. The Kennedy tax cuts of 1964, the Reagan tax cuts of 1981-83, and the Bush tax cuts in 2003 stimulated national growth and caused state revenues to soar.

And still there is talk in Washington of continued and possibly even new and increased federal aid to states in 2010. This will only delay needed state spending reforms to make their governments more efficient. And, if that happens, don't be surprised when structural deficits return, in and after 2011.

How the Failed $787 Billion Stimulus Package Sunk State Budgets

Most economic and media analysts are incredibly shortsighted when it comes to the Obama stimulus plan. Take *USA Today*'s story on Oct. 29, 2009: "The stimulus program approved in February is providing states about $200 billion for spending on health care, education, highways, and other programs. The flood of federal cash has plugged most of the holes created by missing tax collections due to the recession."[3] Sure, the stimulus has plugged "most" of states' budgetary holes—at least for now. But what happens when the money runs out?

Already, states led by California and New York are looking at multi-billion deficits in 2010 even though they received a record infusion of federal funds in 2009. Why is stimulus funding perpetuating state deficits? There are several reasons.

First, stimulus money was a "Get Out Of Jail Free Card" for state politicians who, for the time being, were relieved of the hard choices that must be made when economies go sour. During the good times for state revenue growth, most states allowed their budgets to grow far faster than inflation and far outpacing population growth.[4] As we pointed out in Chapter 1, during this same period, states also allowed public-sector salaries to grow more rapidly than inflation and permitted the public-sector workforce to grow faster than the private-sector workforce.[5] The recession should have been the wake-up call: Pull back on spending. Unfortunately, the stimulus money is interfering with this normal, albeit painful, corrective step to get states permanently back on more sustainable spending paths.

Second, the stimulus money did not just prevent necessary cuts; it led to an artificial expansion of state budgets as they now face another year or two, at least, of leaner revenues. Even though states will continue to collect some stimulus funds in 2010 and 2011, the level of the aid declines, thus making cuts harder in the future. With most stimulus funding winding down at the end of 2010, a "budget cliff" will cause jarring state fiscal crises this year and next.

Third, there is very little evidence that federal stimulus money helped avoid state tax increases —a purported rationale for the program. Even with federal aid, more than half the states raised taxes and fees in 2009.[6]

Fourth, and most important, states had limitations on what they could do with the stimulus money; that is, strings were attached to the federal dollars (as they almost always are). Because of "maintenance of effort" spending requirements in the federal legislation, states could only receive money if they promised not to cut spending below 2007 levels in key programmatic areas like highways, K-12 schools, higher education, and Medicaid—the peak of the wild spending spree during the Bush administration. We wonder whether state legislators had any idea of the financial obligations to which they were committing themselves when they grabbed for the "free" federal funds. Let it be known that the 2009 federal stimulus bill arguably turned out to be the greatest power grab by the federal government and usurpation of states' rights in decades. It allowed Congress to dictate to state lawmakers what programs in their own budgets they could and could not cut and by how much.

Take Medicaid, for example, one of the biggest burdens on state budgets: The federal stimulus plan includes a "maintenance of effort" provision that prohibits states from saving money in Medicaid by cutting benefits or eligibility below those in effect on July 1, 2008. But that, not coincidentally, was the peak of the last economic cycle when states were awash in cash from the booming economy.

Or consider the restrictions on cutting education spending: If states accepted K-12 education funds, they were prohibited from making cuts in these programs in 2010 or 2011 thanks to similar "maintenance of effort" guidelines. In Washington state, for example, a study by the Evergreen Freedom Foundation found that "because state lawmakers accepted $820 million in education stimulus dollars, only 9 percent of the state's $6.8 billion K-12 budget is eligible for reductions in fiscal year 2011. The same restrictions apply to the current fiscal year."[7]

TABLE 20
Stimulus Strings Limit State Budget Options

Policy Area	Budgeted Amount	Eligible for Reduction
K-12	$6.8 billion	9%
Higher Education	$1.7 billion	<25%
Low-Income Health Care	$3.4 billion	12%

Source: Evergreen Freedom Foundation

Furthermore, the same study found that Washington state lawmakers are prohibited from cutting 75 to 90 percent of 2010 state programs.

And unsurprisingly, Washington state is, as are so many others, broke again, and there is little that can be done about it. This has left well over half of state budgets untouchable this year and next in terms of making the cuts necessary to balance their budgets. "We believe that the stimulus money has put us in a deep, deep hole. We would have been better off without this money because we are prohibited from making the hard cuts that have to be made to match spending and revenues," says Speaker Kirk Adams of Arizona. "We hooked ourselves to spending programs that we don't want to have to fund in the future," says Governor Rick Perry of Texas. "These funds are not the blessing they have been advertised to be," says Bobby Jindal, Governor of Louisiana.

Some governors wisely warned of this coming to pass back in early 2009. These governors—notably Haley Barbour of Mississippi, Bobby Jindal of Louisiana, Idaho's Butch Otter, and Rick Perry of Texas—all had similar protests. They were concerned that the tens of billions of dollars of aid for health care, welfare, and education will disappear in two years and leave states with no way to finance the expanded programs.

Consider South Carolina: Its annual budget is roughly $7 billion, and the stimulus sent about $2.8 billion to the state over two years. But to spend the hundreds of millions of dollars allocated to, say, Head Start for child care subsidies and special education, the state will have to enroll thousands of new families into the program.

QUOTED

"We hooked ourselves to spending programs that we don't want to have to fund in the future."

Gov. Rick Perry (TX)

"These funds are not the blessing they have been advertised to be."

Gov. Bobby Jindal (LA)

"There's no way politically we're going to be able to push people out of the program in two years when the federal money runs out," Gov. Mark Sanford said.[8] In an attempt to avoid this problem Gov. Sanford pushed to use a $700 million portion of stimulus dollars to pay down some of the state's education debt, a move that would have saved the state $125 million in interest payments over 13 years. Unfortunately, that prudent course of action wasn't allowed by the White House.[9]

The Medicaid bailout is also a fiscal time bomb. The stimulus bill temporarily increased the share of state Medicaid bills reimbursed by the federal government. Much of the stimulus money will cover health care costs for unemployed workers and single workers without kids. In 2011, however, almost all the $80 billion of extra federal Medicaid money vanishes. Does Congress really expect states to dump one million people or more from Medicaid at that stage? No, and clearly when that time comes, states will pay a big share of the permanent program expansion. Where the money comes from in state budgets to pay for these welfare extensions is anyone's guess.[10]

But the loudest protests from governors have come over the $7 billion for Unemployment Insurance (UI) expansions. Under this law, states will increase UI benefits by $25 a week for individuals who qualify. The law also encourages states to cover part-time workers for the first time. Because the UI program is partly paid for by state payroll taxes imposed on employers, Gov. Barbour says that in Mississippi: "We will absolutely have to raise our payroll tax on employers to keep benefits running after the federal dollars run out. This will cost our state jobs, so we'd rather not have these dollars in the first place."[11]

Importantly, state legislatures do have the power to overrule their governors and spend stimulus money "by means of the adoption of a concurrent resolution"—thanks to a little-noticed provision inserted into the stimulus bill by South Carolina Rep. James Clyburn. Sadly, many legislatures are smaller versions of Congress; they can't say no to new spending—even if it will eventually bankrupt their state.

The Real Cost of a Free Lunch

The billions Uncle Sam has allocated to states in direct federal stimulus funds is based on the fictitious foundation that Washington can mend state budgets by taking money from Wisconsin or Wyoming and giving it to California or Michigan. As Milton Friedman taught us, there is no such thing as a free lunch. Federal spending has to be paid for by somebody, eventually.

The idea behind the deluge of spending was not just to repair state budgets but to create jobs, as well. But rather than holding the unemployment rate to below 8 percent, the actual unemployment rate kept growing.

The three million jobs "created or saved"—that the White House so frequently touted—never materialized. Yet even after the unemployment rate rose in the wake of the stimulus, liberals in Washington still claimed the bill was a job generator. The Congressional Budget Office, continuing to use single entry bookkeeping of counting jobs created but ignoring job losses, announced in October 2009 that the stimulus was a net positive. However, this was based simply on a count of how many jobs were created per $100,000 spent. Under this model, if the federal government spent $50 trillion we could put nearly everyone on the planet to work. And if that were true, then the richest countries should be the ones that spend the most money. The evidence, and some simple common sense, however, argues just the opposite.

The reason the federal stimulus was a bust as a job generator is that the White House's Keynesian economists forgot that federal spending comes with costs. This seems to be a statement that is self-evident, but we are shocked at how many very prominent economists forget or ignore this basic tenet. Every dollar the government spends must first be removed from the pocket of the private sector through higher taxes today or increased borrowing today, implying higher taxes tomorrow. Either way, government spending crowds out private-sector spending, diminishing the private economy's rate of growth.

Properly accounting for the impact from higher government expenditures exposes their negative impact on the economy—called the government expenditure wedge. In short, the wedge appropriately measures the burden created by total government spending.

The government expenditure wedge is defined as government expenditures divided by net domestic business output. The historic relationship between the growth in the private economy, the size of the government expenditure wedge, and the change in the government expenditure wedge illustrates that increases in government spending relative to the size of the private sector cause a reduction in the overall growth of the economy.

Federal Stimulus:
For Every State Winner There's a State Loser

The United States comprises 50 states, the District of Columbia, and a few territories. That's common sense, no? Well, this obvious statement is forgotten with respect to the economic and fiscal effects from federal government spending.

All federal government tax revenues are raised by levying taxes on people (or entities) that are located in one of the states or in the District of Columbia (a subset of the country). Because the vast majority of the federal budget is spent domestically, the vast majority of government spending is spent in a part (or subset) of the country. By definition then, federal government fiscal policy is taking revenues from one state and spending it in the same, or a different, state.

Now, resources don't magically appear in a state courtesy of the federal government and its fiscal policies. So in order for one state to receive a net positive amount of resources from the federal government, the feds must take resources away from another state, resulting in it having a net negative amount of resources. For the country as a whole, the federal government cannot create a net injection of resources.

What the federal government *can* do is change the net economic incentives across each state or change the net benefits (or value) created by the federal tax dollars. A careful examination of federal spending illustrates that federal tax and spending policy is creating significant adverse impacts on state economic efficiency and, despite the addition of seemingly "free money," is actually creating a net negative for the health of state budgets across the country.

This point is critical. "Free" federal money entices state lawmakers to spend a dollar of federal money on programs that don't have anywhere near a full dollar's return. Federal aid to states subsidizes inefficiency because the projects cost local taxpayers almost zero, with nearly the entire cost borne by U.S. taxpayers, most of whom will never benefit from the program. This means localities and states will chase down a federal dollar even when the projects make little sense.

For example, at the beginning of the Obama Administration, the White House asked mayors for infrastructure projects they wanted funded. But if these projects make financial sense for their cities, then why wouldn't cities put the money up on their own? The silence to that question is often deafening. As one governor recently told us, "If the federal government is passing out money, we will pave our streets with gold if that is what it takes to get the federal dollars." Think about one thousand bridges to nowhere, paid for by people who will never even cross them.

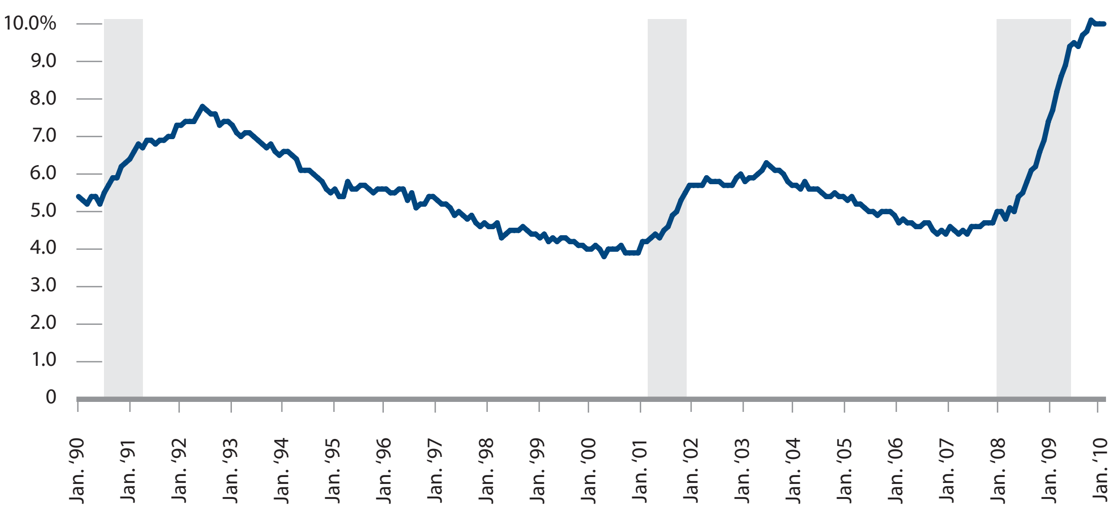
Unemployment Insurance Creates Unemployment

Federal aid to states to offset rising unemployment insurance costs illustrates the costs of federal money. The Unemployment Insurance (UI) program is generally funded by state tax levies. During good economic times, growing state revenues far exceed UI costs. Recessions reverse the arithmetic. During bad economic times, the unemployment rates surge upward, which lasts well beyond the end of the official recession.

Figure 7 tracks the unemployment rate from January 1990 through February 2010. The gray shaded areas represent recessions. As the experience of the previous two recessions show, the unemployment rate peaks well after the recessions officially end.

Due to the surging unemployment during bad economic times, state UI costs increase as states

FIGURE 7 | **Monthly National Unemployment Rate, January 1990-February 2010**



Source: U.S. Bureau of Labor Statistics

extend their unemployment compensation beyond the amounts they contributed to the Federal Unemployment Trust Fund.

Through the Federal Unemployment Trust Fund, the federal government can be called in to help extend unemployment insurance benefits beyond the 26 weeks covered by states (during "normal" economic years). The federal government and each individual state split the costs of these extensions, increasing the federal government's responsibilities. Although the states are also required to pay some of the additional benefits, many states are not able to meet these additional costs. Historically, this situation has been addressed on a case-by-case basis. The typical extended benefits legislation has a set expiration date and, like the stimulus bill, increases federal control over program eligibility and benefits. Figure 8 illustrates the surge of federal expenditures during times of high unemployment followed by minimal expenditures during times of strong economic growth.

Because the federal aid in 2001 came with strings attached—much like the federal aid offered in 2009—the necessary state tax collections to support the UI program increased substantially following the surge in federal expenditures, as seen in Figure 9.

Historically, federal expenditures have propped up state unemployment insurance funds during economic downturns; however, the resulting costs have been substantially higher tax collections during the subsequent recovery for all 50 states as a whole. In South Carolina, there was also a significant surge in taxes collected following the 2002-04 federal aid surge, as demonstrated in Figure 10. South Carolina residents paid for the increase in federal aid with sustained higher tax collections.

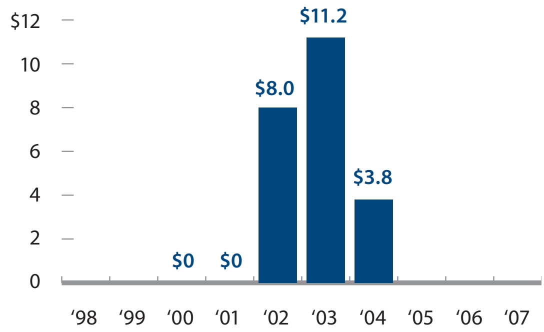
Higher Government Expenditures De-Stimulate the Economy

Capturing the de-stimulative impact of federal spending requires accurate measurement of the economy.

FIGURE 8

Federal Government Extended and Supplemental Benefit Outlays, All States, 1998-2007

in billions

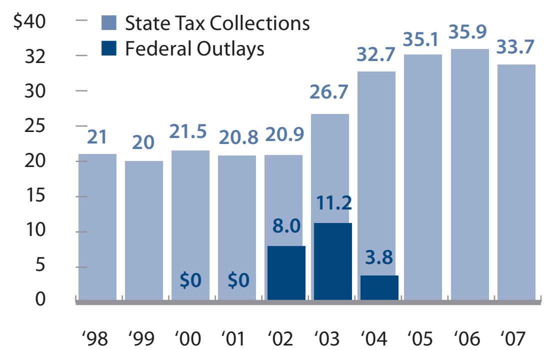


Source: U.S. Bureau of Labor Statistics

FIGURE 9

Federal Government Extended and Supplemental Benefit Outlays Compared to State Unemployment Tax Contribution Collections, All States, 1998-2007

in billions

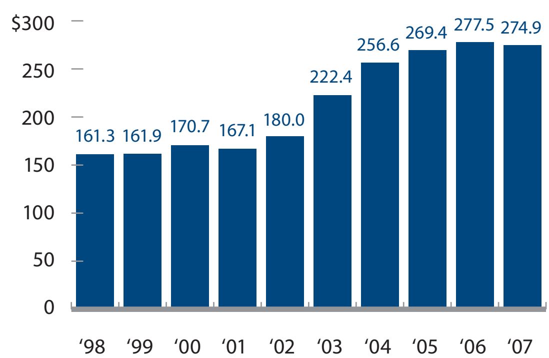


Source: U.S. Bureau of Labor Statistics

FIGURE 10

State Unemployment Tax Contribution Collections South Carolina, 1998-2007

in millions



Source: U.S. Bureau of Labor Statistics

Typically, the health of the economy is measured by the growth in Gross Domestic Product (GDP). This is measured based on how much money is spent in the economy by consumers, investors, and the government—federal government expenditures typically are around 20 percent of total GDP. Because GDP is in part composed of government expenditures it is not appropriate to judge the economic efficacy from an increase in government expenditures by watching changes in GDP. Additionally, if it is the vibrancy of the private sector that we wish to measure, another common measure—personal income—is also inappropriate. Personal income, which sounds like income from productive activities, also includes the value of government transfer payments. While not discounting the importance of "the social safety net," transfers from the government dilutes the important question: What is the value of the private sector?

The vertical dotted lines in Figure 11 represent the years where changes in the path of the government expenditure wedge are evident. For instance, total government expenditures were relatively flat to slightly growing between 1951 and 1965. Beginning in 1966, there is a change in the rate of expenditure growth that continued until 1983. The growth in government expenditures then slowed until 1989. A renewed but short-lived pick-up in government expenditures occurred between 1989 and 1993. The trend toward lower government expenditures then resumed until 2001, following which there has been a renewed increase in total government expenditures.

Figure 12 breaks down the government expenditure wedge between its federal, state, and local components. Although the overall trends between the two tax wedges are generally similar, there are a few noteworthy differences. Prior to 1966, the state and local expenditure wedge grew 52 percent, compared to a relatively flat 8 percent growth in the federal expenditure wedge. The pattern of expenditure growth then converged until 1989. During the uptick in growth between 1989 and 1993, state and local expenditures grew faster (12.9 percent) than federal expenditures (5.8 percent).

Table 21 illustrates the negative impact that a high and/or growing government expenditure wedge has on private-sector activity, as well as the positive impact of a lower and/or declining expenditure wedge. Taking each period separately:

FIGURE 11
Total Government Expenditure Wedge, 1951-2007

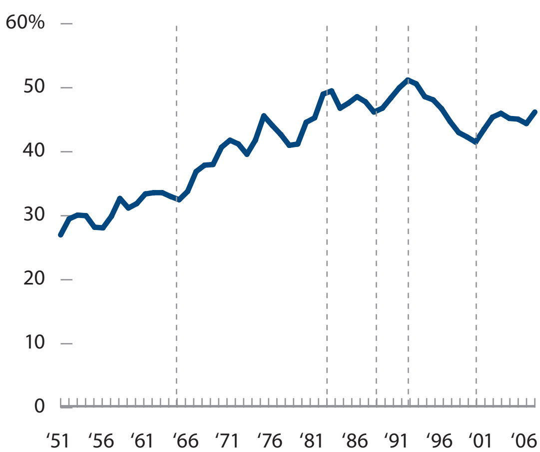
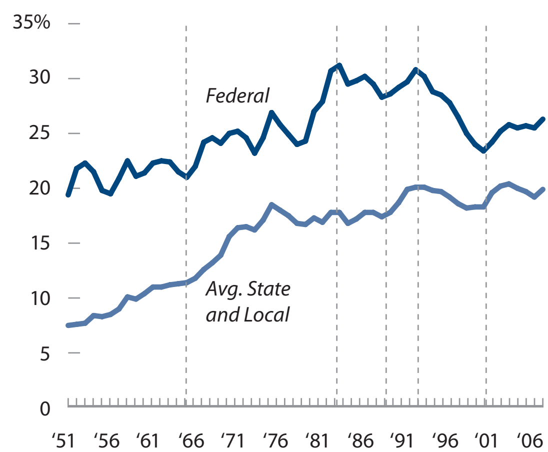


FIGURE 12
Federal Government and State/Local Government Expenditure Wedges, 1951-2007



Source: Laffer Associates calculations based on U.S. Bureau of Economic Analysis Data

TABLE 21 | **Negative Relationship Between Expenditure Wedge and Private-Sector Growth, 1950-2007**

	Percent Change Net Business Output (CAGR)	Wedge at End of Period	Change Wedge (Peak to Through, Through to Peak)
1950-1965	3.6%	32.4%	5.5%
1965-1983	2.5%	49.0%	16.6%
1983-1988	5.1%	45.7%	-3.3%
1988-1992	1.0%	50.9%	5.2%
1992-2000	4.5%	41.7%	-9.2%
2000-2007	2.0%	46.1%	4.5%

Source: Laffer Associates Calculations based on U.S. Bureau of Economic Analysis Data

- Between 1950 and 1965, the government expenditure wedge was relatively low (32.4 percent) and grew slightly (5.5 percentage points). Private-sector expansion was a robust 3.6 percent per year during this period.

- Between 1965 and 1983, the government expenditure wedge grew quickly, rising 16.6 percentage points to 49 percent. Growth in the private sector slowed to 2.5 percent per year.

- Between 1983 and 1988, growth in the private sector accelerated to 5.1 percent per year as the government expenditure wedge fell 3.3 points back down to 45.7 percent.

- The brief reversal in the government expenditure wedge between 1988 and 1992 led to a 5.2 percentage point rise in the wedge to 50.9 percent. Growth in the private sector economy slowed again to 1 percent per year.

- Between 1992 and 2000, the government expenditure wedge fell 9.2 percentage points to 41.7 percent. Growth in the private sector economy accelerated again to 4.5 percent per year.

- Finally, between 2000 and 2007, the growth in the government expenditure wedge started growing again (by 4.5 percentage points to 46.1 percent) and the growth rate in the private sector cooled to 2 percent.

Fiscal Stimulus and the "New Normal" for State Budgets

In past ALEC studies we have shown that the primary driver of state fiscal well-being is the health of the national economy. No matter how much money Washington doles out to states, if the U.S. economy is not creating jobs and promoting growth, states will plow into an ever deeper ditch of red ink.

We argue in our 2008 book, "The End of Prosperity," that because of misguided federal policies—on health care, trade, taxes, the budget, the debt, cap and trade, cash for clunkers, and stimulus spending—the U.S. economy will experience a period of slow growth with intermittent quarters of negative growth, especially in 2011 when federal tax rates are scheduled to rise dramatically. This means states are in a "new normal" of low revenue growth.

One of the few governors in America who understands this real fiscal reality for states is Gov. Mitch Daniels of Indiana. Gov. Daniels scoffs at the idea that is prevalent on the East and West coasts, that states can tax their way to prosperity, spend, spend, spend, and then expect bailouts from Washington, D.C.

