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7TH EDITION

RICH STATES, POOR STATES

ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

CHARLOTTE, NORTH CAROLINA

CHICAGO, ILLINOIS

ARTHUR B. LAFFER
STEPHEN MOORE
JONATHAN WILLIAMS

FOREWORD BY
GOV. PAT McCRORY

ALEC American Legislative Exchange Council

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Rich States, Poor States

ALEC-Laffer State Economic Competitiveness Index

Arthur B. Laffer
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Stephen Moore, who formerly wrote on the economy and public policy for *The Wall Street Journal*, is chief economist at The Heritage Foundation. Moore, who also was a member of *The Journal's* editorial board, returned to Heritage in January 2014—about 25 years after his tenure as the leading conservative think tank's Grover M. Hermann Fellow in Budgetary Affairs from 1984 to 1987. 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, 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.

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Foreword

Dear ALEC Member,

With Washington, D.C. switching back and forth between utter gridlock and attempting to negotiate fiscal crises at the last moment, it has become overwhelmingly clear that states must take the lead in ensuring that their economies continue to prosper. States have enormous power to jumpstart their economy or endure continual mediocrity. It is up to state leaders to deliver on the promise that hard work means more economic opportunities and a better future. North Carolina is a success story of what can happen when state leaders take this charge to heart.

Last year, state lawmakers and I passed the most fundamental tax reform legislation that North Carolina has seen in decades. With the helpful lessons from *Rich States, Poor States* and other publications like it, North Carolina adopted tax and fiscal policies that have positioned us to maximize our potential for economic growth. The tax code itself was simplified, the playing field was leveled for all business to have an opportunity to compete equally, and most importantly, North Carolinians got to keep more of their own hard earned income to save and invest. These reforms propelled us from 22nd place in last year's *Rich States, Poor States* report to 6th place this year. Creating a new and improved business climate will make it easier for people to start and grow business in our state and ensure that we are in a position to grow our economy to even greater heights.

From 2002 to 2012, North Carolina has welcomed in a net of nearly 650,000 new citizens from other states, ranking third in the nation for net domestic migration over that period. That same time period has yielded more than a 50 percent increase in Gross State Product growth. Unemployment is decreasing and economic opportunity is on the rise. Financial services firms and other high growth economic sectors are flocking to North Carolina and out of states like New York and Illinois. Fostering a pro-growth tax and fiscal policy environment depends on principles like those championed by Dr. Art Laffer, Stephen Moore, and Jonathan Williams as the authors of *Rich States, Poor States*. North Carolina's support of these principles made the major tax and fiscal policy reforms possible and continues to be a cornerstone of our ever-improving economic outlook.

States must embrace the responsibility for creating an economic climate in which all citizens and businesses have the opportunity to prosper. That economic opportunity is attainable for all state leaders who will listen to the evidence and responsibly limit budgets and allow citizens and businesses an opportunity to keep their own income and rediscover their place as the drivers of the American economy. Residents, taxpayers, and incomes are all mobile between states, but fiscal discipline and common sense economic policies that put citizens in control are the key elements for achieving economic prosperity.

Sincerely,

Pat McCrory
Governor of North Carolina

Executive Summary

As the federal government continues to struggle to adopt policies that are conducive to economic growth, the states have made their own efforts to maximize economic growth and facilitate growing opportunities, higher wages, and economic prosperity. But in their attempts to boost economic growth, states have diverged sharply on the best methods for achieving this great goal. Fortunately, deciphering which economic policies help and hinder economic growth is no longer relegated to the realm of guesswork. Years of economic and statistical analyses of the different policies states adopt (or fail to adopt) provide clear insight into what works and what doesn't.

In this seventh edition of *Rich States, Poor States,* Arthur B. Laffer, Stephen Moore, and Jonathan Williams highlight specific policy choices throughout the 50 states that have led some states to economic prosperity and others to lackluster growth. The authors provide the 2014 ALEC-Laffer State Economic Competitiveness Index, based on the economic policies of the states. Through the empirical evidence and analysis contained in this edition of *Rich States, Poor States,* the policies for economic growth are clear.

In chapter one, the authors provide updates on important policy developments that occurred throughout 2013 and the first half of 2014 in an in-depth, state-of-the-states analysis. Laffer, Moore, and Williams outline the highlights and lowlights in the states from major advances in pension reform, the best and worst changes in state tax policy, and new developments in labor policy. Readers should also look out for the hottest prospects for future tax reform in Nebraska, Georgia, and Rhode Island in the potential pro-growth changes section.