Indiana's governor notes that three-fourths of the states started the 2010 fiscal year with deficits exceeding 10 percent of their budgets. What governors haven't done is adjust to the new normal in states: lower long-term revenues.

"We ain't seen nothin' yet," said Gov. Daniels. "What we are being hit by isn't a tropical storm that will come and go, with sunshine soon to follow. It's more likely that we're facing a near permanent reduction in state tax revenues that will require us to reduce the size and scope of our state governments. And the time to prepare for this new reality is already at hand."[12]

The governor is right. Unfortunately, few states have prepared for that new reality. In the last decade, state spending rose by an average of 6 percent per year, and then burst to 8 percent during 2007-08.[13] States now have to hit the reset button and dismantle much of the bureaucratic build-up. We suspect it may take until 2012 to reach the 2007 revenue numbers.

The political impulse to protect and preserve government largess from Washington leads many states to aggravate their dilemma. Business as usual with higher federal taxes and debt to pay for more state spending is a trap. Our argument, and Gov. Daniels shares this view, is that states like California, New Jersey, and New York are "canaries in the coal mine." States had better hunker down and prepare for the fiscal storm to come.

Conclusion

When government expenditures grow beyond the private sector's ability to pay for them, economic growth suffers. Put simply, growth in government crowds out growth in the private sector. Nationwide, the burdens from total federal, state, and local government expenditures have risen by more than 5 percent of GDP within the past two years—an extraordinarily high growth rate. These increased government expenditures will reduce private-sector growth and increase overall unemployment throughout the United States.

This isn't just theory. As government added spending "stimulus" to the economy, job losses mounted.

The primary tragedy of the $787 stimulus plan with respect to the states is that it ignored the critical lesson of history: The best way for Washington to help states is to promote a strong national economic climate for growth and jobs. What we know above all else is that the key to state economic health is a prosperous U.S. economy with healthy, profitable businesses and lots of hiring.

When the national economy expands, as it did in the 1980s and 1990s, states are awash in federal revenues. The greatest fiscal stimulus for states in the last 40 years was the Reagan tax cuts. These steered states out of the fiscal abyss of the 1970s and allowed states to enjoy years of surpluses as more than 10 million new jobs were created and the stock market boomed. Similarly, in the 1990s when Bill Clinton and the Republican Congress worked together to reduce federal spending and balance the federal budget, states were awash in cash. Even in 2003, when George W. Bush enacted his investment tax cuts, some of the biggest beneficiaries were state coffers, which for the next four years spilled over with reserves.

Washington would be wise to end all federal aid for states, because the money that Washington spends has to come from states—it is far from being free. Instead state lawmakers should ask Congress to focus on broad economic growth policies that will put states back in the black. This should include low, flat-rate taxes, government spending restraint, sound and stable money, free trade, and minimal regulation.

All of this is to say that so far in this Great Recession, Washington has made things much worse for states because our nation has moved so far away from sound economics. And yet, the health care bill could add new unfunded mandates on the backs of states, and the cap-and-trade energy tax could destroy millions of jobs—particularly in the Midwest and Mountain states.

States shouldn't count on Washington, D.C., to bail them out. Down the road, they'll only have to bail themselves out. As we reiterate throughout this publication, state fiscal policies have a profound impact on their relative economic performance. Governors and state legislators would be wise to tell Washington next time it offers bailout dollars: “Thanks, but no thanks.”

Appendix

The Negative Economic Impact from the American Recovery and Reinvestment Act of 2009

Table 22 illustrates the strong and negative relationship between the size and growth of the government expenditure wedge and growth in the private-sector economy. The data in this table illustrate that the growth in the expenditure wedge and growth of the private economy move in opposite directions. In other words, growth in government crowds out growth in the private sector. Increases in government expenditures as a share of domestic output causes an increase in the expenditure wedge and an overall decrease in private-sector growth. Table 22 presents the statistical relationship between net business output and the government expenditure wedge.

TABLE 22 | **Regression Results**
Dependent Variable: Change to Net Business Output[14]

	Coefficients	Standard Error	T Stat	F Stat	Adj. R-Sq.
Constant	0.0701	0.0135	5.257	65.762	0.698
Expenditure Wedge	-0.0820	0.0325	-2.524	-	-
Change Expenditure Wedge	-1.6228	0.1440	-11.273	-	-

Based on the statistical relationship between these three factors, the negative impact from the American Reinvestment and Recovery Act (ARRA) can be estimated. Due to all of the increased government expenditures prior to ARRA, the government expenditure wedge increased to the current 49.2 percent from 2007's 46.1 percent.[15] The expenditure components within the ARRA equal approximately $575 billion over seven years. The present value of these expenditures is approximately $540 billion. Such an expenditure increase raises the government expenditure wedge to 52.4 percent, or a 3.3 percentage point increase in the government expenditure wedge that will reduce the growth in real net business output by 2.5 percent (see Figures 13 and 14).

The ARRA bill—enacted to improve the U.S. economy—inevitably will cause more harm than good by inhibiting private-sector growth and increasing unemployment. For the U.S. overall, an additional 1.7 million jobs could be lost as a direct result of the higher spending in the ARRA bill. Because of these feedback effects, ARRA of 2009 will de-stimulate the economy, reduce tax receipts, and increase government expenditures.

FIGURE 13
Current and Estimated Government Expenditure Wedge Following ARRA of 2009

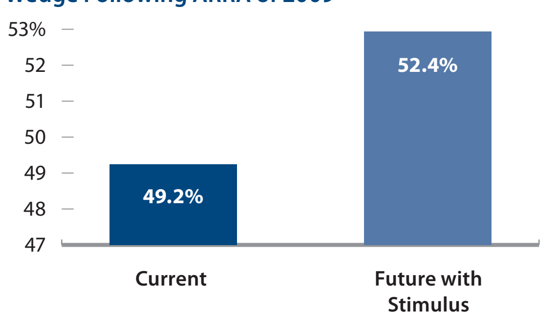
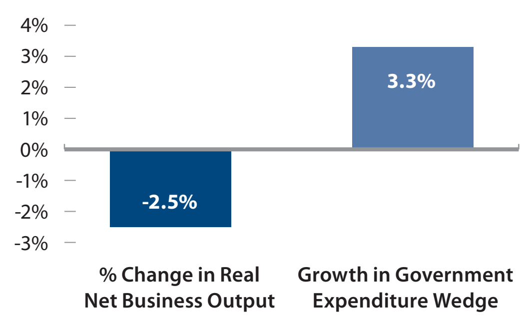


FIGURE 14
Estimated Economic Impact from ARRA of 2009



Source: Laffer Associates calculations

ENDNOTES

1 Hough, Michael and Williams, Jonathan. "Congress Crafting a Stimulus to Nowhere." *Washington Examiner*. February 5, 2009.

2 Vedder, Richard. "Should the Feds Bail Out the States?" The American Legislative Exchange Council. February 2003.

3 Cauchon, Dennis. "Stimulus helps fill coffers for states." *USA Today*. November 18, 2009.

4 Williams, Jonathan. "Should Uncle Sam Bail Out the States?" *Inside ALEC*. January 2009.

5 Edwards, Chris. "Employee Compensation in State and Local Governments." Cato *Tax and Budget Bulletin*. January 2010.

6 National Association of State Budget Officers. "Fiscal Survey of the States." December 2009.

7 Gunn, Amber. "Stimulus Strings Will Limit State Options." *Investor's Business Daily*. October 26, 2009.

8 King, Michael. "Point Austin: Give Perry a Brain Scan." *The Austin Chronicle*. March 6, 2009.

9 Sanford, Mark. "Why South Carolina Doesn't Want Stimulus." *The Wall Street Journal*. March 21, 2009.

10 "Governors vs. Congress." Review and Outlook, *The Wall Street Journal*. February 23, 2009.

11 *Ibid.*

12 Daniels, Mitch. "The Coming Reset in State Government." *The Wall Street Journal*. September 3, 2009.

13 *Ibid.*

14 The government expenditure wedge is defined as government expenditures divided by net domestic business output. Because the growth of government expenditures is dependent on the growth in the private economy, there is no a priori relationship between changes in net domestic business output and changes in the government expenditure wedge.

15 The current government expenditure wedge is estimated based on total government expenditures for 2008 as reported by the U.S. Bureau of Economic Analysis and ALME estimates of the Net Private Domestic Output for 2008.

Salt Lake City, Utah

CHAPTER 5

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 which 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 highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.

TABLE 23 | **ALEC-Laffer State Economic Outlook Rankings, 2010**

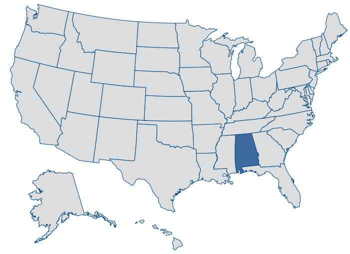
Based upon equal-weighting of each state's rank in 15 policy variables

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

TABLE 24 | **ALEC-Laffer State Economic Performance Rankings, 1998-2008**

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

Alabama



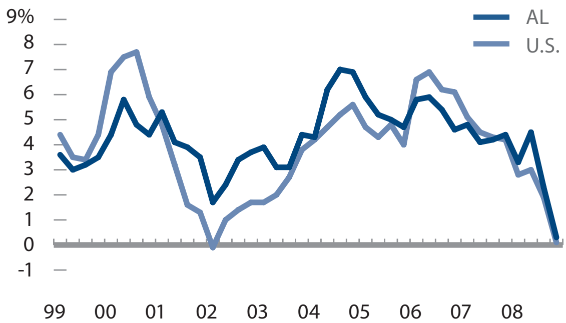
26 Economic Performance Rank, 2010

17 Economic Outlook Rank, 2010

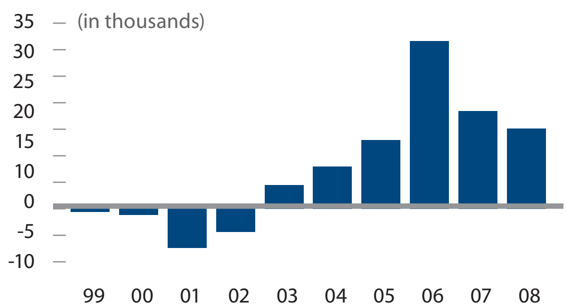
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

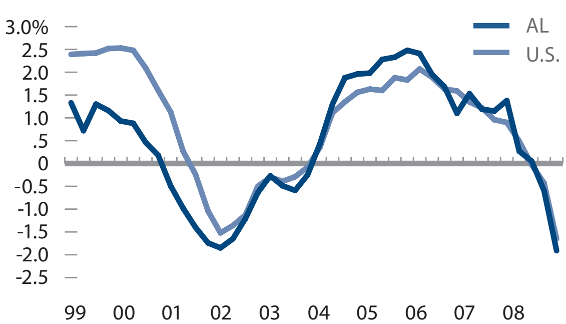
Personal Income Per Capita Cumulative Growth 1998-2008 48.3% Rank: 20



Absolute Domestic Migration Cumulative 1999-2008 77,100 Rank: 15



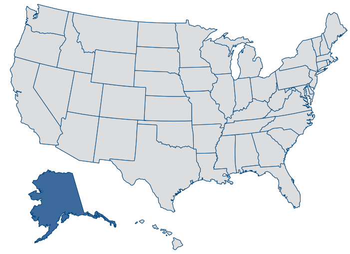
Non-Farm Payroll Employment Cumulative Growth 1998-2008 5.1% Rank: 41



Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	15	16

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.25%	12
Top Marginal Corporate Income Tax Rate	4.23%	4
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	-$1.51	1
Property Tax Burden (per $1,000 of personal income)	$14.13	1
Sales Tax Burden (per $1,000 of personal income)	$27.13	32
Remaining Tax Burden (per $1,000 of personal income)	$23.81	41
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.60	15
Debt Service as a Share of Tax Revenue	7.8%	28
Public Employees Per 10,000 of Population (full-time equivalent)	619.5	40
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	47.5	47
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.90	42
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Alaska

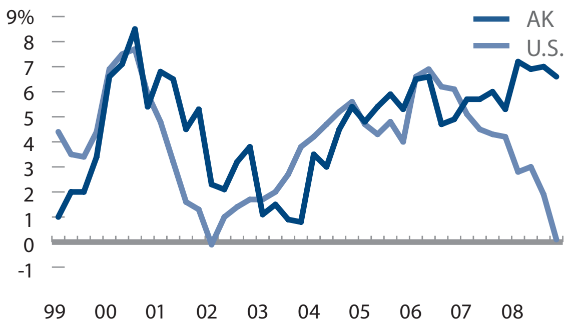


9 Economic Performance Rank, 2010

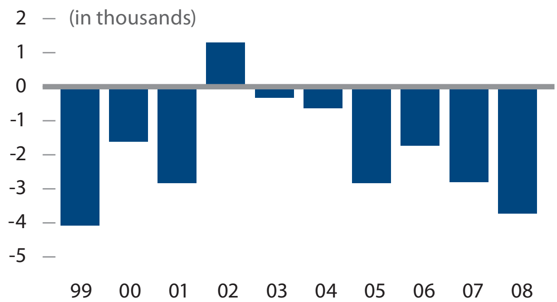
22 Economic Outlook Rank, 2010

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

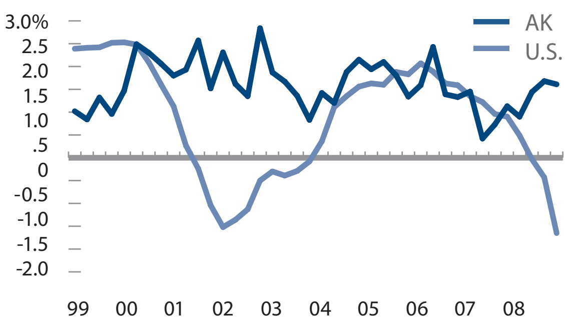
Personal Income Per Capita Cumulative Growth 1998-2008 — **57.1%** **Rank: 6**



Absolute Domestic Migration Cumulative 1999-2008 — **-19,271** **Rank: 31**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 — **17.2%** **Rank: 9**

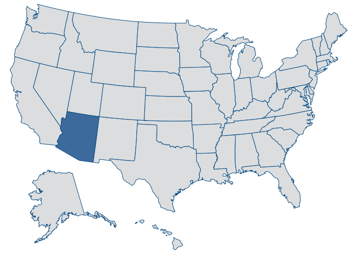


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	37	38

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)	$38.16	38
Sales Tax Burden (per $1,000 of personal income)	$6.60	5
Remaining Tax Burden (per $1,000 of personal income)	$17.70	21
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$3.92	6
Debt Service as a Share of Tax Revenue	9.7%	42
Public Employees Per 10,000 of Population (full-time equivalent)	779.7	49
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.6	20
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$3.97	50
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Arizona

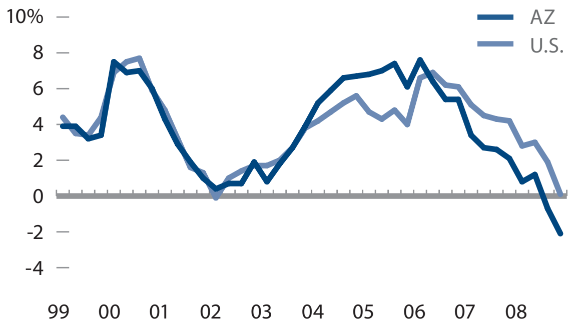


8 Economic Performance Rank, 2010

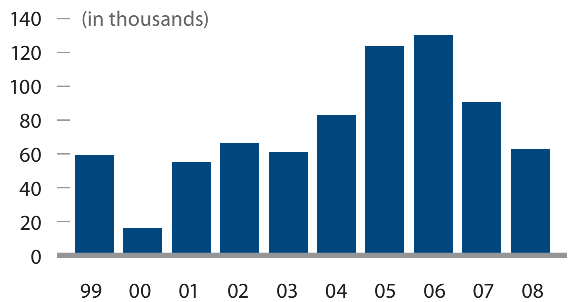
3 Economic Outlook Rank, 2010

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

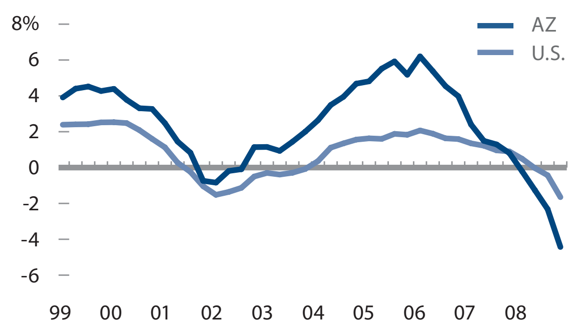
Personal Income Per Capita Cumulative Growth 1998-2008 **39.9%** **Rank: 39**



Absolute Domestic Migration Cumulative 1999-2008 **747,852** **Rank: 2**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **26.2%** **Rank: 3**



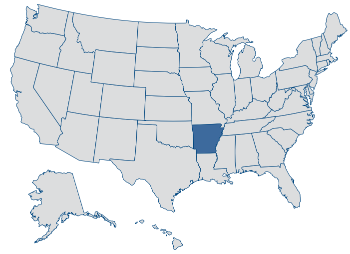
Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison

ECONOMIC OUTLOOK RANK	2008	2009
	6	3

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.54%	15
Top Marginal Corporate Income Tax Rate	6.97%	24
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.37	32
Property Tax Burden (per $1,000 of personal income)	$29.17	22
Sales Tax Burden (per $1,000 of personal income)	$43.92	45
Remaining Tax Burden (per $1,000 of personal income)	$13.83	5
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.73	12
Debt Service as a Share of Tax Revenue	6.9%	17
Public Employees Per 10,000 of Population (full-time equivalent)	498.7	6
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.3	15
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.67	7
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Arkansas

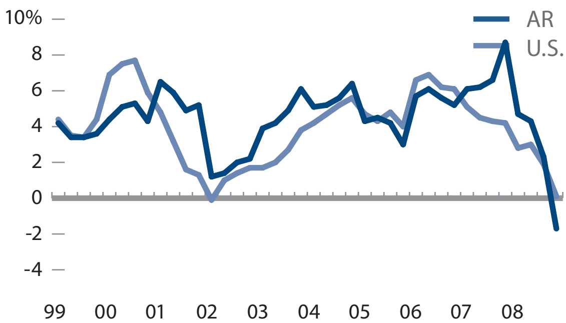


17 Economic Performance Rank, 2010

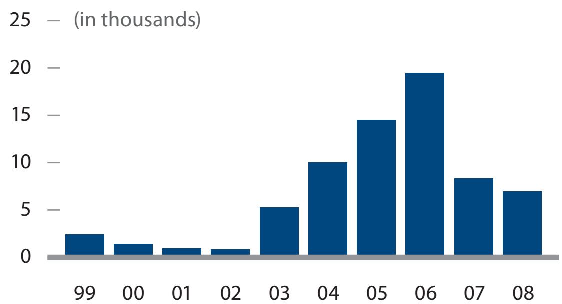
13 Economic Outlook Rank, 2010

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

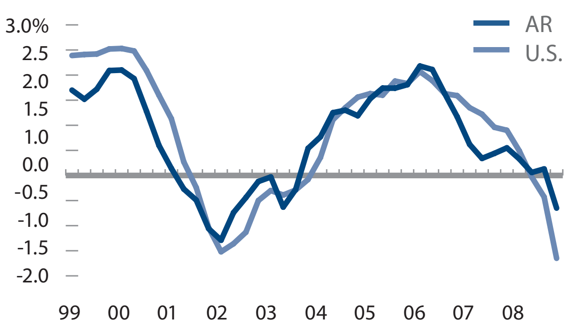
Personal Income Per Capita Cumulative Growth 1998-2008 **51.8%** **Rank: 16**



Absolute Domestic Migration Cumulative 1999-2008 **70,167** **Rank: 16**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **7.3%** **Rank: 30**

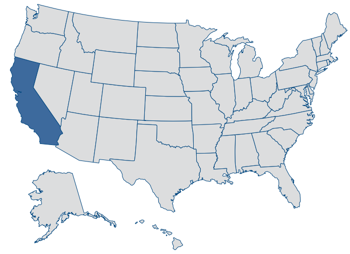


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009
ECONOMIC OUTLOOK RANK	11	12

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	33
Top Marginal Corporate Income Tax Rate	6.50%	20
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.49	40
Property Tax Burden (per $1,000 of personal income)	$15.69	2
Sales Tax Burden (per $1,000 of personal income)	$44.09	47
Remaining Tax Burden (per $1,000 of personal income)	$17.06	18
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$0.26	37
Debt Service as a Share of Tax Revenue	5.3%	3
Public Employees Per 10,000 of Population (full-time equivalent)	581.5	33
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	58.0	34
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.61	5
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

California

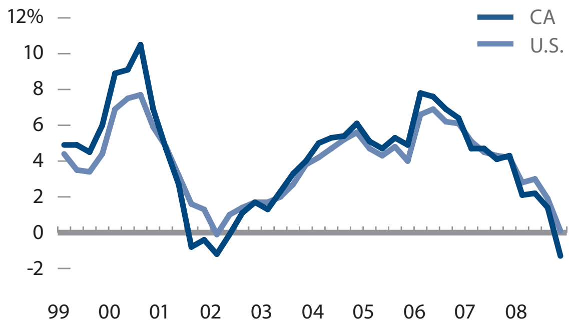


38 Economic Performance Rank, 2010

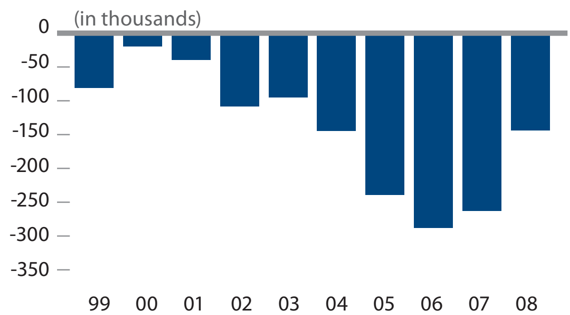
46 Economic Outlook Rank, 2010

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

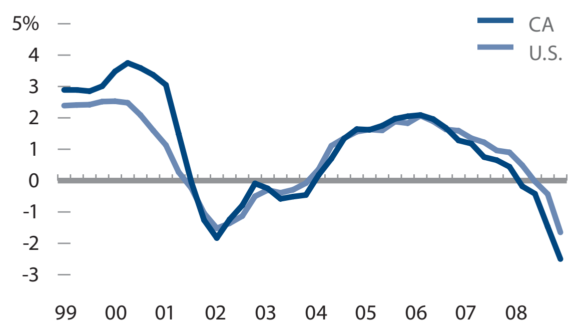
Personal Income Per Capita Cumulative Growth 1998-2008 **45.7%** **Rank: 27**



Absolute Domestic Migration Cumulative 1999-2008 **-1,422,247** **Rank: 49**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **10.3%** **Rank: 19**



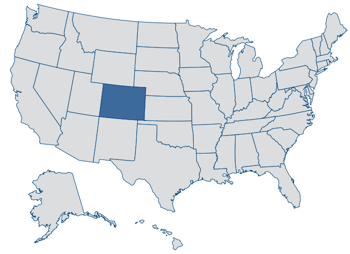
Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison
ECONOMIC OUTLOOK RANK

2008	2009
42	43

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.55%	46
Top Marginal Corporate Income Tax Rate	8.84%	38
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$36.19	50
Property Tax Burden (per $1,000 of personal income)	$27.18	17
Sales Tax Burden (per $1,000 of personal income)	$27.30	33
Remaining Tax Burden (per $1,000 of personal income)	$16.13	13
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$6.19	46
Debt Service as a Share of Tax Revenue	8.7%	35
Public Employees Per 10,000 of Population (full-time equivalent)	502.1	8
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	51.8	44
State Minimum Wage (federal floor is $7.25)	$8.00	44
Average Workers' Compensation Costs (per $100 of payroll)	$2.72	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Colorado

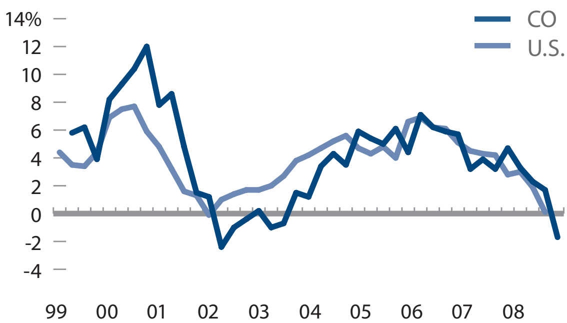


15 Economic Performance Rank, 2010

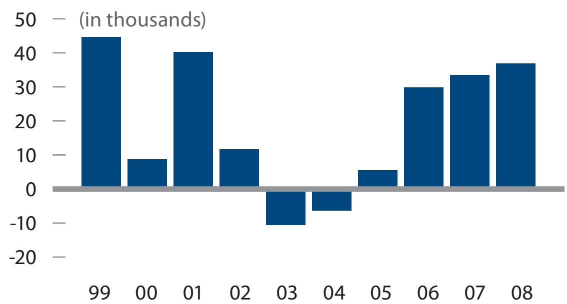
2 Economic Outlook Rank, 2010

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

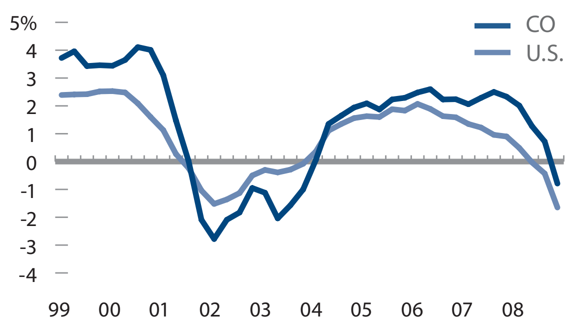
Personal Income Per Capita Cumulative Growth 1998-2008 **43.9%** **Rank: 31**



Absolute Domestic Migration Cumulative 1999-2008 **193,952** **Rank: 10**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **14.2%** **Rank: 14**

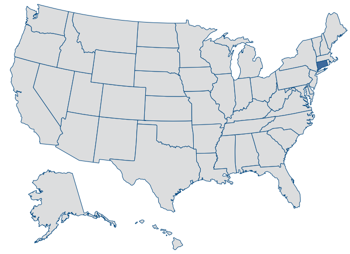


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009
ECONOMIC OUTLOOK RANK	9	2

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.63%	16
Top Marginal Corporate Income Tax Rate	4.63%	6
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)	$28.34	19
Sales Tax Burden (per $1,000 of personal income)	$25.37	27
Remaining Tax Burden (per $1,000 of personal income)	$12.41	3
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.60	16
Debt Service as a Share of Tax Revenue	10.6%	47
Public Employees Per 10,000 of Population (full-time equivalent)	535.9	17
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.5	9
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.76	9
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	3	1

Connecticut

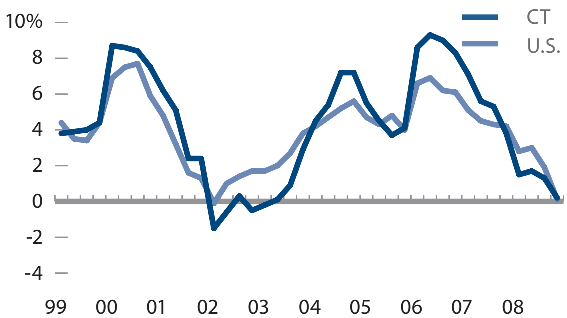


45 Economic Performance Rank, 2010

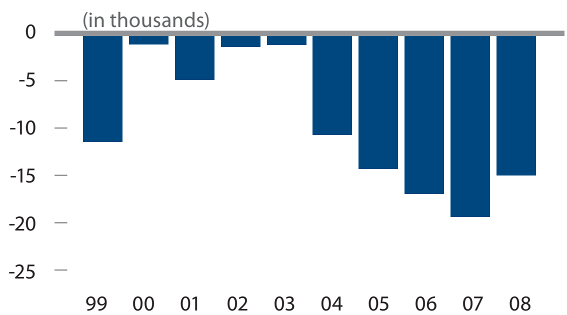
36 Economic Outlook Rank, 2010

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

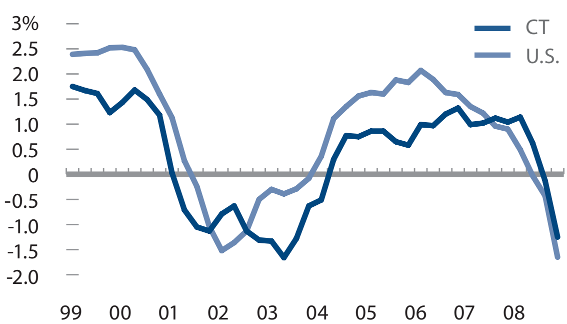
Personal Income Per Capita Cumulative Growth 1998-2008 **47.9%** **Rank: 22**



Absolute Domestic Migration Cumulative 1999-2008 **-96,455** **Rank: 42**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **3.4%** **Rank: 43**

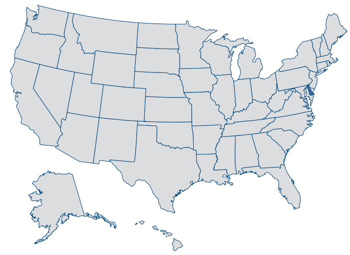


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	40	**32**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	27
Top Marginal Corporate Income Tax Rate	7.50%	27
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.17	34
Property Tax Burden (per $1,000 of personal income)	$42.54	42
Sales Tax Burden (per $1,000 of personal income)	$15.97	10
Remaining Tax Burden (per $1,000 of personal income)	$14.85	7
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$2.47	42
Debt Service as a Share of Tax Revenue	7.1%	18
Public Employees Per 10,000 of Population (full-time equivalent)	547.2	21
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.2	19
State Minimum Wage (federal floor is $7.25)	$8.00	44
Average Workers' Compensation Costs (per $100 of payroll)	$2.46	31
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Delaware

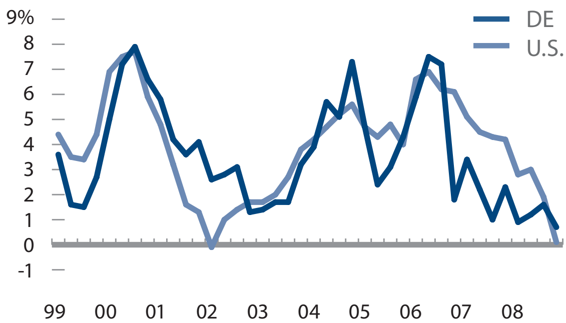


30 Economic Performance Rank, 2010

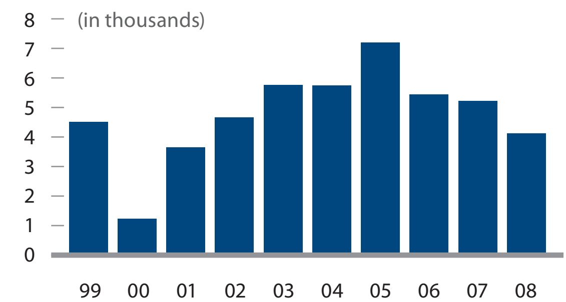
37 Economic Outlook Rank, 2010

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

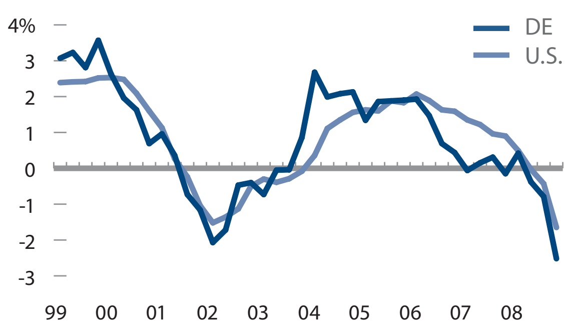
Personal Income Per Capita Cumulative Growth 1998-2008 **39.9%** **Rank: 40**



Absolute Domestic Migration Cumulative 1999-2008 **47,532** **Rank: 18**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **8.1%** **Rank: 26**

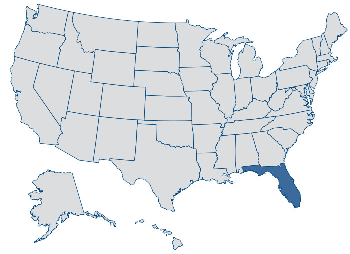


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	31	31

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.20%	42
Top Marginal Corporate Income Tax Rate	9.98%	47
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$17.12	45
Property Tax Burden (per $1,000 of personal income)	$16.72	5
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$32.05	49
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$5.74	45
Debt Service as a Share of Tax Revenue	8.9%	36
Public Employees Per 10,000 of Population (full-time equivalent)	580.5	31
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.5	1
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.96	43
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Florida

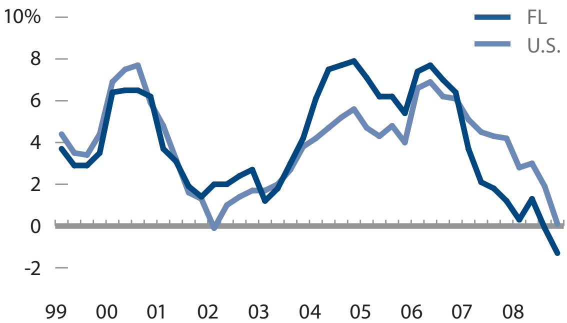


6 Economic Performance Rank, 2010

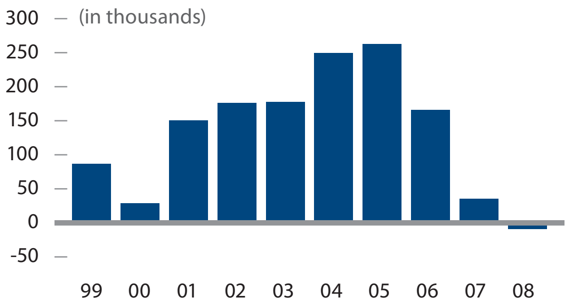
5 Economic Outlook Rank, 2010

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

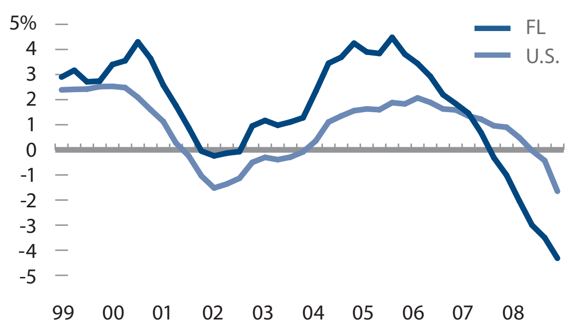
Personal Income Per Capita Cumulative Growth 1998-2008 **44.3%** **Rank: 29**



Absolute Domestic Migration Cumulative 1999-2008 **1,324,743** **Rank: 1**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **17.1%** **Rank: 10**

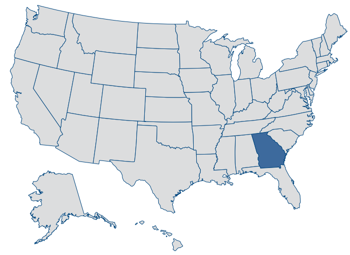


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	16	11

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)	$38.08	37
Sales Tax Burden (per $1,000 of personal income)	$34.34	39
Remaining Tax Burden (per $1,000 of personal income)	$27.31	45
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$4.03	4
Debt Service as a Share of Tax Revenue	7.4%	22
Public Employees Per 10,000 of Population (full-time equivalent)	502.2	9
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	54.9	42
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.20	23
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Georgia



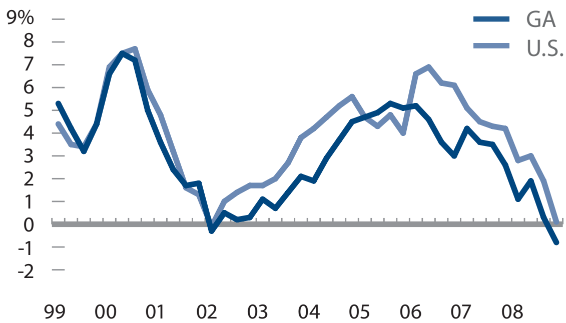
27 Economic Performance Rank, 2010

9 Economic Outlook Rank, 2010

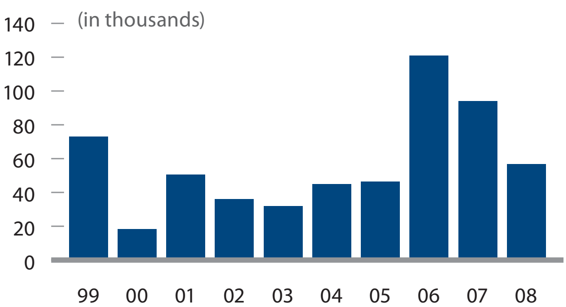
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

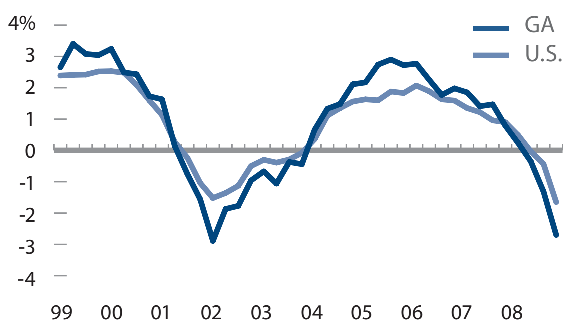
Personal Income Per Capita Cumulative Growth 1998-2008 — 31.6% Rank: 49



Absolute Domestic Migration Cumulative 1999-2008 — 572,636 Rank: 5



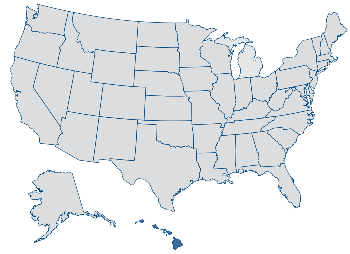
Non-Farm Payroll Employment Cumulative Growth 1998-2008 — 9.7% Rank: 23



Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	8	8

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.00%	25
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.53	25
Property Tax Burden (per $1,000 of personal income)	$29.59	24
Sales Tax Burden (per $1,000 of personal income)	$30.73	37
Remaining Tax Burden (per $1,000 of personal income)	$12.03	2
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.87	11
Debt Service as a Share of Tax Revenue	5.6%	4
Public Employees Per 10,000 of Population (full-time equivalent)	556.6	25
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.4	28
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.29	26
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Hawaii

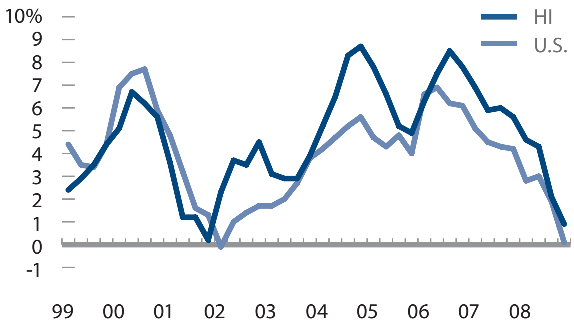


16 Economic Performance Rank, 2010

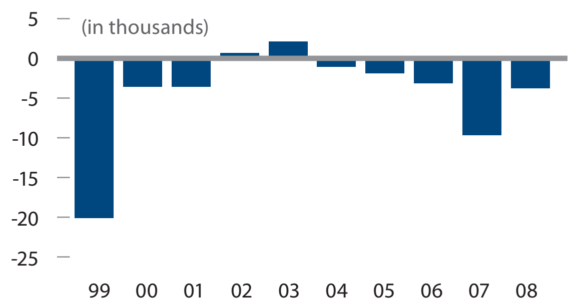
39 Economic Outlook Rank, 2010

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

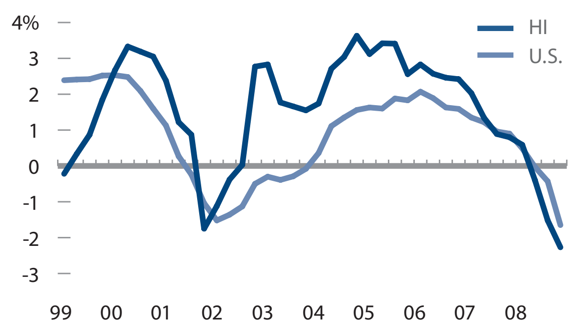
Personal Income Per Capita Cumulative Growth 1998-2008 **57.0%** **Rank: 7**



Absolute Domestic Migration Cumulative 1999-2008 **-43,930** **Rank: 38**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **16.6%** **Rank: 11**

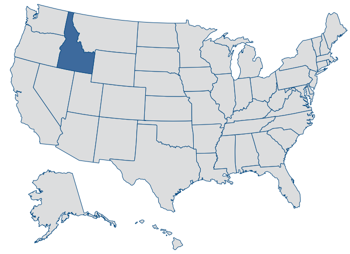


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	41	41

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	11.00%	48
Top Marginal Corporate Income Tax Rate	6.40%	19
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.22	37
Property Tax Burden (per $1,000 of personal income)	$22.40	10
Sales Tax Burden (per $1,000 of personal income)	$50.40	50
Remaining Tax Burden (per $1,000 of personal income)	$23.80	40
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.29	25
Debt Service as a Share of Tax Revenue	9.4%	39
Public Employees Per 10,000 of Population (full-time equivalent)	580.1	30
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	51.5	45
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.08	16
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Idaho

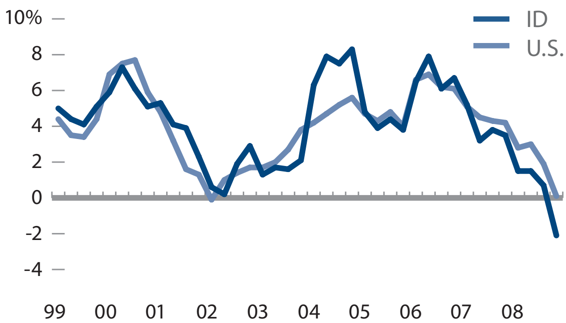


10 Economic Performance Rank, 2010

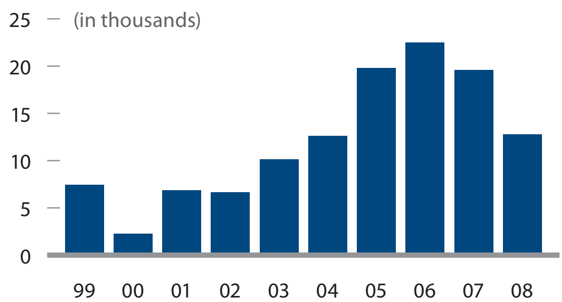
7 Economic Outlook Rank, 2010

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

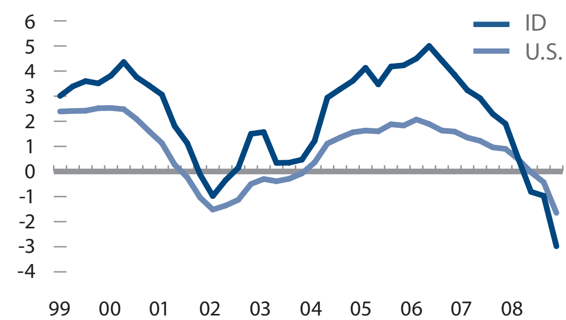
Personal Income Per Capita Cumulative Growth 1998-2008 **44.0%** **Rank: 30**



Absolute Domestic Migration Cumulative 1999-2008 **120,621** **Rank: 13**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **24.3%** **Rank: 4**

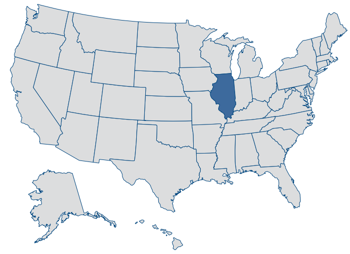


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	10	14

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.80%	38
Top Marginal Corporate Income Tax Rate	7.60%	28
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.38	39
Property Tax Burden (per $1,000 of personal income)	$23.32	11
Sales Tax Burden (per $1,000 of personal income)	$26.76	30
Remaining Tax Burden (per $1,000 of personal income)	$16.01	12
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$3.44	9
Debt Service as a Share of Tax Revenue	4.7%	2
Public Employees Per 10,000 of Population (full-time equivalent)	533.5	15
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.5	26
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.12	18
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Illinois

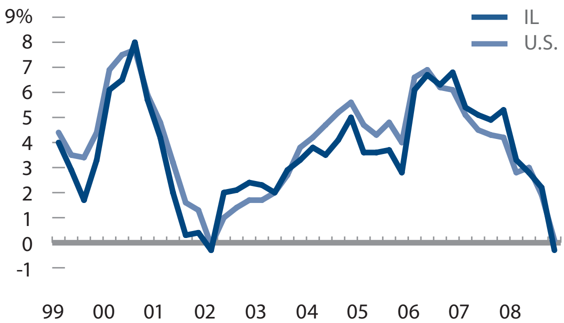


48 Economic Performance Rank, 2010

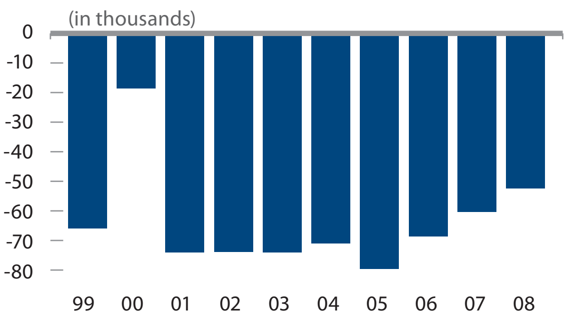
47 Economic Outlook Rank, 2010

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

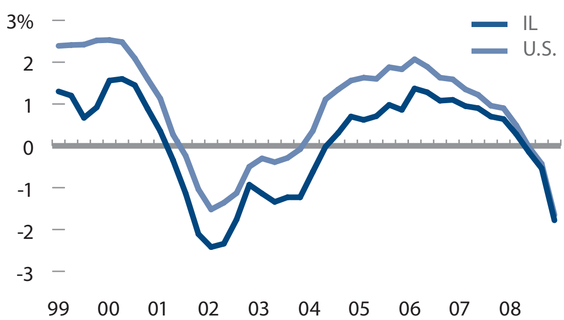
Personal Income Per Capita Cumulative Growth 1998-2008 — 40.2% — Rank: 38