Chapter two chronicles the movement of both people and income throughout the states. The data on how many people and how much income has moved from one state to another is readily available, and the authors examine these trends and offer compelling explanations for why this is the case. Why are so many people leaving the Northeast? Of the largest states in the nation, which ones are flourishing and which ones are floundering? Armed with statistical trends and a wealth of economic evidence, the case studies examined in this chapter offer compelling insight on what kinds of policies successful states implement and which ones they avoid.

In chapter three, the authors provide a detailed explanation of not just which policies are conducive to economic growth and which ones are not, but also why this is the case. This chapter gives readers an economic primer on why policies have the effects that they do, for better or for worse. The chapter includes a discussion of current academic literature and data to support the robust analysis offered. Economic theory and quantitative data meet to provide a fuller picture of state economic policy. The real world effects of minimum wage laws, death taxes, and higher tax burdens, are among the questions examined and answered in this chapter.

Finally, chapter four is this year's comprehensive ALEC-Laffer State Economic Competitiveness Index. The index is comprised of two separate economic rankings. The first ranking is a measure of economic performance based on the three most effective metrics. Growth in gross state product (GSP), absolute domestic migration, and growth in non-farm payroll employment are calculated for each state over the past ten years with the most recent data available. Each of these metrics provides an economic insight into the effects of a state's tax and fiscal policy choices by showing what their effects have been over a ten year time period.

The second ranking is of a state's economic outlook moving forward. This forecast is based on a state's current standing in 15 equally weighted policy areas that are influenced directly by state lawmakers. The 15 policy areas have proven over time to be among the most influential factors (that state lawmakers can control) in determining a state's potential for economic growth. Generally, states that spend less, especially on transfer payments, and states that tax less, particularly on productive activities such as work or investment, tend to experience higher rates of economic growth than states that tax and spend more.

The following 15 policy variables are measured in the 2014 ALEC-Laffer State Economic Competitiveness Index:

- 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/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes (Over past two years)
- Debt Service as a Share of Tax Revenue
- Public Employees per 1,000 Residents
- Quality of State Legal System
- Worker's Compensation Costs
- State Minimum Wage
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

This seventh edition of *Rich States, Poor States* contains invaluable insight into each of the 50 "laboratories of democracy." With solid empirical research and the latest data on state economies, the evidence is clear on which state tax and fiscal policies directly lead to more opportunities, more jobs, and more prosperity for all.

10 Golden Rules of Effective Taxation

1 ***When you tax something more you get less of it, and when you tax something less you get more of it.***

Tax policy is all about reward and punishment. Most politicians know instinctively that taxes reduce the activity being taxed—even if they do not care to admit it. Congress and state lawmakers routinely tax things that they consider "bad" to discourage the activity. We reduce, or in some cases entirely eliminate, taxes on behavior that we want to encourage, such as home buying, going to college, giving money to charity, and so on. By lowering the tax rate in some cases to zero, we lower the after tax cost, in the hopes that this will lead more people to engage in a desirable activity. It is wise to keep taxes on work, savings, and investment as low as possible in order not to deter people from participating in these activities.

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

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

3 ***Taxes create a wedge between the cost of working and the rewards from working.***

To state this in economic terms, the difference between the price paid by people who demand goods and services for consumption and the price received by people who provide these goods and services—the suppliers—is called the wedge. Income and other payroll taxes, as well as regulations, restrictions, and government requirements, separate the wages employers pay from the wages employees receive. If a worker pays 15 percent of his income in payroll taxes, 25 percent in federal income taxes, and 5 percent in state income taxes, his $50,000 wage is reduced to roughly $27,500 after taxes. The lost $22,500 of income is the tax wedge, or approximately 45 percent. As large as the wedge seems in this example, it is just part of the total wedge. The wedge also includes excise, sales, and property taxes, plus an assortment of costs, such as the market value of the accountants and lawyers hired to maintain compliance with government regulations. As the wedge grows, the total cost to a firm of employing a person goes up, but the net payment received by the person goes down. Thus, both the quantity of labor demanded and quantity supplied fall to a new, lower equilibrium level, and a lower level of economic activity ensues. This is why all taxes ultimately affect people's incentive to work and invest, though some taxes clearly have a more detrimental effect than others.