Absolute Domestic Migration Cumulative 1999-2008 — -637,979 — Rank: 48



Non-Farm Payroll Employment Cumulative Growth 1998-2008 — 0.8% — Rank: 48

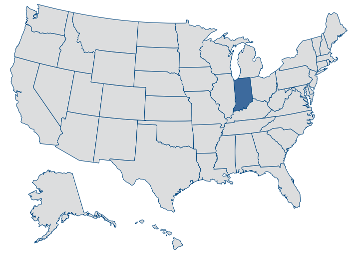


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	43	44

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.00%	10
Top Marginal Corporate Income Tax Rate	7.30%	26
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.80	15
Property Tax Burden (per $1,000 of personal income)	$39.44	39
Sales Tax Burden (per $1,000 of personal income)	$17.62	11
Remaining Tax Burden (per $1,000 of personal income)	$24.91	43
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$22.79	48
Debt Service as a Share of Tax Revenue	9.0%	37
Public Employees Per 10,000 of Population (full-time equivalent)	502.1	7
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	51.3	46
State Minimum Wage (federal floor is $7.25)	$8.00	44
Average Workers' Compensation Costs (per $100 of payroll)	$2.79	40
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Indiana

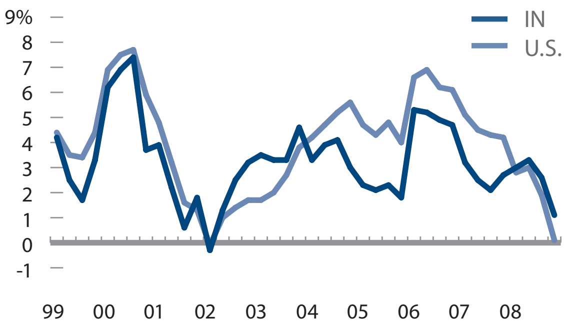


47 Economic Performance Rank, 2010

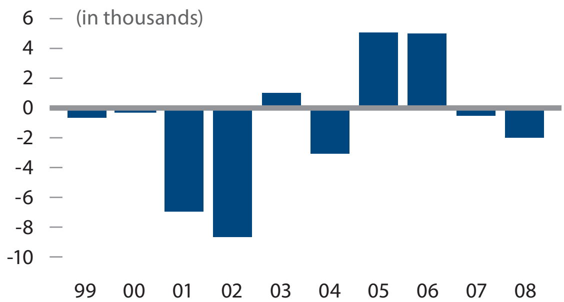
20 Economic Outlook Rank, 2010

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

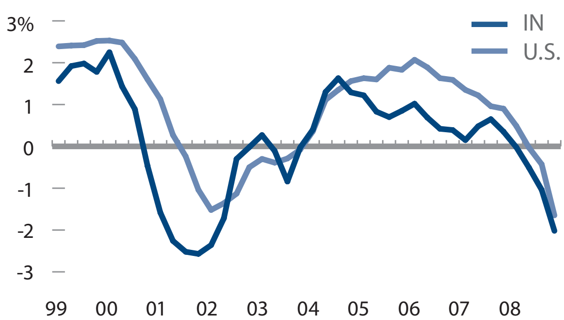
Personal Income Per Capita Cumulative Growth 1998-2008 — 34.3% Rank: 47



Absolute Domestic Migration Cumulative 1999-2008 — -10,791 Rank: 30



Non-Farm Payroll Employment Cumulative Growth 1998-2008 — 1.4% Rank: 46

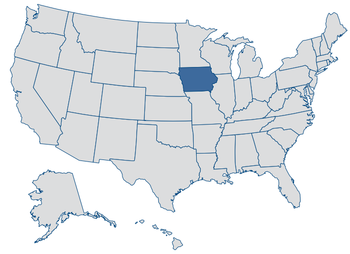


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	12	17

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.30%	13
Top Marginal Corporate Income Tax Rate	8.50%	34
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.57	14
Property Tax Burden (per $1,000 of personal income)	$29.18	23
Sales Tax Burden (per $1,000 of personal income)	$25.75	29
Remaining Tax Burden (per $1,000 of personal income)	$15.79	11
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$0.38	36
Debt Service as a Share of Tax Revenue	8.5%	32
Public Employees Per 10,000 of Population (full-time equivalent)	555.4	24
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.1	4
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.23	2
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Iowa

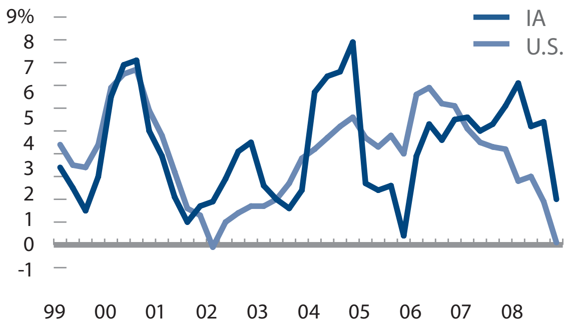


41 Economic Performance Rank, 2010

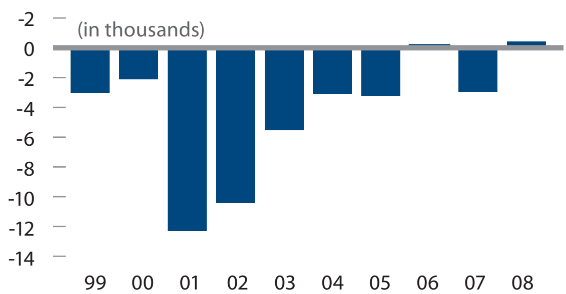
28 Economic Outlook Rank, 2010

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

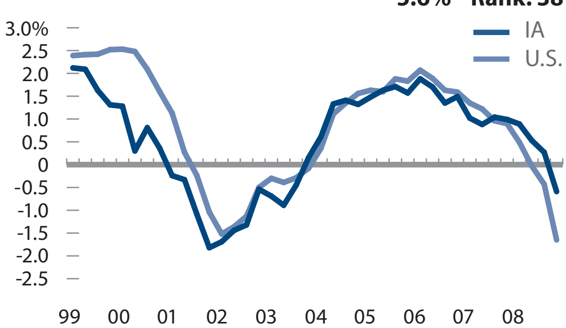
Personal Income Per Capita Cumulative Growth 1998-2008 **46.9%** **Rank: 23**



Absolute Domestic Migration Cumulative 1999-2008 **-42,122** **Rank: 37**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **5.6%** **Rank: 38**

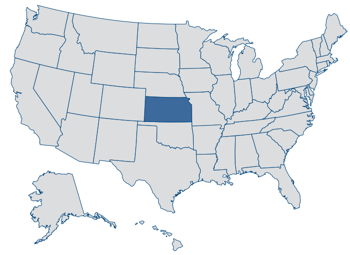


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	23	35

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.84%	24
Top Marginal Corporate Income Tax Rate	9.90%	46
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.32	35
Property Tax Burden (per $1,000 of personal income)	$34.99	33
Sales Tax Burden (per $1,000 of personal income)	$22.46	19
Remaining Tax Burden (per $1,000 of personal income)	$18.34	23
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.09	27
Debt Service as a Share of Tax Revenue	6.3%	11
Public Employees Per 10,000 of Population (full-time equivalent)	607.3	38
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.0	7
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.86	11
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Kansas

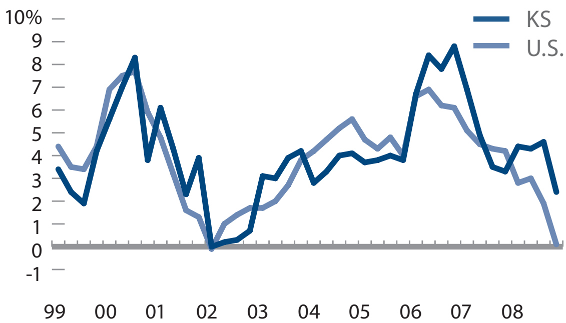


40 Economic Performance Rank, 2010

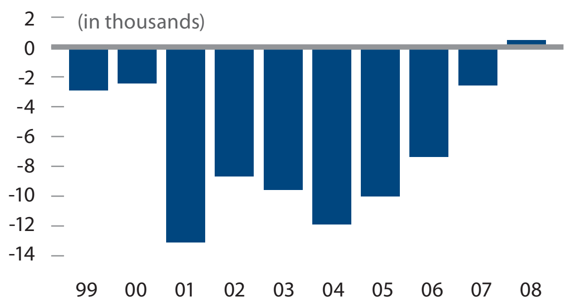
25 Economic Outlook Rank, 2010

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

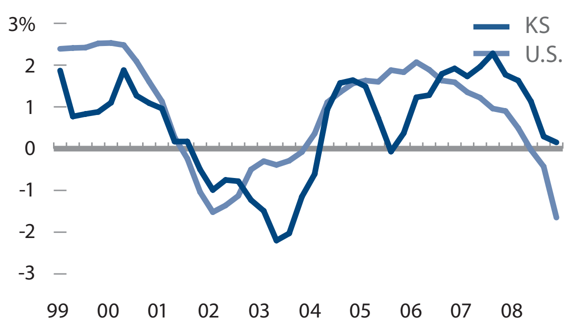
Personal Income Per Capita Cumulative Growth 1998-2008 **46.8%** **Rank: 24**



Absolute Domestic Migration Cumulative 1999-2008 **-68,171** **Rank: 39**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **5.8%** **Rank: 34**

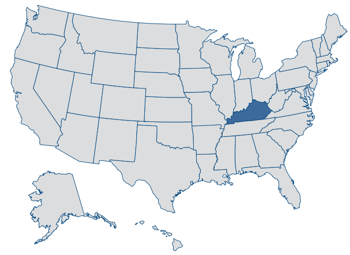


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	29	24

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.45%	26
Top Marginal Corporate Income Tax Rate	7.05%	25
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.82	33
Property Tax Burden (per $1,000 of personal income)	$33.99	32
Sales Tax Burden (per $1,000 of personal income)	$29.65	35
Remaining Tax Burden (per $1,000 of personal income)	$13.93	6
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.57	19
Debt Service as a Share of Tax Revenue	7.6%	24
Public Employees Per 10,000 of Population (full-time equivalent)	696.3	48
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.7	10
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.77	10
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Kentucky



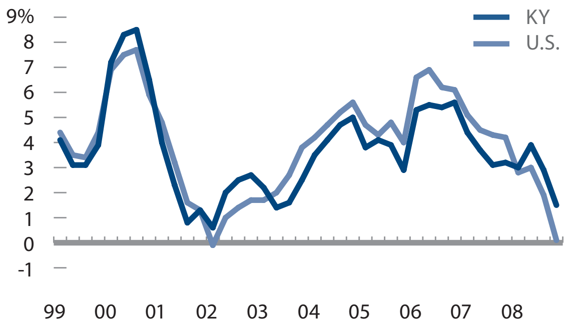
31 Economic Performance Rank, 2010

40 Economic Outlook Rank, 2010

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

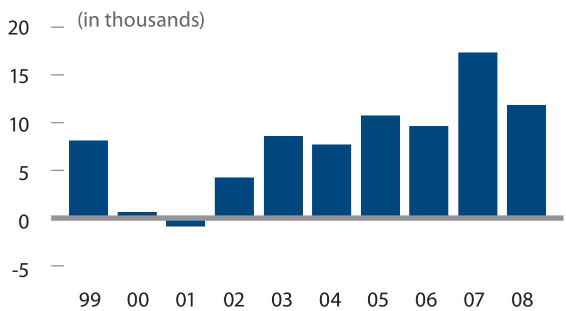
Personal Income Per Capita Cumulative Growth 1998-2008

41.0% Rank: 36



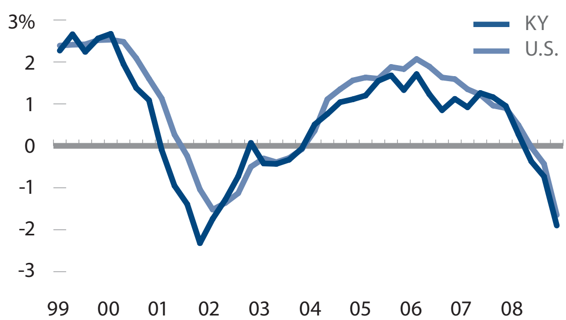
Absolute Domestic Migration Cumulative 1999-2008

77,953 Rank: 14



Non-Farm Payroll Employment Cumulative Growth 1998-2008

5.8% Rank: 35

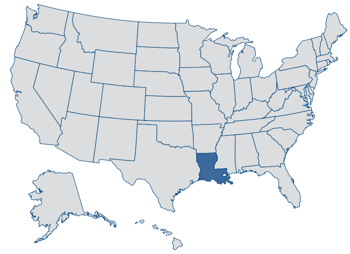


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009
ECONOMIC OUTLOOK RANK	44	36

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)	$5.28	19
Property Tax Burden (per $1,000 of personal income)	$19.91	7
Sales Tax Burden (per $1,000 of personal income)	$21.74	17
Remaining Tax Burden (per $1,000 of personal income)	$21.56	38
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$1.12	34
Debt Service as a Share of Tax Revenue	10.4%	46
Public Employees Per 10,000 of Population (full-time equivalent)	576.9	29
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.3	29
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.96	43
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Louisiana

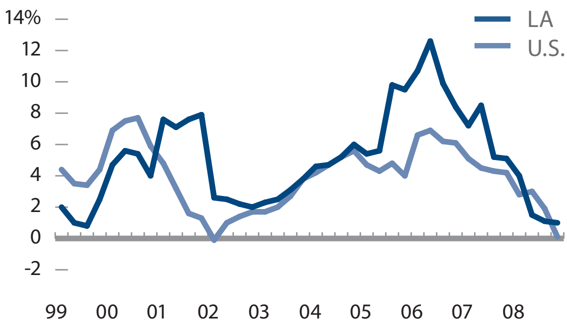


34 Economic Performance Rank, 2010

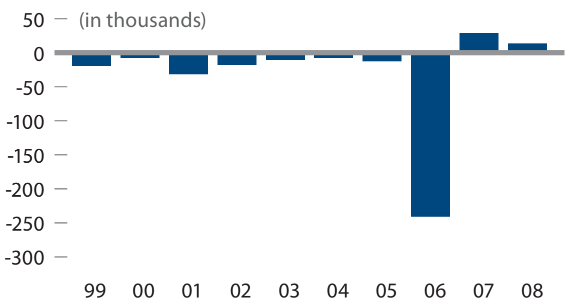
16 Economic Outlook Rank, 2010

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

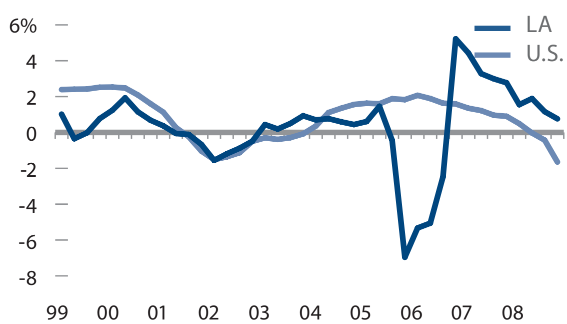
Personal Income Per Capita Cumulative Growth 1998-2008 **62.6%** **Rank: 4**



Absolute Domestic Migration Cumulative 1999-2008 **-306,666** **Rank: 43**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **2.8%** **Rank: 45**

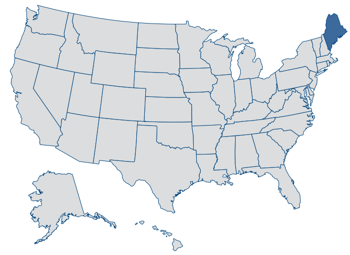


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	24	18

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.90%	11
Top Marginal Corporate Income Tax Rate	5.20%	11
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$9.15	28
Property Tax Burden (per $1,000 of personal income)	$17.57	6
Sales Tax Burden (per $1,000 of personal income)	$47.41	48
Remaining Tax Burden (per $1,000 of personal income)	$18.50	25
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$10.70	1
Debt Service as a Share of Tax Revenue	8.4%	30
Public Employees Per 10,000 of Population (full-time equivalent)	639.8	42
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	42.9	49
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.76	39
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Maine

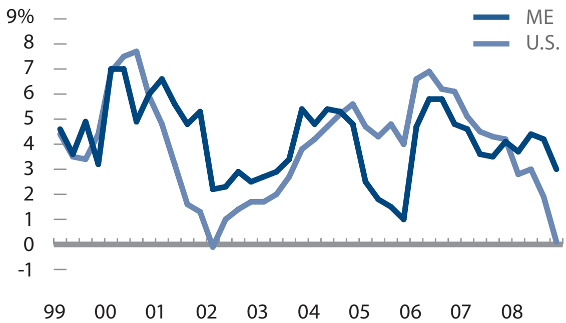


19 Economic Performance Rank, 2010

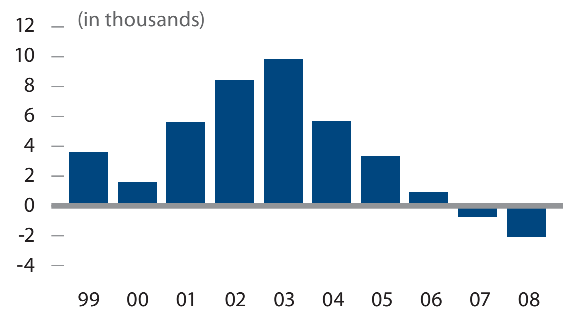
44 Economic Outlook Rank, 2010

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

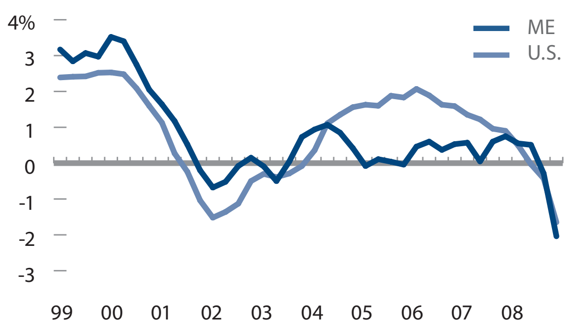
Personal Income Per Capita Cumulative Growth 1998-2008 — 48.2% Rank: 21



Absolute Domestic Migration Cumulative 1999-2008 — 36,260 Rank: 21



Non-Farm Payroll Employment Cumulative Growth 1998-2008 — 8.2% Rank: 25

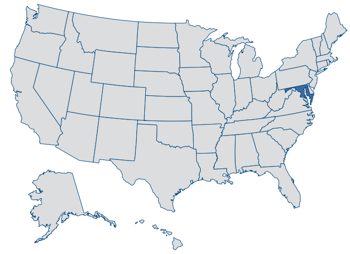


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	46	47

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)	$18.36	46
Property Tax Burden (per $1,000 of personal income)	$45.50	45
Sales Tax Burden (per $1,000 of personal income)	$23.31	21
Remaining Tax Burden (per $1,000 of personal income)	$21.35	36
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$3.65	7
Debt Service as a Share of Tax Revenue	6.2%	10
Public Employees Per 10,000 of Population (full-time equivalent)	593.5	37
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.3	3
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$3.04	45
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Maryland

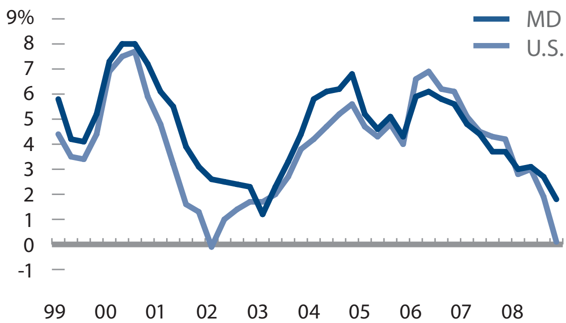


20 Economic Performance Rank, 2010

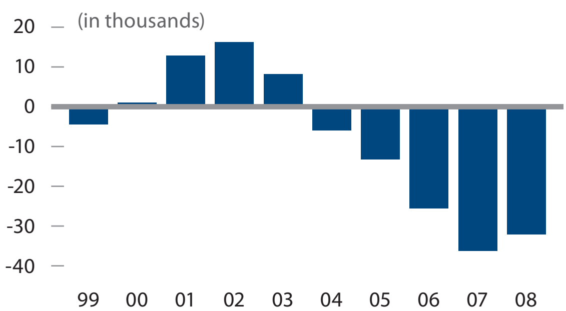
29 Economic Outlook Rank, 2010

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

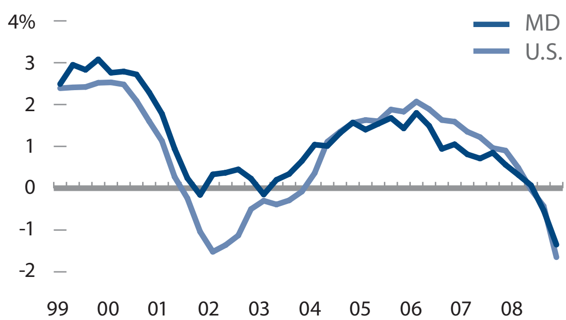
Personal Income Per Capita Cumulative Growth 1998-2008 54.5% Rank: 11



Absolute Domestic Migration Cumulative 1999-2008 -79,295 Rank: 40



Non-Farm Payroll Employment Cumulative Growth 1998-2008 11.7% Rank: 17

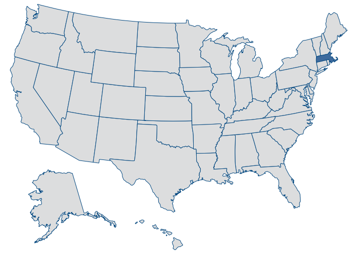


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	28	28

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.30%	44
Top Marginal Corporate Income Tax Rate	8.25%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.78	20
Property Tax Burden (per $1,000 of personal income)	$25.27	14
Sales Tax Burden (per $1,000 of personal income)	$13.31	7
Remaining Tax Burden (per $1,000 of personal income)	$21.09	34
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$1.45	40
Debt Service as a Share of Tax Revenue	5.8%	7
Public Employees Per 10,000 of Population (full-time equivalent)	532.8	14
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.6	30
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.72	8
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Massachusetts

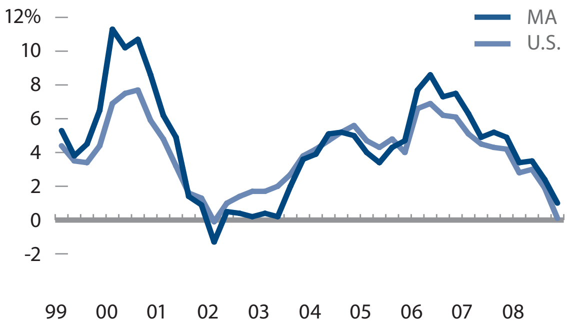


43 Economic Performance Rank, 2010

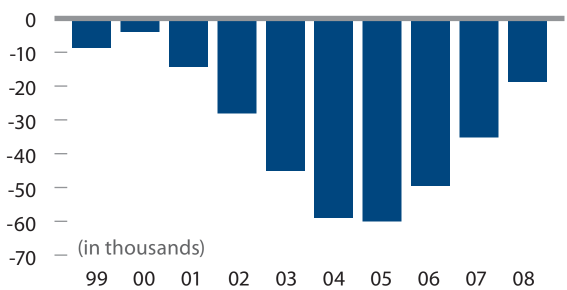
32 Economic Outlook Rank, 2010

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

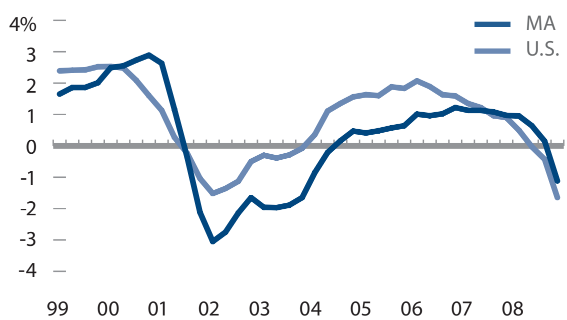
Personal Income Per Capita Cumulative Growth 1998-2008 **51.6%** **Rank: 17**



Absolute Domestic Migration Cumulative 1999-2008 **-322,287** **Rank: 44**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **3.2%** **Rank: 44**

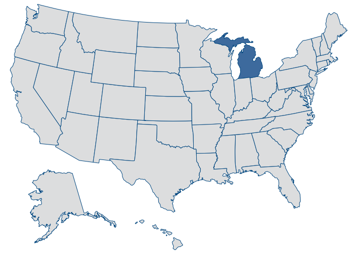


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	22	26

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.30%	21
Top Marginal Corporate Income Tax Rate	9.50%	44
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.92	17
Property Tax Burden (per $1,000 of personal income)	$35.17	35
Sales Tax Burden (per $1,000 of personal income)	$12.98	6
Remaining Tax Burden (per $1,000 of personal income)	$11.05	1
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$1.65	41
Debt Service as a Share of Tax Revenue	13.6%	50
Public Employees Per 10,000 of Population (full-time equivalent)	527.8	12
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.5	18
State Minimum Wage (federal floor is $7.25)	$8.00	44
Average Workers' Compensation Costs (per $100 of payroll)	$1.39	3
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Michigan

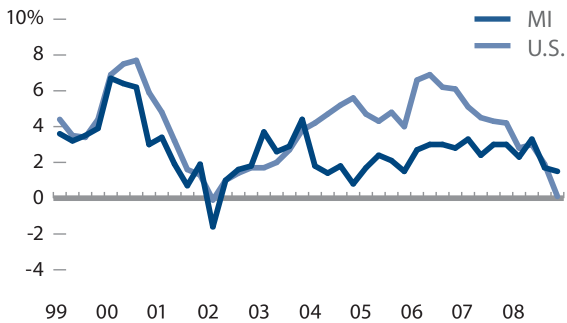


50 Economic Performance Rank, 2010

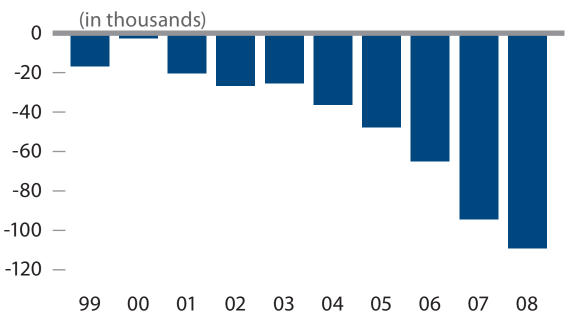
26 Economic Outlook Rank, 2010

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

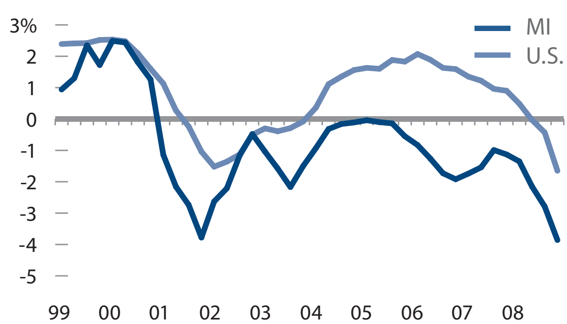
Personal Income Per Capita Cumulative Growth 1998-2008 **27.4%** **Rank: 50**



Absolute Domestic Migration Cumulative 1999-2008 **-445,493** **Rank: 47**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **-7.8%** **Rank: 50**

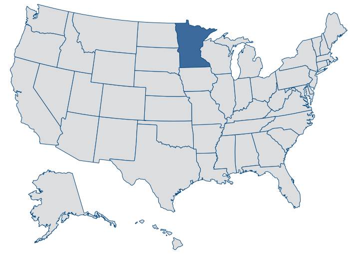


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	17	34

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.85%	31
Top Marginal Corporate Income Tax Rate	9.01%	42
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$1.97	16
Property Tax Burden (per $1,000 of personal income)	$42.87	44
Sales Tax Burden (per $1,000 of personal income)	$23.54	22
Remaining Tax Burden (per $1,000 of personal income)	$17.03	17
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.27	26
Debt Service as a Share of Tax Revenue	8.5%	31
Public Employees Per 10,000 of Population (full-time equivalent)	474.9	2
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	59.7	33
State Minimum Wage (federal floor is $7.25)	$7.40	40
Average Workers' Compensation Costs (per $100 of payroll)	$2.15	20
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Minnesota

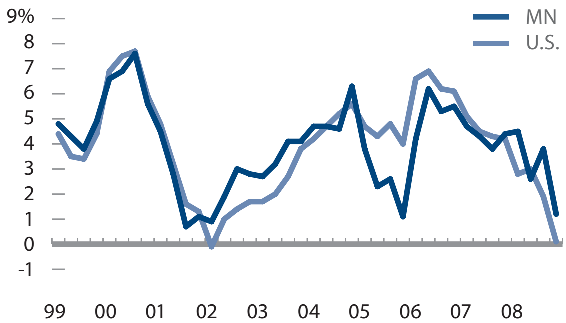


36 Economic Performance Rank, 2010

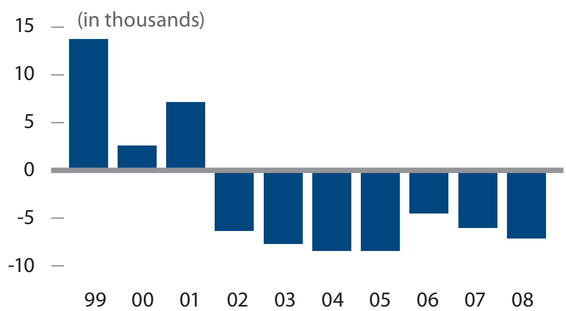
38 Economic Outlook Rank, 2010

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

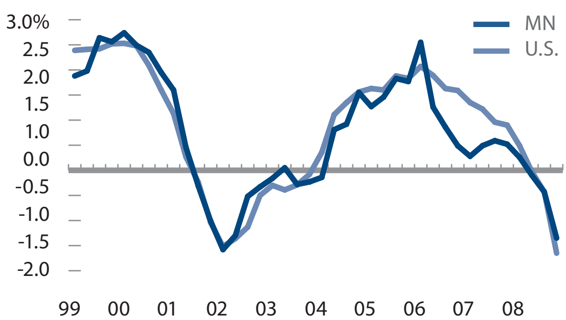
Personal Income Per Capita Cumulative Growth 1998-2008 **43.5%** **Rank: 32**



Absolute Domestic Migration Cumulative 1999-2008 **-25,160** **Rank: 32**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **7.7%** **Rank: 28**

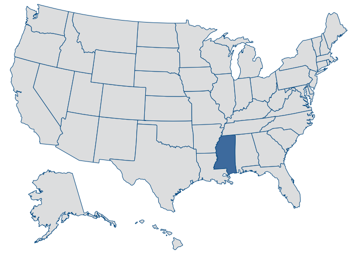


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	39	40

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)	$9.17	29
Property Tax Burden (per $1,000 of personal income)	$28.96	21
Sales Tax Burden (per $1,000 of personal income)	$21.52	16
Remaining Tax Burden (per $1,000 of personal income)	$21.50	37
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$0.24	38
Debt Service as a Share of Tax Revenue	7.2%	19
Public Employees Per 10,000 of Population (full-time equivalent)	537.1	18
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.5	11
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.33	27
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Mississippi

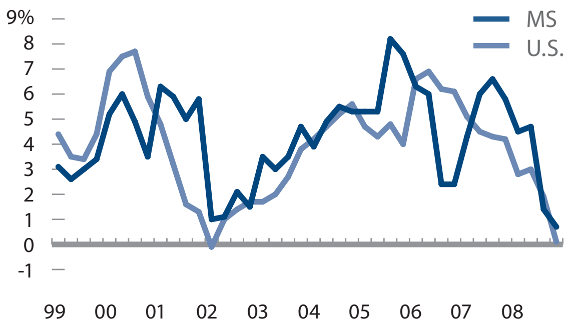


42 Economic Performance Rank, 2010

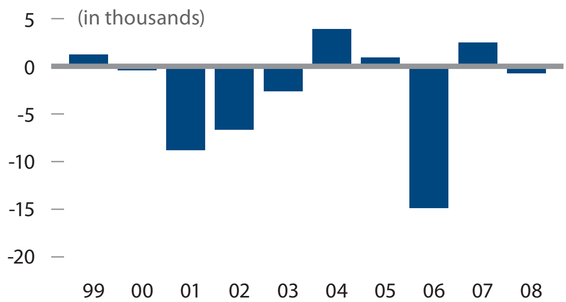
18 Economic Outlook Rank, 2010

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

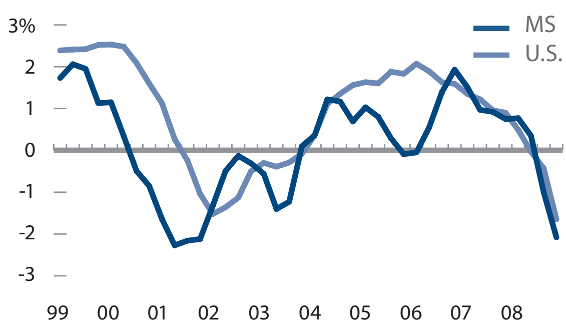
Personal Income Per Capita Cumulative Growth 1998-2008 **48.9%** **Rank: 18**



Absolute Domestic Migration Cumulative 1999-2008 **-25,508** **Rank: 33**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **1.2%** **Rank: 47**

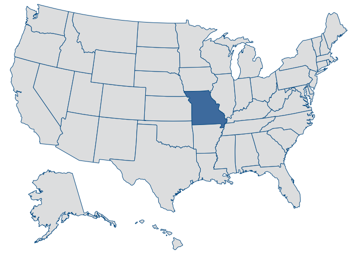


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	19	19

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	19
Top Marginal Corporate Income Tax Rate	5.00%	7
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.53	26
Property Tax Burden (per $1,000 of personal income)	$26.45	16
Sales Tax Burden (per $1,000 of personal income)	$37.84	42
Remaining Tax Burden (per $1,000 of personal income)	$16.68	16
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$0.93	35
Debt Service as a Share of Tax Revenue	5.7%	6
Public Employees Per 10,000 of Population (full-time equivalent)	652.3	46
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	43.7	48
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.33	27
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Missouri



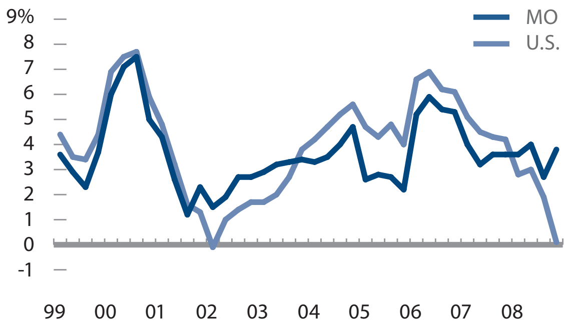
35 Economic Performance Rank, 2010

15 Economic Outlook Rank, 2010

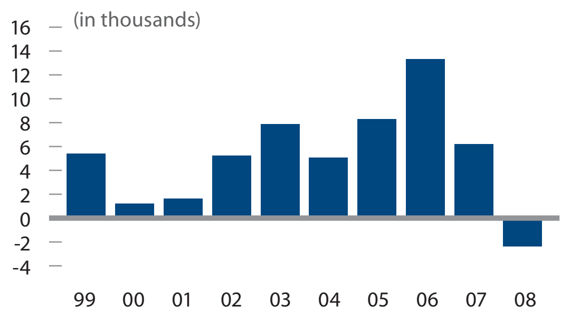
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

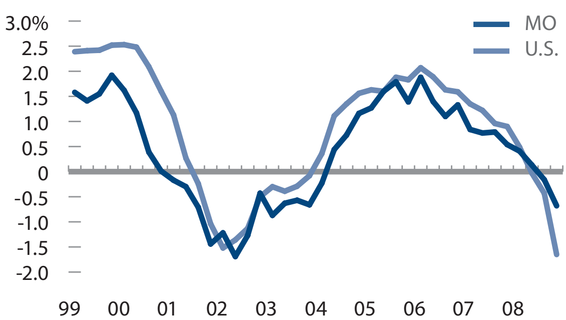
Personal Income Per Capita Cumulative Growth 1998-2008 — 43.2% — Rank: 33



Absolute Domestic Migration Cumulative 1999-2008 — 51,881 — Rank: 17



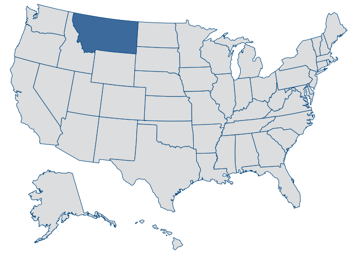
Non-Farm Payroll Employment Cumulative Growth 1998-2008 — 4.1% — Rank: 42



Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	25	23

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	32
Top Marginal Corporate Income Tax Rate	5.81%	15
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.24	38
Property Tax Burden (per $1,000 of personal income)	$25.89	15
Sales Tax Burden (per $1,000 of personal income)	$24.72	25
Remaining Tax Burden (per $1,000 of personal income)	$16.14	14
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.89	10
Debt Service as a Share of Tax Revenue	9.6%	41
Public Employees Per 10,000 of Population (full-time equivalent)	555.2	23
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.1	31
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.20	23
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	3	1

Montana

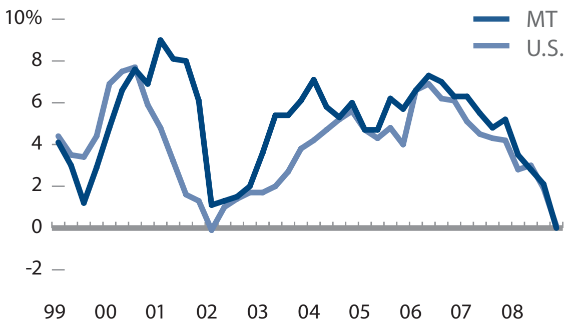


2 Economic Performance Rank, 2010

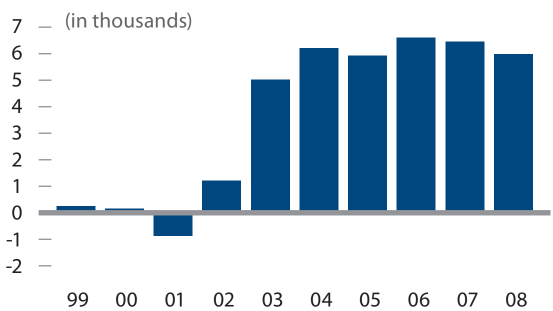
33 Economic Outlook Rank, 2010

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

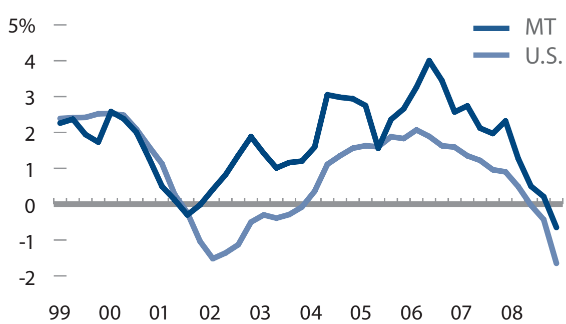
Personal Income Per Capita Cumulative Growth 1998-2008 **58.2%** **Rank: 5**



Absolute Domestic Migration Cumulative 1999-2008 **37,008** **Rank: 20**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **18.8%** **Rank: 6**

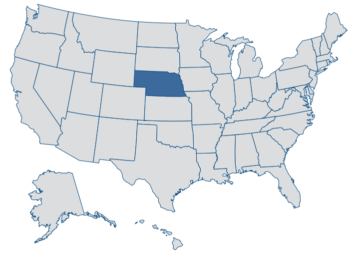


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	32	30

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.49%	14
Top Marginal Corporate Income Tax Rate	6.75%	22
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.00	22
Property Tax Burden (per $1,000 of personal income)	$35.12	34
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$28.09	46
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.06	28
Debt Service as a Share of Tax Revenue	7.6%	25
Public Employees Per 10,000 of Population (full-time equivalent)	570.5	28
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.3	38
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$3.50	49
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Nebraska



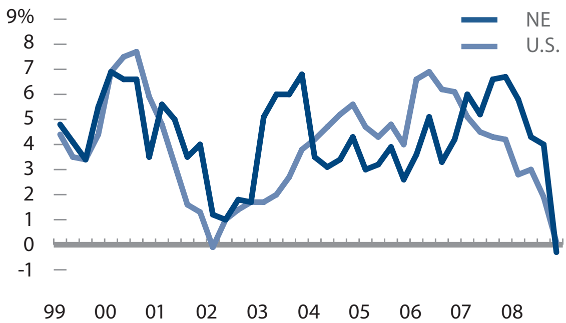
29 Economic Performance Rank, 2010

34 Economic Outlook Rank, 2010

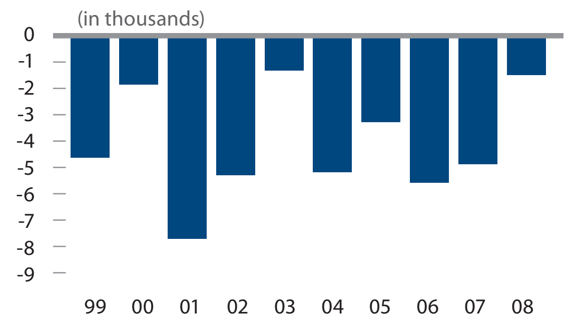
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

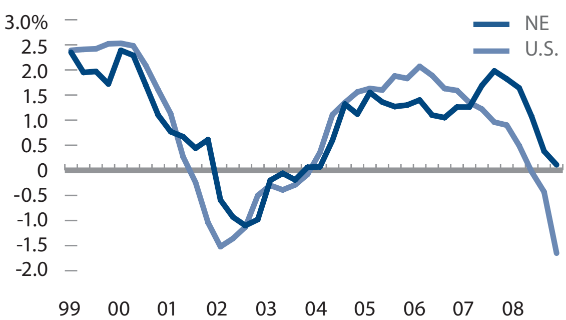
Personal Income Per Capita
Cumulative Growth 1998-2008 **46.4%** **Rank: 25**



Absolute Domestic Migration
Cumulative 1999-2008 **-41,205** **Rank: 36**

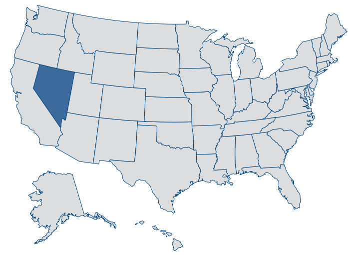


Non-Farm Payroll Employment
Cumulative Growth 1998-2008 **9.7%** **Rank: 22**



Historical Ranking Comparison	2008	2009
ECONOMIC OUTLOOK RANK	**34**	**29**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.84%	30
Top Marginal Corporate Income Tax Rate	7.81%	30
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$16.42	44
Property Tax Burden (per $1,000 of personal income)	$36.87	36
Sales Tax Burden (per $1,000 of personal income)	$26.80	31
Remaining Tax Burden (per $1,000 of personal income)	$17.66	20
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.58	18
Debt Service as a Share of Tax Revenue	6.5%	13
Public Employees Per 10,000 of Population (full-time equivalent)	656.2	47
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.3	2
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.15	20
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35



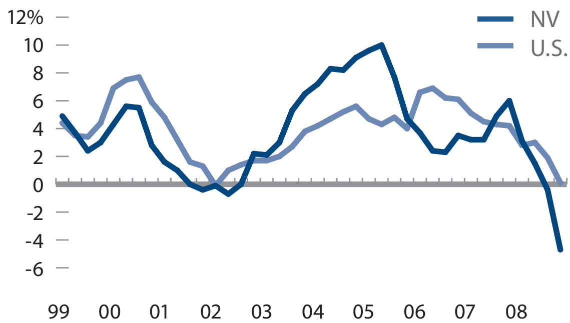
Nevada

13 Economic Performance Rank, 2010

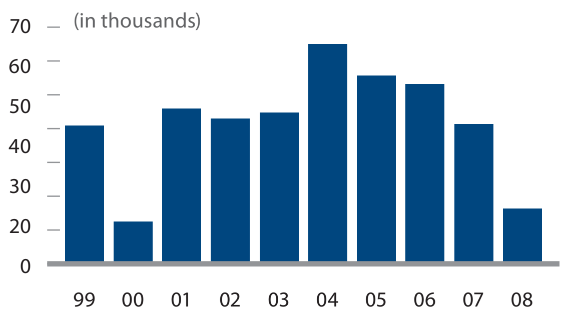
11 Economic Outlook Rank, 2010

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

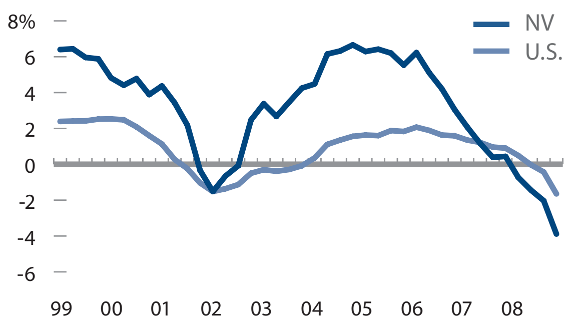
Personal Income Per Capita Cumulative Growth 1998-2008 **37.0%** **Rank: 44**



Absolute Domestic Migration Cumulative 1999-2008 **418,487** **Rank: 6**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **36.8%** **Rank: 1**

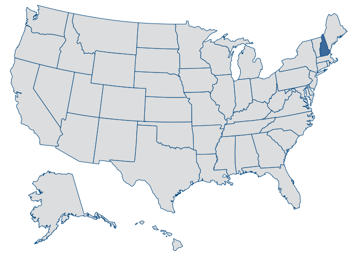


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	7	7

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)	$28.48	20
Sales Tax Burden (per $1,000 of personal income)	$35.00	40
Remaining Tax Burden (per $1,000 of personal income)	$38.66	50
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.67	14
Debt Service as a Share of Tax Revenue	8.6%	33
Public Employees Per 10,000 of Population (full-time equivalent)	439.5	1
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.9	40
State Minimum Wage (federal floor is $7.25)	$7.55	43
Average Workers' Compensation Costs (per $100 of payroll)	$2.58	33
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