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

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

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

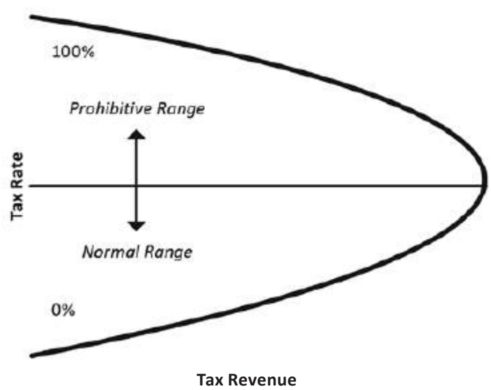
An obvious way to avoid paying a tax is to eliminate market transactions upon which the tax is applied. This can be accomplished through vertical integration: Manufacturers can establish wholesale outlets; retailers can purchase goods directly from manufacturers; companies can acquire suppliers or distributors.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

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

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

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

The Laffer Curve



Source: Laffer Associates

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

Economists have observed a clear Laffer Curve effect with respect to cigarette taxes. States with high tobacco taxes that are located next to states with low tobacco taxes have very low retail sales of cigarettes relative to the low tax states. Illinois smokers buy many cartons of cigarettes when in Indiana, and the retail sales of cigarettes in the two states show this.

6 ***The more mobile the factors being taxed, the larger the response to a change in tax rates. The less mobile the factor, the smaller the change in the tax base for a given change in tax rates.***

Taxes on capital are almost impossible to enforce in the 21st century because capital is instantly transportable. For example, imagine the behavior of an entrepreneur or corporation that builds a factory at a time when profit taxes are low. Once the factory is built, the low rate is raised substantially without warning. The owners of the factory may feel cheated by the tax bait and switch, but they probably do not shut the factory down because it still earns a positive after tax profit. The factory will remain in operation for a time even though the rate of return, after taxes, has fallen sharply. If the factory were to be shut down, the after tax return would be zero. After some time has passed, when equipment needs servicing, the lower rate of return will discourage further investment, and the plant will eventually move where tax rates are lower.

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

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

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

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

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

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

Ideally, the tax system of a state, city, or country will distort economic activity only minimally. High tax rates alter economic behavior. President Ronald Reagan used to tell the story that he would stop making movies during his acting career once he was in the 90 percent tax bracket because the income he received was so low after taxes were taken away. If the tax base is broad, tax rates can be kept as low and non-confiscatory as possible. This is one reason we favor a flat tax with minimal deductions and loopholes. It is also why more than 25 nations have now adopted a flat tax.

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

Unemployment benefits, welfare payments, and subsidies all represent a redistribution of income. For every transfer recipient, there is an equivalent tax payment or future tax liability. Thus, income effects cancel. In many instances, these payments are given to people only in the absence of work or output. Examples include food stamps (income tests), Social Security benefits (retirement test), agricultural subsidies, and, of course, unemployment compensation itself. Thus, the wedge on work effort is growing at the same time that subsidies for not working are increasing. Transfer payments represent a tax on production and a subsidy to leisure. Their automatic increase in the event of a fall in market income leads to an even sharper drop in output.