New Hampshire

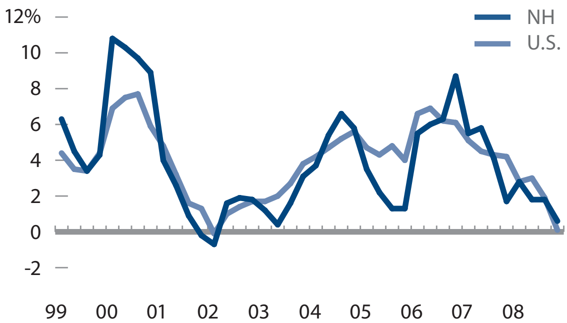


28 Economic Performance Rank, 2010

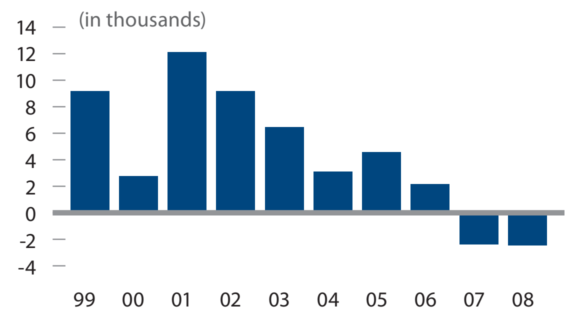
30 Economic Outlook Rank, 2010

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

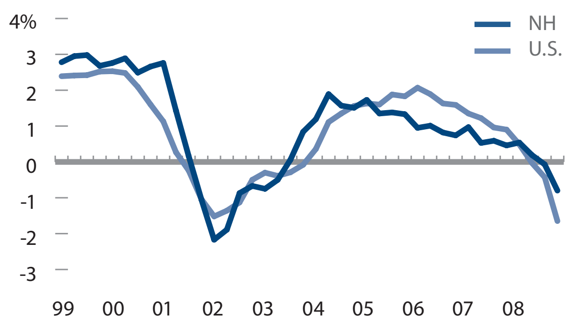
Personal Income Per Capita Cumulative Growth 1998-2008 **41.8%** **Rank: 35**



Absolute Domestic Migration Cumulative 1999-2008 **44,738** **Rank: 19**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **9.7%** **Rank: 24**

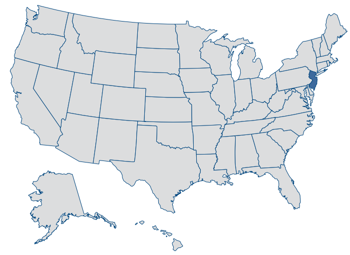


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	26	37

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	8.50%	34
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)	$52.66	49
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$20.31	32
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$1.39	32
Debt Service as a Share of Tax Revenue	9.9%	44
Public Employees Per 10,000 of Population (full-time equivalent)	548.6	22
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.7	16
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$3.06	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

New Jersey

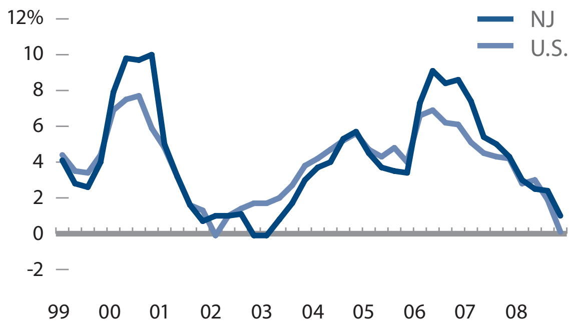


39 Economic Performance Rank, 2010

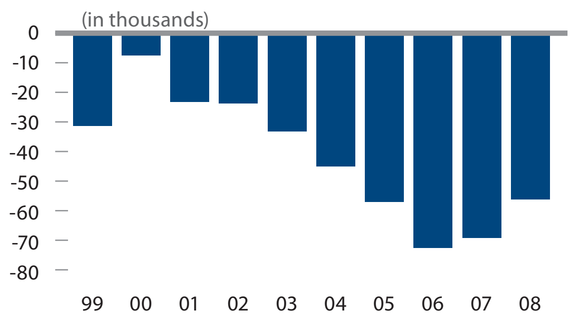
48 Economic Outlook Rank, 2010

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

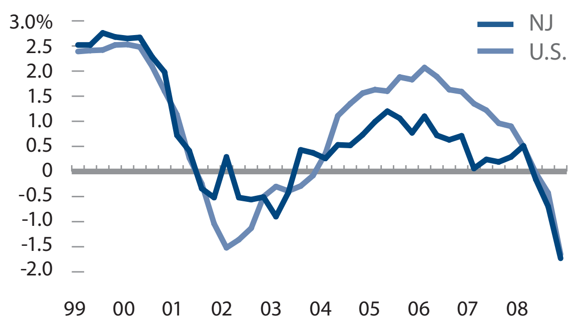
Personal Income Per Capita Cumulative Growth 1998-2008 48.4% Rank: 19



Absolute Domestic Migration Cumulative 1999-2008 -418,928 Rank: 46



Non-Farm Payroll Employment Cumulative Growth 1998-2008 6.7% Rank: 32

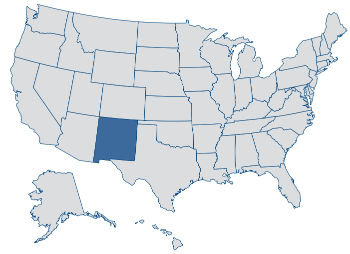


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	48	46

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.75%	47
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)	$50.57	48
Sales Tax Burden (per $1,000 of personal income)	$20.26	13
Remaining Tax Burden (per $1,000 of personal income)	$15.07	8
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$24.11	49
Debt Service as a Share of Tax Revenue	6.6%	14
Public Employees Per 10,000 of Population (full-time equivalent)	583.3	35
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	58.0	34
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.66	35
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

New Mexico



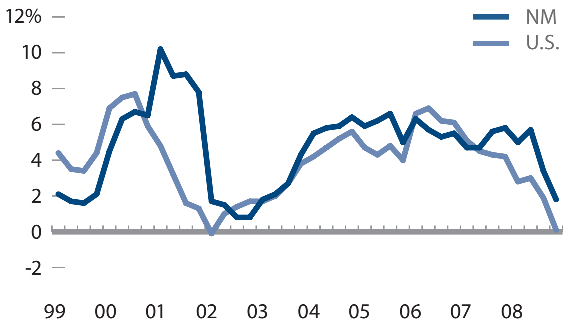
5 Economic Performance Rank, 2010

35 Economic Outlook Rank, 2010

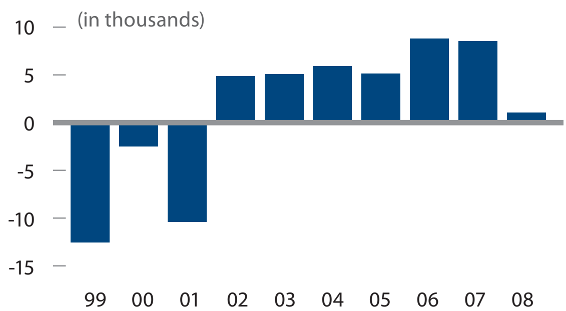
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

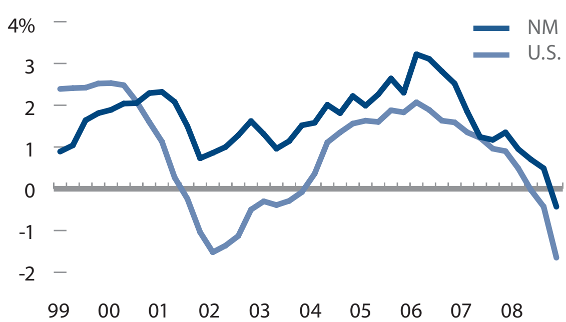
Personal Income Per Capita Cumulative Growth 1998-2008 **56.3%** **Rank: 8**



Absolute Domestic Migration Cumulative 1999-2008 **13,903** **Rank: 24**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **17.7%** **Rank: 8**

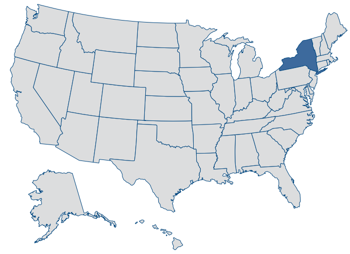


Historical Ranking Comparison
ECONOMIC OUTLOOK RANK

2008	2009
27	25

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.90%	18
Top Marginal Corporate Income Tax Rate	7.60%	28
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$9.44	30
Property Tax Burden (per $1,000 of personal income)	$16.54	4
Sales Tax Burden (per $1,000 of personal income)	$44.04	46
Remaining Tax Burden (per $1,000 of personal income)	$19.00	28
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$3.93	5
Debt Service as a Share of Tax Revenue	7.2%	20
Public Employees Per 10,000 of Population (full-time equivalent)	651.9	45
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.5	37
State Minimum Wage (federal floor is $7.25)	$7.50	42
Average Workers' Compensation Costs (per $100 of payroll)	$2.15	20
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

New York

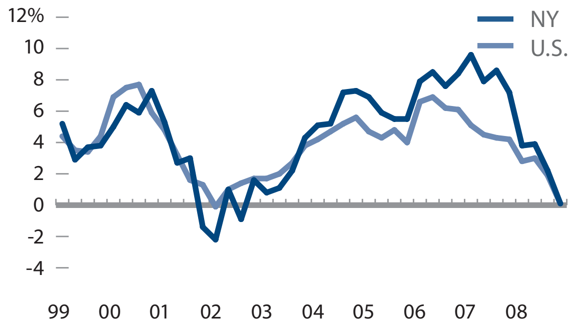


37 Economic Performance Rank, 2010

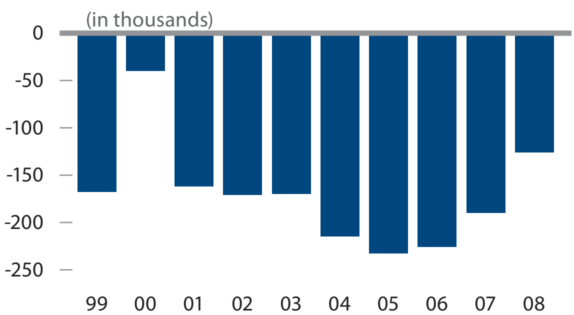
50 Economic Outlook Rank, 2010

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

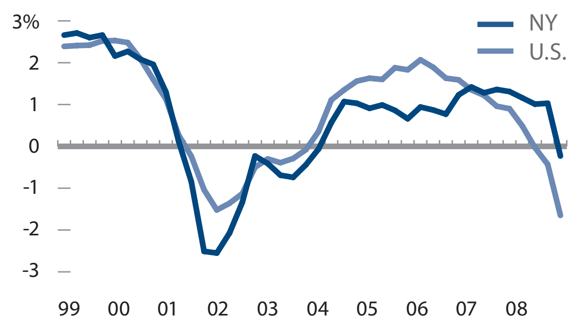
Personal Income Per Capita Cumulative Growth 1998-2008 **53.0%** **Rank: 14**



Absolute Domestic Migration Cumulative 1999-2008 **-1,700,021** **Rank: 50**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **6.8%** **Rank: 31**

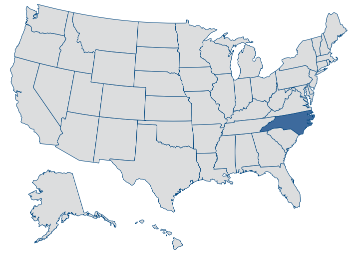


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	49	50

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	12.62%	50
Top Marginal Corporate Income Tax Rate	15.95%	50
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.71	36
Property Tax Burden (per $1,000 of personal income)	$42.81	43
Sales Tax Burden (per $1,000 of personal income)	$24.72	26
Remaining Tax Burden (per $1,000 of personal income)	$21.14	35
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$91.75	50
Debt Service as a Share of Tax Revenue	8.6%	34
Public Employees Per 10,000 of Population (full-time equivalent)	634.0	41
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.6	25
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.55	32
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

North Carolina

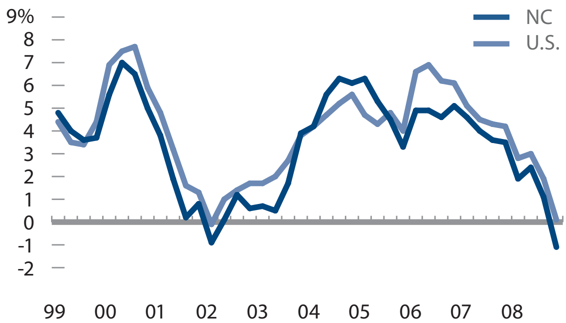


23 Economic Performance Rank, 2010

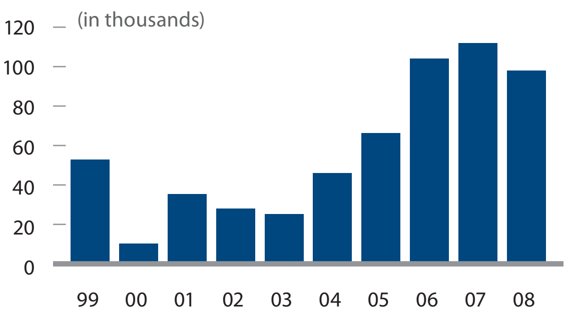
21 Economic Outlook Rank, 2010

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

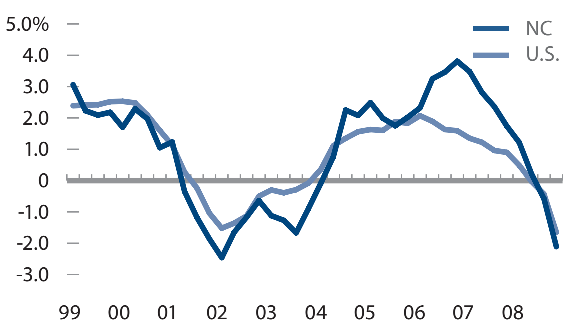
Personal Income Per Capita Cumulative Growth 1998-2008 **35.2%** **Rank: 46**



Absolute Domestic Migration Cumulative 1999-2008 **578,253** **Rank: 4**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **9.9%** **Rank: 21**

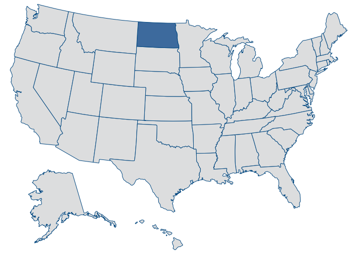


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	21	21

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.75%	36
Top Marginal Corporate Income Tax Rate	6.90%	23
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$9.47	31
Property Tax Burden (per $1,000 of personal income)	$23.78	12
Sales Tax Burden (per $1,000 of personal income)	$23.16	20
Remaining Tax Burden (per $1,000 of personal income)	$17.72	22
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$1.23	33
Debt Service as a Share of Tax Revenue	6.0%	8
Public Employees Per 10,000 of Population (full-time equivalent)	614.6	39
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.6	20
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.43	29
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

North Dakota



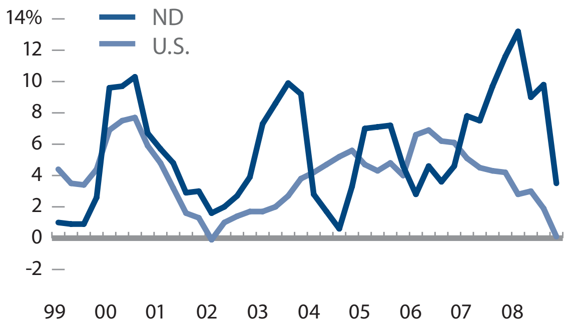
11 Economic Performance Rank, 2010

12 Economic Outlook Rank, 2010

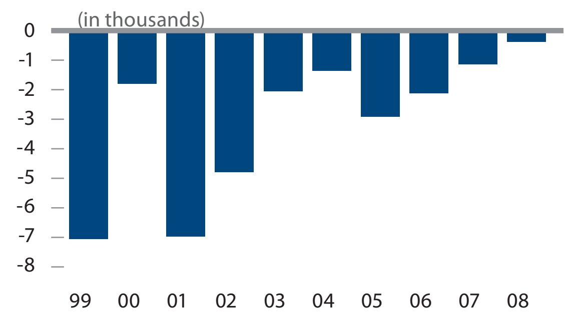
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

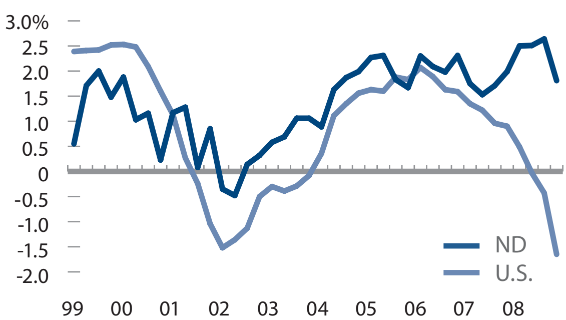
Personal Income Per Capita Cumulative Growth 1998-2008 **67.2%** **Rank: 2**



Absolute Domestic Migration Cumulative 1999-2008 **-30,567** **Rank: 34**



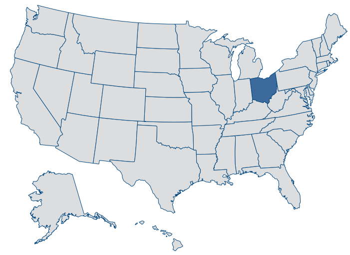
Non-Farm Payroll Employment Cumulative Growth 1998-2008 **14.9%** **Rank: 12**



Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	18	13

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.86%	17
Top Marginal Corporate Income Tax Rate	4.23%	4
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$8.90	27
Property Tax Burden (per $1,000 of personal income)	$31.43	29
Sales Tax Burden (per $1,000 of personal income)	$25.68	28
Remaining Tax Burden (per $1,000 of personal income)	$22.08	39
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.68	13
Debt Service as a Share of Tax Revenue	8.1%	29
Public Employees Per 10,000 of Population (full-time equivalent)	643.1	44
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.6	13
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.08	1
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Ohio

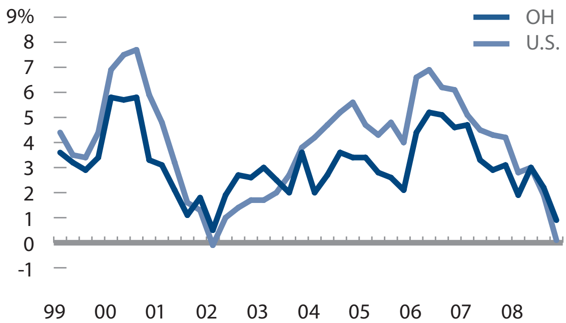


49 Economic Performance Rank, 2010

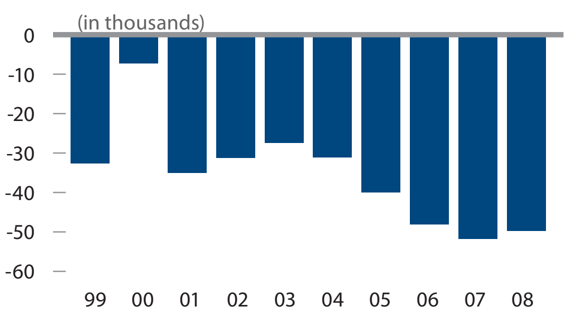
42 Economic Outlook Rank, 2010

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

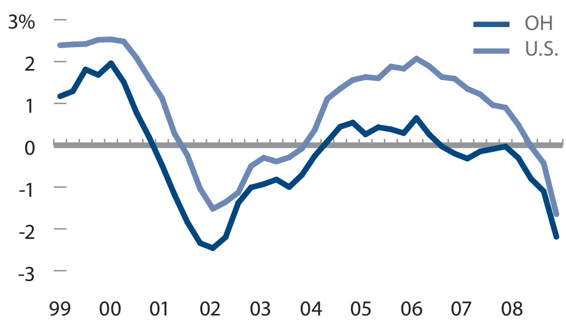
Personal Income Per Capita Cumulative Growth 1998-2008 **32.8%** **Rank: 48**



Absolute Domestic Migration Cumulative 1999-2008 **-354,748** **Rank: 45**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **-2.1%** **Rank: 49**

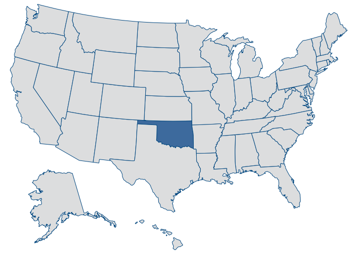


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	47	45

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.93%	40
Top Marginal Corporate Income Tax Rate	5.14%	10
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.70	41
Property Tax Burden (per $1,000 of personal income)	$33.47	31
Sales Tax Burden (per $1,000 of personal income)	$23.58	23
Remaining Tax Burden (per $1,000 of personal income)	$19.27	29
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$4.38	3
Debt Service as a Share of Tax Revenue	7.6%	23
Public Employees Per 10,000 of Population (full-time equivalent)	540.1	19
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.0	32
State Minimum Wage (federal floor is $7.25)	$7.30	39
Average Workers' Compensation Costs (per $100 of payroll)	$3.32	48
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Oklahoma

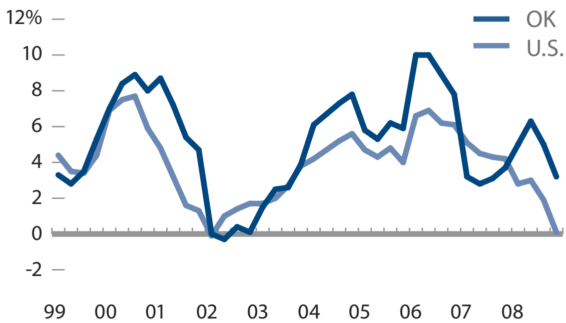


7 Economic Performance Rank, 2010

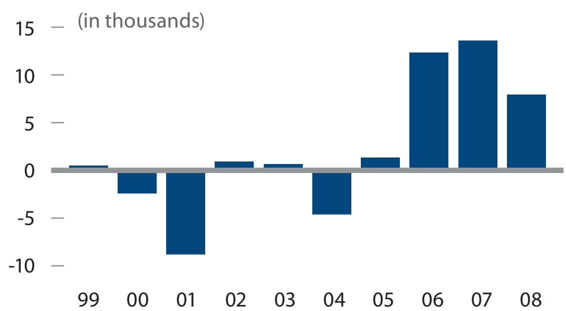
14 Economic Outlook Rank, 2010

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

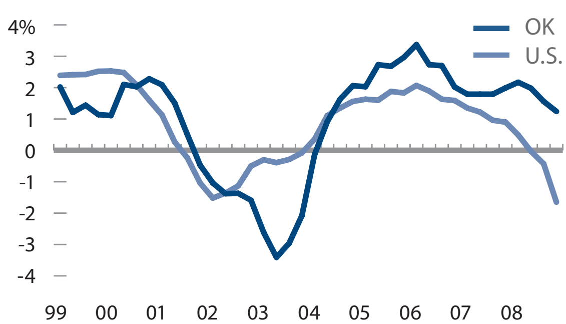
Personal Income Per Capita Cumulative Growth 1998-2008 **63.2%** **Rank: 3**



Absolute Domestic Migration Cumulative 1999-2008 **20,415** **Rank: 22**



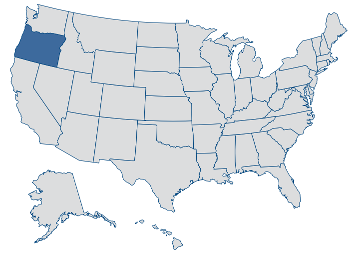
Non-Farm Payroll Employment Cumulative Growth 1998-2008 **10.4%** **Rank: 18**



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

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	14	**15**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.50%	22
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.84	21
Property Tax Burden (per $1,000 of personal income)	$15.94	3
Sales Tax Burden (per $1,000 of personal income)	$28.10	34
Remaining Tax Burden (per $1,000 of personal income)	$18.86	27
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$1.79	31
Debt Service as a Share of Tax Revenue	6.5%	12
Public Employees Per 10,000 of Population (full-time equivalent)	593.4	36
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.2	17
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.89	41
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4



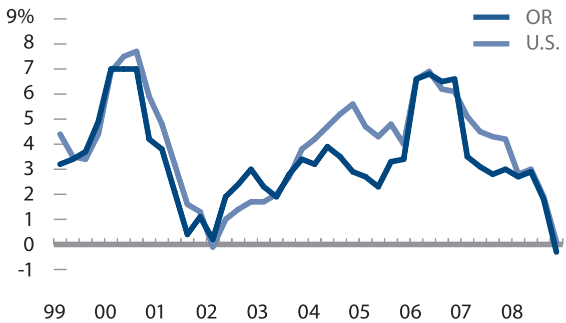
Oregon

25 Economic Performance Rank, 2010

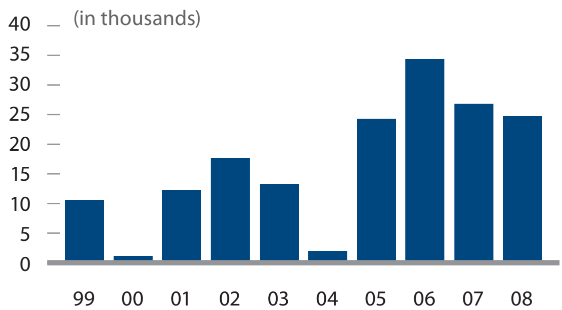
41 Economic Outlook Rank, 2010

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

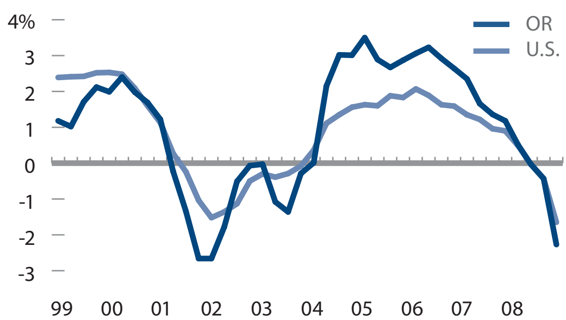
Personal Income Per Capita Cumulative Growth 1998-2008 **37.0%** **Rank: 45**



Absolute Domestic Migration Cumulative 1999-2008 **167,209** **Rank: 11**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **10.2%** **Rank: 20**

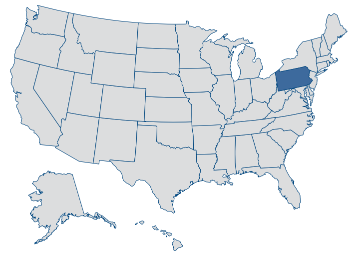


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	35	39

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	11.00%	48
Top Marginal Corporate Income Tax Rate	11.55%	48
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.44	42
Property Tax Burden (per $1,000 of personal income)	$30.32	26
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$20.62	33
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$5.70	44
Debt Service as a Share of Tax Revenue	9.5%	40
Public Employees Per 10,000 of Population (full-time equivalent)	503.6	11
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.4	14
State Minimum Wage (federal floor is $7.25)	$8.40	49
Average Workers' Compensation Costs (per $100 of payroll)	$1.88	13
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	2	4

Pennsylvania



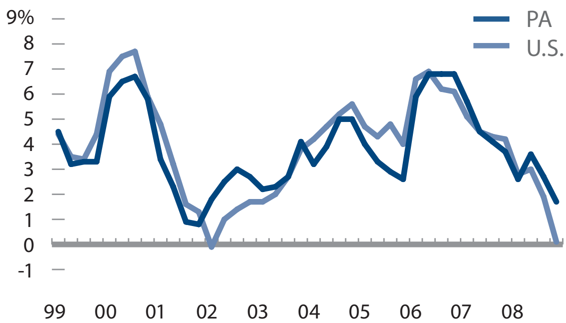
46 Economic Performance Rank, 2010

43 Economic Outlook Rank, 2010

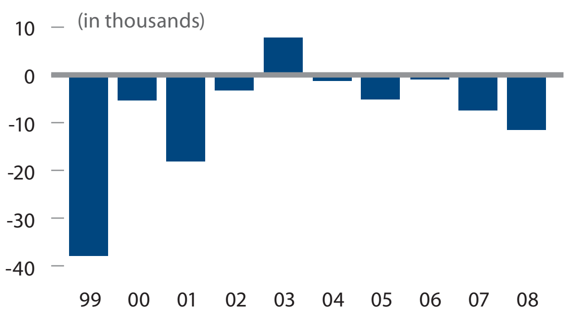
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

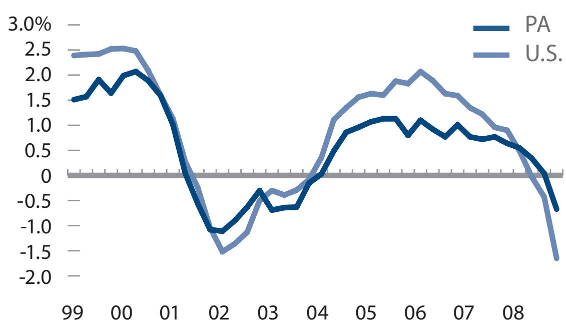
Personal Income Per Capita Cumulative Growth 1998-2008 — 43.0% — Rank: 34



Absolute Domestic Migration Cumulative 1999-2008 — -81,976 — Rank: 41



Non-Farm Payroll Employment Cumulative Growth 1998-2008 — 5.6% — Rank: 37

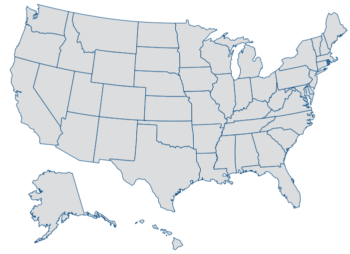


Historical Ranking Comparison ECONOMIC OUTLOOK RANK

2008	2009
36	42

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.05%	35
Top Marginal Corporate Income Tax Rate	13.97%	49
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)	$32.55	30
Sales Tax Burden (per $1,000 of personal income)	$18.68	12
Remaining Tax Burden (per $1,000 of personal income)	$24.32	42
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$10.82	47
Debt Service as a Share of Tax Revenue	9.1%	38
Public Employees Per 10,000 of Population (full-time equivalent)	478.1	3
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.8	36
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.68	36
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Rhode Island

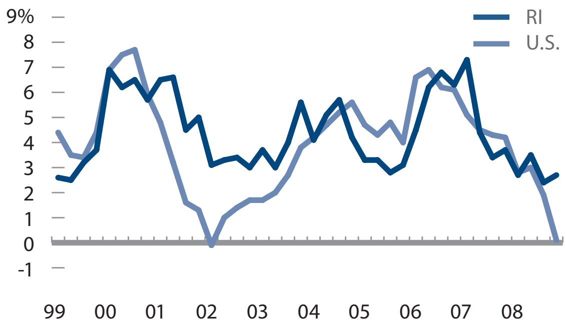


33 Economic Performance Rank, 2010

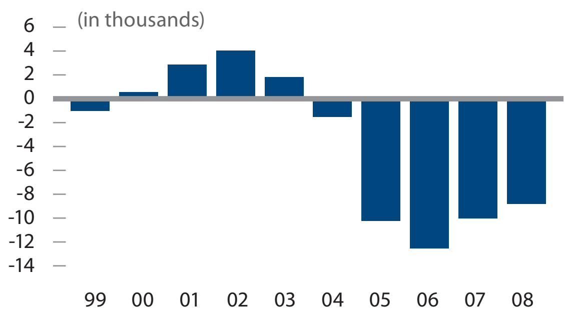
45 Economic Outlook Rank, 2010

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

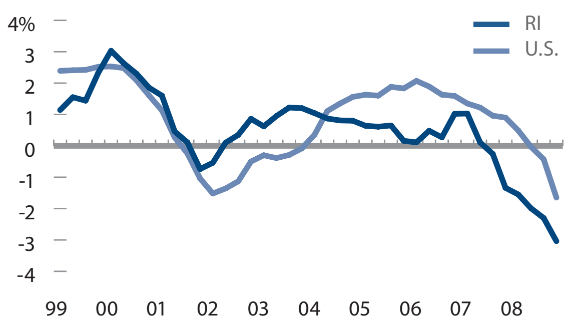
Personal Income Per Capita Cumulative Growth 1998-2008 **52.2%** **Rank: 15**



Absolute Domestic Migration Cumulative 1999-2008 **-34,918** **Rank: 35**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **5.2%** **Rank: 40**

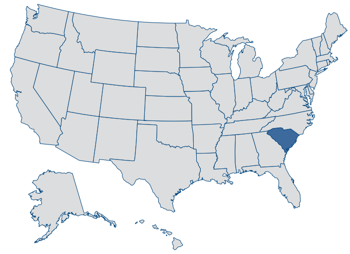


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	45	**48**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	27
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$25.18	49
Property Tax Burden (per $1,000 of personal income)	$47.06	46
Sales Tax Burden (per $1,000 of personal income)	$20.99	14
Remaining Tax Burden (per $1,000 of personal income)	$16.26	15
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.03	29
Debt Service as a Share of Tax Revenue	9.7%	43
Public Employees Per 10,000 of Population (full-time equivalent)	494.9	5
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.1	39
State Minimum Wage (federal floor is $7.25)	$7.40	40
Average Workers' Compensation Costs (per $100 of payroll)	$2.26	25
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

South Carolina

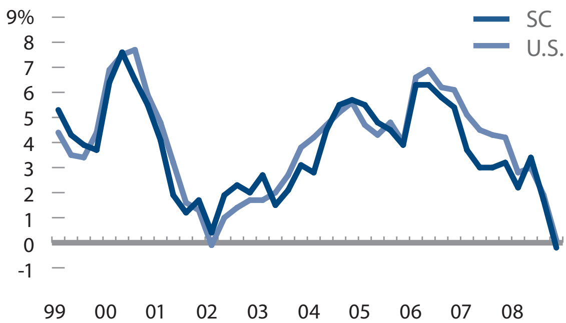


24 Economic Performance Rank, 2010

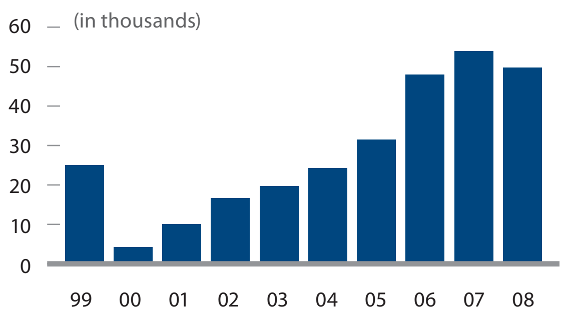
31 Economic Outlook Rank, 2010

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

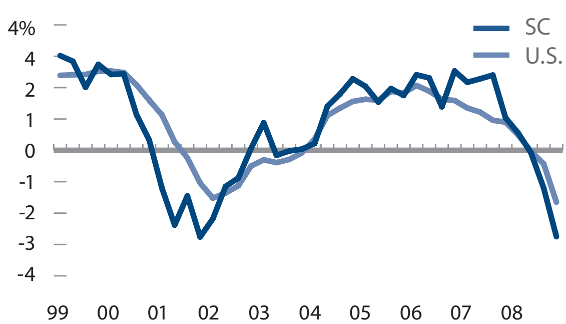
Personal Income Per Capita Cumulative Growth 1998-2008 **39.5%** **Rank: 41**



Absolute Domestic Migration Cumulative 1999-2008 **283,237** **Rank: 7**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **8.1%** **Rank: 27**

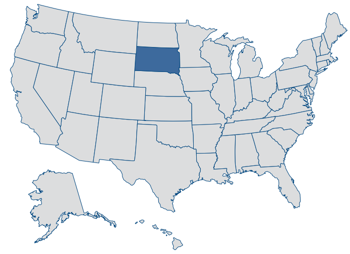


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	20	20

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	33
Top Marginal Corporate Income Tax Rate	5.00%	7
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.21	23
Property Tax Burden (per $1,000 of personal income)	$31.17	28
Sales Tax Burden (per $1,000 of personal income)	$24.34	24
Remaining Tax Burden (per $1,000 of personal income)	$18.42	24
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.55	21
Debt Service as a Share of Tax Revenue	10.8%	49
Public Employees Per 10,000 of Population (full-time equivalent)	582.7	34
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	54.5	43
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.74	38
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

South Dakota

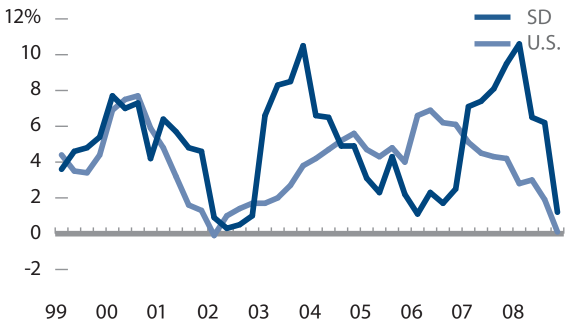


12 Economic Performance Rank, 2010

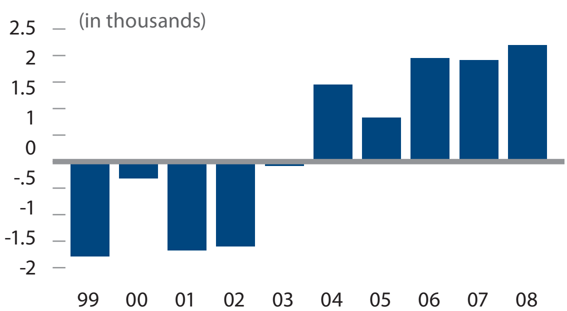
4 Economic Outlook Rank, 2010

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

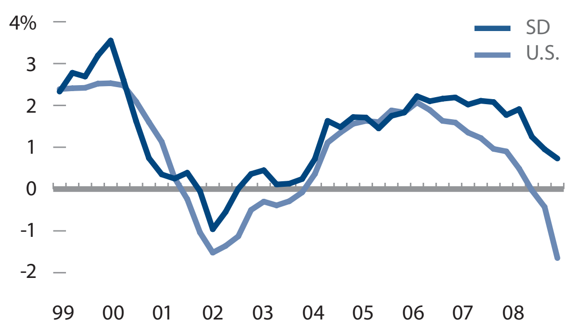
Personal Income Per Capita Cumulative Growth 1998-2008 **56.1% Rank: 9**



Absolute Domestic Migration Cumulative 1999-2008 **2,942 Rank: 28**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **14.3% Rank: 13**

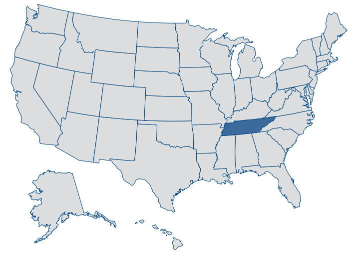


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	2	5

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)	$29.63	25
Sales Tax Burden (per $1,000 of personal income)	$35.00	41
Remaining Tax Burden (per $1,000 of personal income)	$18.70	26
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.47	23
Debt Service as a Share of Tax Revenue	7.7%	27
Public Employees Per 10,000 of Population (full-time equivalent)	540.3	20
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.7	12
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.08	16
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Tennessee

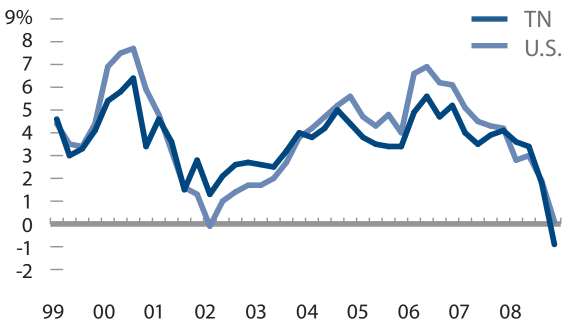


32 Economic Performance Rank, 2010

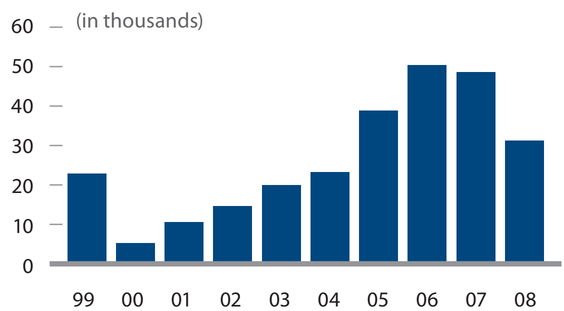
10 Economic Outlook Rank, 2010

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

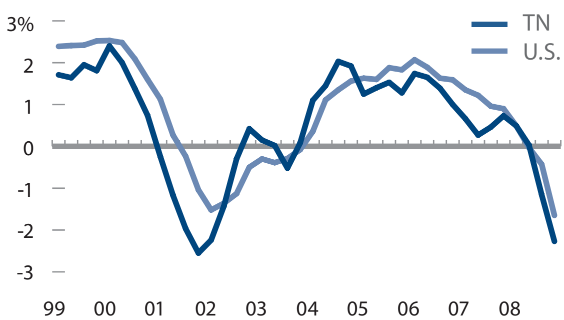
Personal Income Per Capita Cumulative Growth 1998-2008 **38.3%** **Rank: 43**



Absolute Domestic Migration Cumulative 1999-2008 **265,505** **Rank: 8**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **5.3%** **Rank: 39**

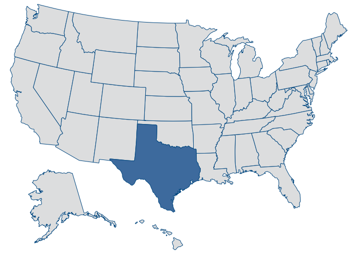


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	3	9

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.50%	20
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)	$21.30	9
Sales Tax Burden (per $1,000 of personal income)	$41.16	44
Remaining Tax Burden (per $1,000 of personal income)	$17.13	19
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$2.65	43
Debt Service as a Share of Tax Revenue	6.7%	15
Public Employees Per 10,000 of Population (full-time equivalent)	528.3	13
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.3	22
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.44	30
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Texas

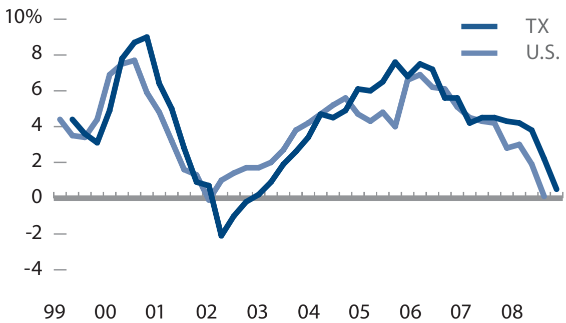


3 Economic Performance Rank, 2010

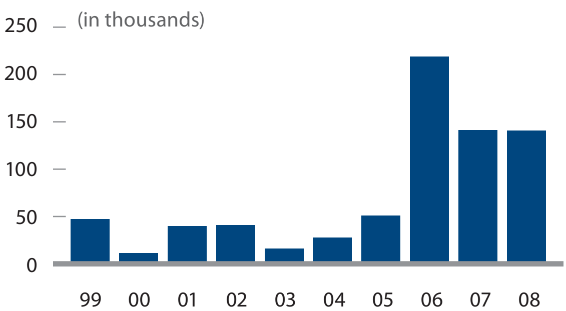
19 Economic Outlook Rank, 2010

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

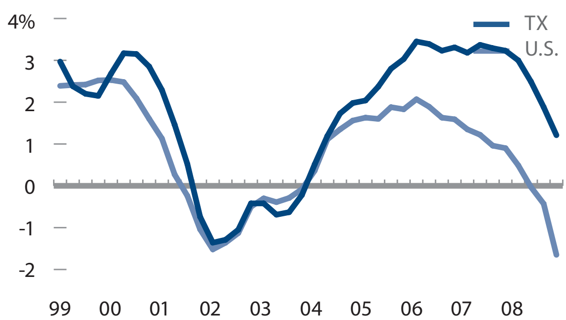
Personal Income Per Capita Cumulative Growth 1998-2008 46.1% Rank: 26



Absolute Domestic Migration Cumulative 1999-2008 735,816 Rank: 3



Non-Farm Payroll Employment Cumulative Growth 1998-2008 18.7% Rank: 7

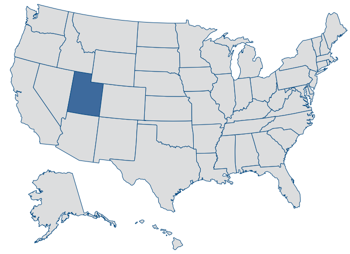


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	13	10

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	5.56%	14
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)	$40.18	40
Sales Tax Burden (per $1,000 of personal income)	$29.74	36
Remaining Tax Burden (per $1,000 of personal income)	$19.45	30
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.59	17
Debt Service as a Share of Tax Revenue	10.6%	48
Public Employees Per 10,000 of Population (full-time equivalent)	563.5	27
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.8	41
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.61	34
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Utah

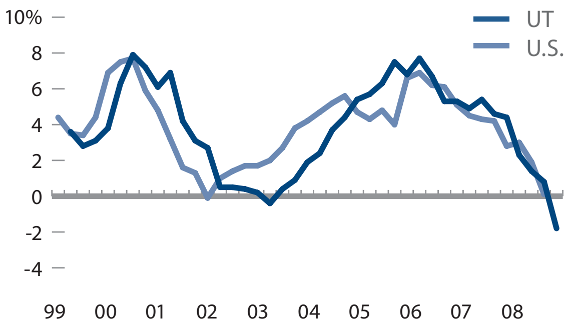


18 Economic Performance Rank, 2010

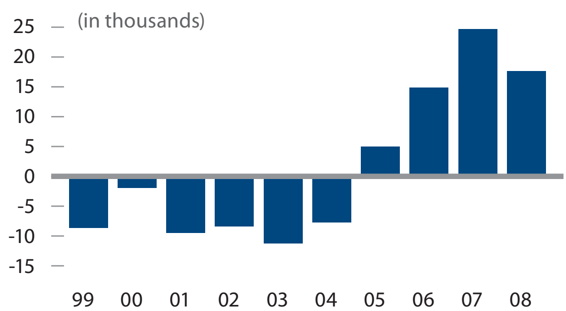
1 Economic Outlook Rank, 2010

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

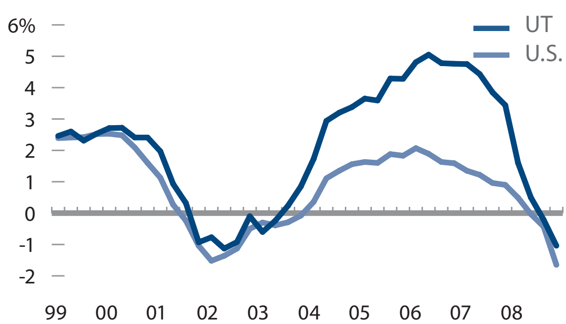
Personal Income Per Capita Cumulative Growth 1998-2008 **40.5%** **Rank: 37**



Absolute Domestic Migration Cumulative 1999-2008 **14,650** **Rank: 23**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **22.7%** **Rank: 5**

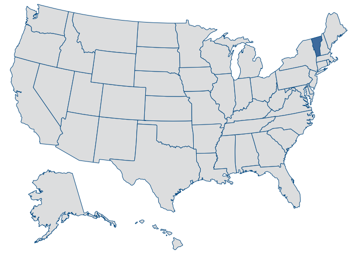


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	1	1

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	19
Top Marginal Corporate Income Tax Rate	5.00%	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)	$24.96	13
Sales Tax Burden (per $1,000 of personal income)	$31.36	38
Remaining Tax Burden (per $1,000 of personal income)	$15.21	9
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.30	24
Debt Service as a Share of Tax Revenue	7.3%	21
Public Employees Per 10,000 of Population (full-time equivalent)	493.1	4
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.6	5
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.63	6
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Vermont