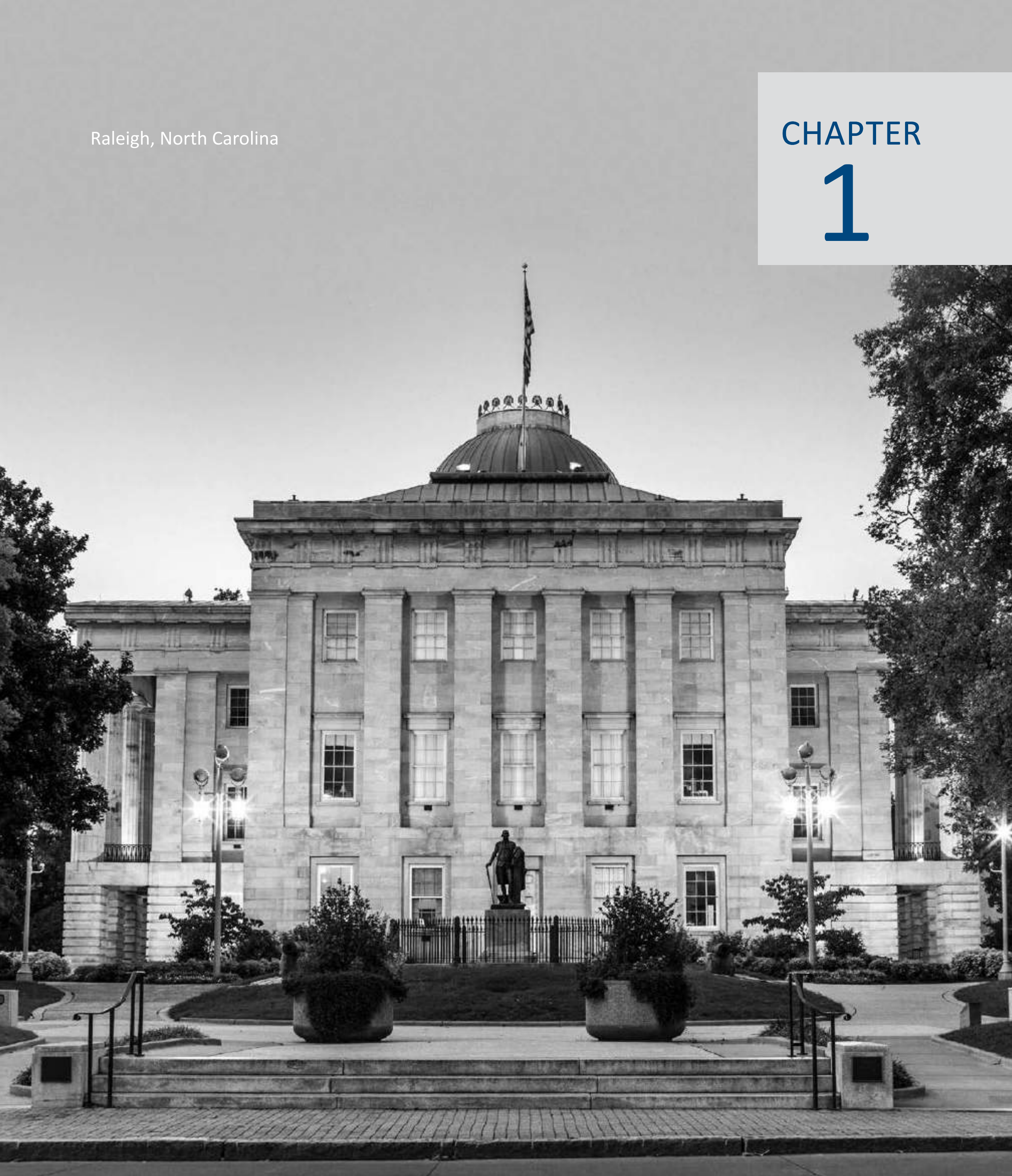
In some high benefit states, such as Hawaii, Massachusetts, and New York, the entire package of welfare payments can pay people the equivalent of a $10 per hour job (and let us not forget: welfare benefits are not taxed, but wages and salaries are). Because these benefits shrink as income levels from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

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

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

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

Raleigh, North Carolina



CHAPTER
1

State of the States

State of the States

States do not enact (or fail to enact) policies in a vacuum. This has been one of the most important themes throughout the history of this publication. In today's dynamic world of increasingly mobile capital, businesses, and people, states are in competition with one another to provide the best economic climate possible to foster economic growth.

Although there are many factors contributing to a state's economy which cannot be managed, tax and fiscal policy factors are solidly in the control of the state's policymakers. A state cannot vote for warmer weather, more oil reserves, or a nice coastline, but policymakers can make sure that there is more capital in the hands of businesses and citizens, and can make it easier for them to save, earn, and invest.

While some states have chosen to embrace these free market, pro-growth tax and fiscal policies—and have realized the benefits—others have chosen to disregard the economic data and have continued down the path of increasing government power and ever higher taxes.

The Good, the Bad, and the Ugly: Notable Recent Tax Changes

In this chapter, we will examine some of the successes, failures, and challenges that states continue to face when it comes to tax and fiscal policy. Overall, 2013 was a standout year for tax changes in the states, with mostly positive changes for tax and fiscal policy, and far fewer negative changes. Simultaneously, as two very different economic visions are adopted across the country, fewer states are occupying the middle ground.