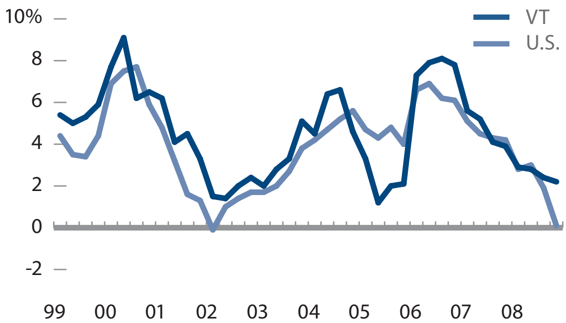


22 Economic Performance Rank, 2010

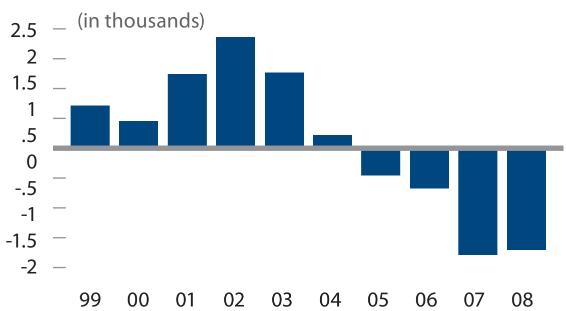
49 Economic Outlook Rank, 2010

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

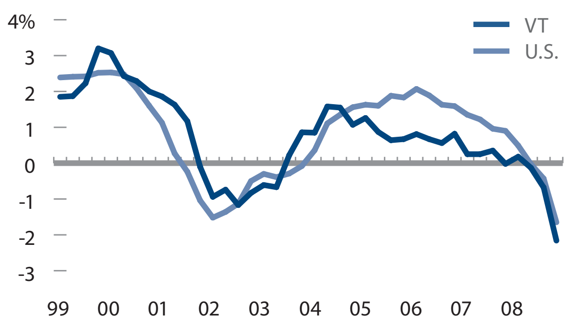
Personal Income Per Capita Cumulative Growth 1998-2008 **53.3%** **Rank: 13**



Absolute Domestic Migration Cumulative 1999-2008 **1,148** **Rank: 29**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **7.4%** **Rank: 29**

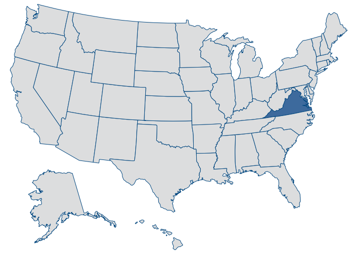


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	50	49

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.40%	45
Top Marginal Corporate Income Tax Rate	8.50%	34
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$21.58	47
Property Tax Burden (per $1,000 of personal income)	$53.89	50
Sales Tax Burden (per $1,000 of personal income)	$14.81	9
Remaining Tax Burden (per $1,000 of personal income)	$29.88	48
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$1.88	30
Debt Service as a Share of Tax Revenue	6.9%	16
Public Employees Per 10,000 of Population (full-time equivalent)	641.8	43
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.6	8
State Minimum Wage (federal floor is $7.25)	$8.06	48
Average Workers' Compensation Costs (per $100 of payroll)	$3.14	47
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Virginia

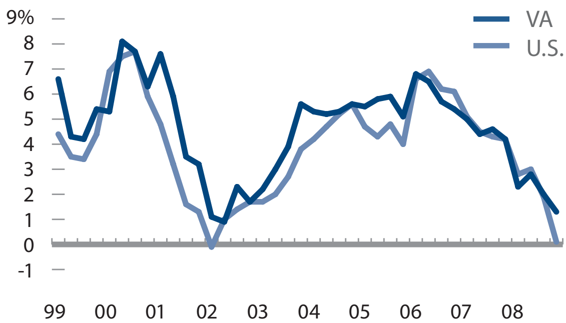


4 Economic Performance Rank, 2010

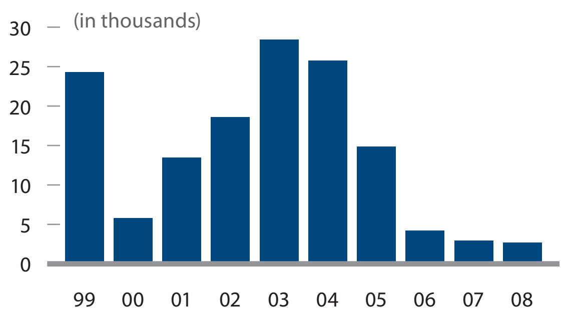
8 Economic Outlook Rank, 2010

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

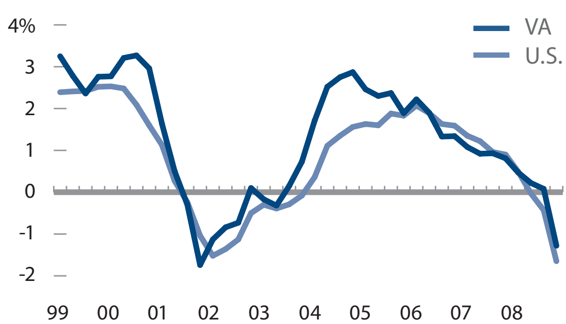
Personal Income Per Capita Cumulative Growth 1998-2008 **53.5%** **Rank: 12**



Absolute Domestic Migration Cumulative 1999-2008 **141,085** **Rank: 12**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **13.2%** **Rank: 16**

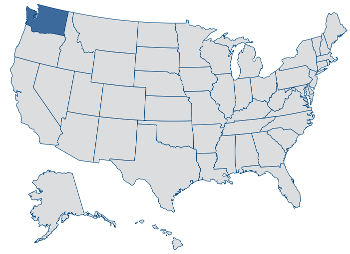


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009
ECONOMIC OUTLOOK RANK	5	4

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.75%	23
Top Marginal Corporate Income Tax Rate	6.00%	16
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.45	24
Property Tax Burden (per $1,000 of personal income)	$30.87	27
Sales Tax Burden (per $1,000 of personal income)	$14.47	8
Remaining Tax Burden (per $1,000 of personal income)	$19.92	31
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	$1.40	39
Debt Service as a Share of Tax Revenue	6.1%	9
Public Employees Per 10,000 of Population (full-time equivalent)	580.5	32
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.4	6
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.43	4
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Washington

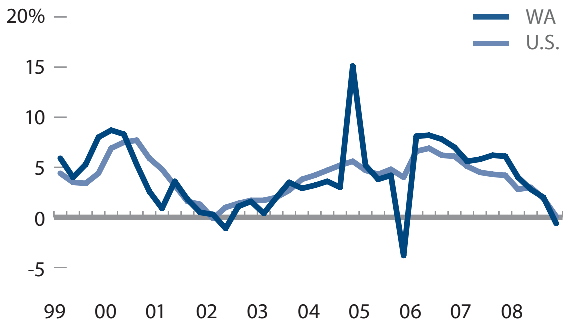


14 Economic Performance Rank, 2010

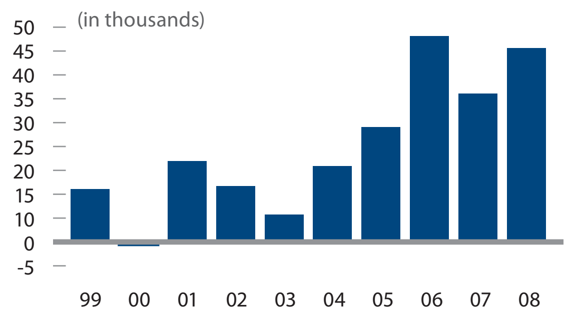
24 Economic Outlook Rank, 2010

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

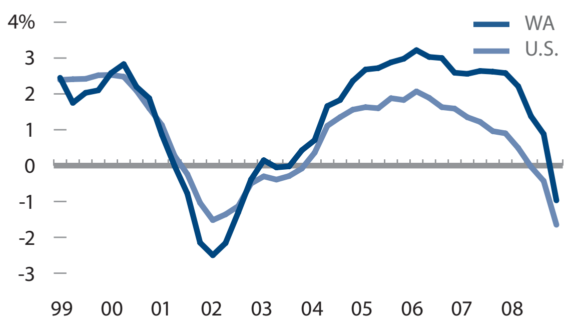
Personal Income Per Capita Cumulative Growth 1998-2008 **45.4%** **Rank: 28**



Absolute Domestic Migration Cumulative 1999-2008 **199,981** **Rank: 9**



Non-Farm Payroll Employment Cumulative Growth 1998-2008 **14.0%** **Rank: 15**

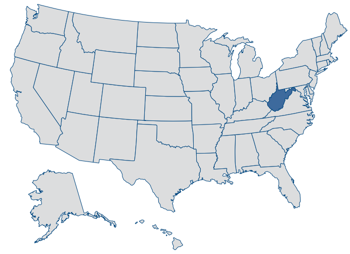


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison	2008	2009
ECONOMIC OUTLOOK RANK	**30**	**22**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	5.22%	12
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)	$28.24	18
Sales Tax Burden (per $1,000 of personal income)	$50.10	49
Remaining Tax Burden (per $1,000 of personal income)	$26.73	44
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.52	22
Debt Service as a Share of Tax Revenue	10.0%	45
Public Employees Per 10,000 of Population (full-time equivalent)	534.0	16
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.5	26
State Minimum Wage (federal floor is $7.25)	$8.55	50
Average Workers' Compensation Costs (per $100 of payroll)	$1.98	14
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	3	1

West Virginia

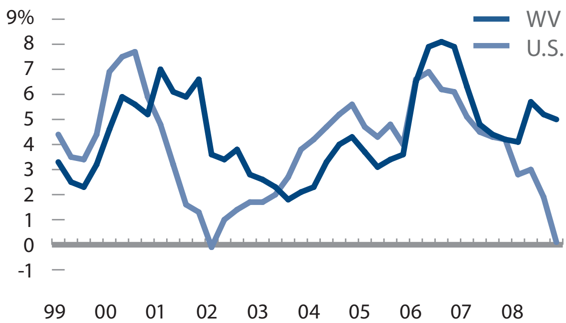


21 Economic Performance Rank, 2010

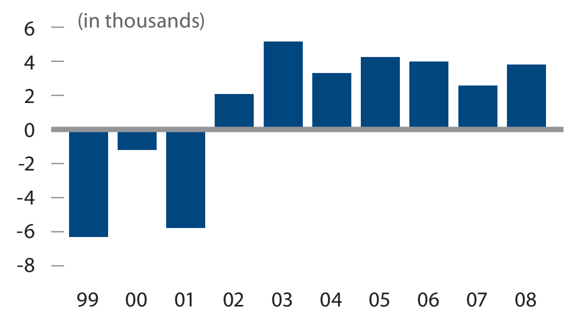
27 Economic Outlook Rank , 2010

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

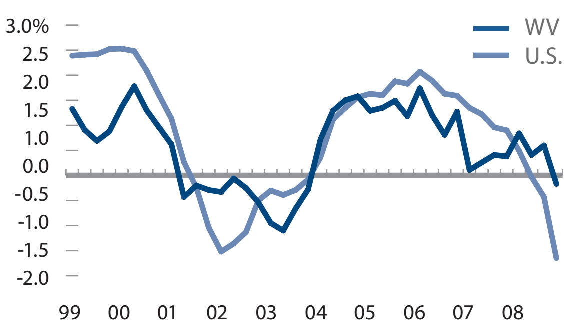
Personal Income Per Capita Cumulative Growth 1998-2008 54.8% Rank: 10



Absolute Domestic Migration Cumulative 1999-2008 11,829 Rank: 26



Non-Farm Payroll Employment Cumulative Growth 1998-2008 5.9% Rank: 33

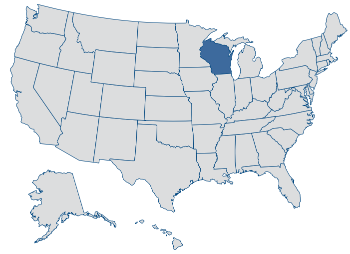


Economic Outlook Rank (1=best 50=worst)
A forecast based on a state's standing (equally weighted average) in the 15 important state policy variables shown below. Data reflect state + local rates and revenues and any effect of federal deductibility.

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	38	33

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	27
Top Marginal Corporate Income Tax Rate	8.50%	34
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.53	43
Property Tax Burden (per $1,000 of personal income)	$21.29	8
Sales Tax Burden (per $1,000 of personal income)	$21.20	15
Remaining Tax Burden (per $1,000 of personal income)	$29.78	47
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$3.45	8
Debt Service as a Share of Tax Revenue	5.7%	5
Public Employees Per 10,000 of Population (full-time equivalent)	560.4	26
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	42.4	50
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.86	11
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Wisconsin



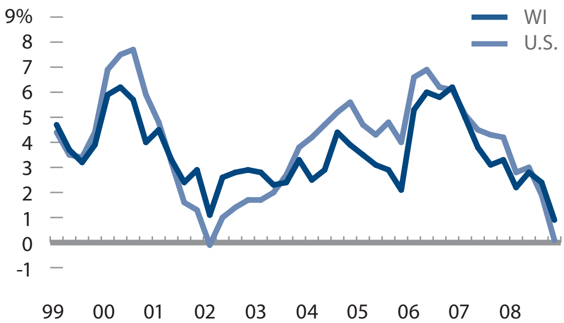
44 Economic Performance Rank, 2010

23 Economic Outlook Rank, 2010

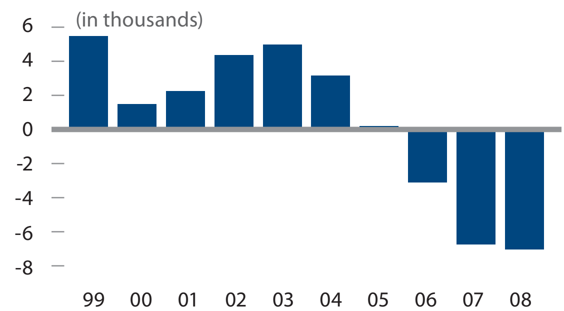
Economic Performance Rank (1=best 50=worst)
A historical measure based on a state's performance (equally weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

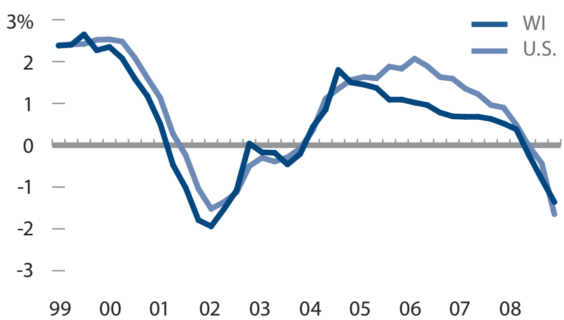
Personal Income Per Capita Cumulative Growth 1998-2008 39.0% Rank: 42



Absolute Domestic Migration Cumulative 1999-2008 4,894 Rank: 27



Non-Farm Payroll Employment Cumulative Growth 1998-2008 5.6% Rank: 36

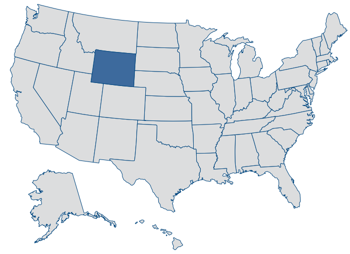


Historical Ranking Comparison
ECONOMIC OUTLOOK RANK

2008	2009
33	27

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.75%	36
Top Marginal Corporate Income Tax Rate	7.90%	31
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$3.67	18
Property Tax Burden (per $1,000 of personal income)	$41.33	41
Sales Tax Burden (per $1,000 of personal income)	$21.85	18
Remaining Tax Burden (per $1,000 of personal income)	$15.77	10
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$9.15	2
Debt Service as a Share of Tax Revenue	7.7%	26
Public Employees Per 10,000 of Population (full-time equivalent)	503.5	10
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	61.8	24
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.12	18
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	1	13

Wyoming

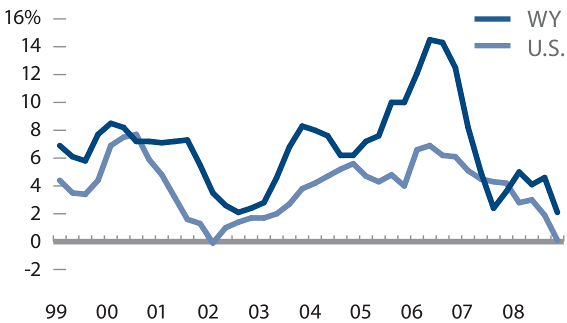


1 Economic Performance Rank, 2010

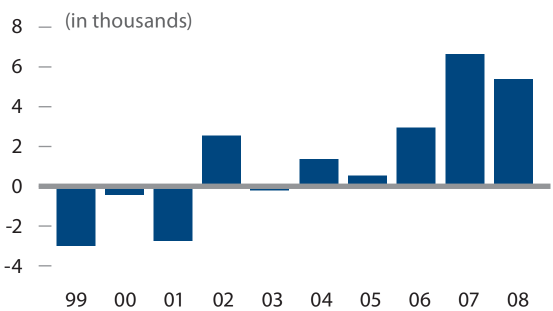
6 Economic Outlook Rank, 2010

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

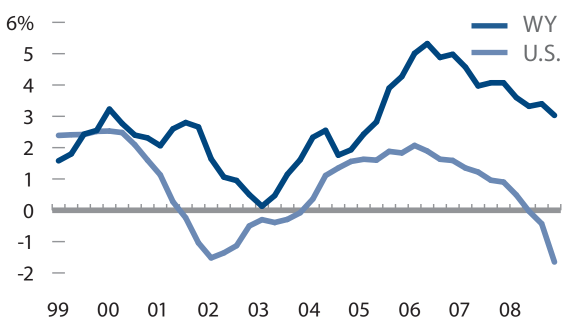
Personal Income Per Capita Cumulative Growth 1998-2008 87.7% Rank: 1



Absolute Domestic Migration Cumulative 1999-2008 13,117 Rank: 25



Non-Farm Payroll Employment Cumulative Growth 1998-2008 30.7% Rank: 2



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

Historical Ranking Comparison ECONOMIC OUTLOOK RANK	2008	2009
	4	6

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)	$50.19	47
Sales Tax Burden (per $1,000 of personal income)	$38.54	43
Remaining Tax Burden (per $1,000 of personal income)	$13.32	4
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2008 & 2009, per $1,000 of personal income)	-$2.56	20
Debt Service as a Share of Tax Revenue	3.1%	1
Public Employees Per 10,000 of Population (full-time equivalent)	927.4	50
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.1	23
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.06	15
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax or Expenditure Limits (0= least/worst, 3=most/best)	0	35

Appendix

2010 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 2010 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, when possible, using NIPA profits and gross domestic product data. 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 2007. This data was released in December 2009.

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 2007. This data was released in December 2009.

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 2007. Data was released in December 2009.

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: American College of Trust and Estate Counsel, "2009 Death Tax Chart: Update January 2010."

RECENTLY LEGISLATED TAX CHANGES

This variable calculates each state's relative change in tax burden over a two year period, (in this case, 2008 and 2009), using static revenue estimates of legislated tax changes per $1000 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 the National Conference of State Legislatures, 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 2008 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 July 2009.

WORKERS' COMPENSATION COSTS

This variable highlights the 2008 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 National Conference of State Legislatures and the Cato Institute.

About the American Legislative Exchange Council

The American Legislative Exchange Council (ALEC) is the nation's largest, nonpartisan, individual membership association of state legislators. With 2,000 members, ALEC's mission is to advance the Jeffersonian principles of limited government, federalism, and individual liberty through a nonpartisan public-private partnership of state legislators, the business community, the federal government, and the general public.

Founded in 1973, ALEC is a 501(c)3 nonprofit organization that promotes free-market principles through "model legislation," developed by its public- and private-sector members in eight Task Forces:

CIVIL JUSTICE
To promote systematic fairness in the courts by discouraging frivolous lawsuits, to fairly balance judicial and legislative authority, to treat defendants and plaintiffs in a consistent manner, and to install transparency and accountability in the trial system.

COMMERCE, INSURANCE, AND ECONOMIC DEVELOPMENT
To enhance economic competitiveness, to promote employment and economic prosperity, to encourage innovation, and to limit government regulation imposed upon business.

EDUCATION
To promote excellence in the nation's educational system, to advance reforms through parental choice, to support efficiency, accountability, and transparency in all educational institutions, and to ensure America's youth are given the opportunity to succeed.

HEALTH AND HUMAN SERVICES
To reduce governmental involvement in health care, to support a consumer-driven health care system, and to promote free-market, pro-patient health care reforms at the state level.

NATURAL RESOURCES
To operate under the principles of free-market environmentalism, that is to promote the mutually beneficial link between a robust economy and a healthy environment, to unleash the creative powers of the free market for environmental stewardship, and to enhance the quality of our natural resources for the benefit of human health and well-being.

PUBLIC SAFETY AND ELECTIONS
To develop model policies that reduce crime and violence in our cities and neighborhoods, while also developing policies to ensure integrity and efficiency in our elections and systems of government.

TAX AND FISCAL POLICY
To reduce excessive government spending, to lower the overall tax burden, to enhance transparency of government operations, and to develop sound, free-market tax and fiscal policy.

TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY
To advance consumer choice in the dynamic and converging areas of telecommunications and information technology by furthering public policies that preserve free-market principles, promote competitive federalism, uphold deregulation efforts, and keep industries free from new burdensome regulations.

"In 1970, New York had 18 million people. In 2008, it had 19 million. In 1970, Texas had 11 million people. In 2008, it had 24 million. Laffer, Moore, and Williams explain why high taxes and high government spending drive jobs and people out of states and low taxes and low government spending bring them in. The facts and figures they provide in *Rich States, Poor States* make an irrefutable case."

Michael Barone, *Washington Examiner*, American Enterprise Institute,
co-author, *The Almanac of American Politics*

"*Rich States, Poor States* affirms what states have done to either bring about success or failure during these highly competitive economic times. This is a book that every state policymaker should study if they want their state to weather the current economic storm."

State Sen. Jim Buck, Indiana
Chairman of ALEC's Tax and Fiscal Policy Task Force

"Washington's big-government takeovers, power grabs, regulations, mandates, higher taxes, and bailouts have put state budgets in shambles. *Rich States, Poor States* is an essential guide for states to preserve their constitutional rights and fiscal sovereignty in the face of an ever-encroaching federal government."

U.S. Sen. Jim DeMint, South Carolina

"For decades, ALEC has served as a guardian of Jeffersonian principles in America's state capitals, providing important and timely resources to state legislators. *Rich States, Poor States* is a much-needed tool for lawmakers across America who are working to boost state economic competitiveness and prosperity."

Former Gov. Pete du Pont, Delaware

"*Rich States, Poor States* brilliantly outlines the severe consequences of increasing taxes during this economic downturn. As Laffer, Moore, and Williams point out, the key to state economic recovery is stimulating private-sector investment, not stimulating big government. *Rich States, Poor States* should be required reading for my fellow state lawmakers."

State Senate Majority Leader Chip Rogers, Georgia

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

ISBN: 978-0-9822315-5-5
90000
9 780982 231555