The Good: Growing Momentum for Tax Reform

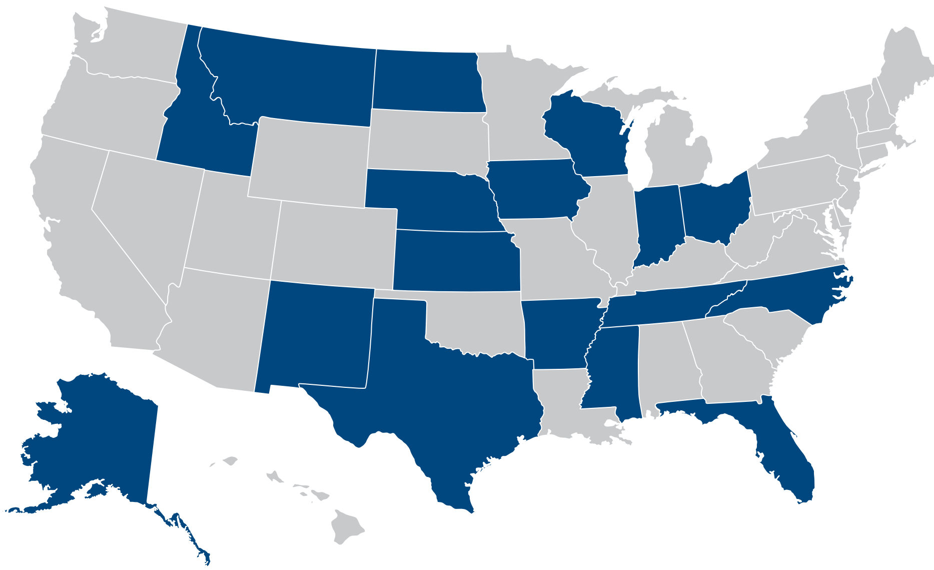
In 2013, 17 states cut taxes in a significant and pro-growth way—an incredible number in comparison to previous years. In these 17 states, there were 25 cuts in specific tax categories. Nearly one quarter of the 25 tax cuts were to the personal income tax, followed by reductions to various state-specific taxes and to the corporate income tax. Sales tax reductions were the least enacted form of tax cuts.

Table 1 | **Economic Outlook Top Ten vs Bottom Ten**
Based upon equal-weighting of each state's rank in 15 policy variables

Rank	State
1	Utah
2	South Dakota
3	Indiana
4	North Dakota
5	Idaho
6	North Carolina
7	Arizona
8	Nevada
9	Georgia
10	Wyoming

Rank	State
41	Rhode Island
42	Oregon
43	Montana
44	Connecticut
45	New Jersey
46	Minnesota
47	California
48	Illinois
49	Vermont
50	New York

FIGURE 1 | **2013 State Tax Cut Roundup: 17 States Enact Pro-Growth Tax Cuts**



The states that significantly cut taxes during the 2013 legislative year:
Alaska, Arkansas, Florida, Idaho, Indiana, Iowa, Kansas, Mississippi, Montana, Nebraska, New Mexico, North Carolina, North Dakota, Ohio, Tennessee, Texas, and Wisconsin.[1]

For more details on the pro-growth tax reform in the states, please see ALEC's full 2013 State Tax Cut Roundup report. Out of the 17 states that enacted tax cuts, two states—North Carolina and Indiana—stand out as significant examples of historic reform.

North Carolina's Historic Tax Overhaul

Last year, North Carolina passed a monumental overhaul of the state's tax code—one of the most significant tax reforms for economic growth in the last decade. The tax reform package had broad, far-reaching effects that immediately improved the state's competitiveness and put it on track for greater economic growth. In general, the plan achieved the following:[2]

- Replaced North Carolina's three-tiered personal income tax structure with a modified flat tax
- Lowered the top marginal rate of the personal income tax (from 7.75 percent down to 5.8 percent in 2014, and then 5.75 percent in 2015)
- Reduced the personal income tax across all income brackets
- Lowered the corporate income tax rate (from 6.9 percent in 2013 to six percent in 2014 and five percent in 2015, with a provision for the rate to possibly decrease to four percent in 2016 and again to three percent in 2017, depending on whether revenue growth targets are achieved)
- Eliminated the state's death tax
- Broadened the sales tax base
- Eliminated multiple franchise taxes, privilege taxes, and preferential sales tax rates.

In all, the reform bill cuts taxes by more than $500 million in the first two years and by more than $650 million a year by the 2017-2018 fiscal year. These reforms boosted North Carolina to the number six spot—from number 22 last year—in this year's *Rich States, Poor States ALEC-Laffer State Economic Competitiveness Index.*

According to Art Pope, the state's budget director and a former North Carolina state representative, North Carolina's tax code "is now simpler, more uniform, and fairer for everyone." He notes that "nearly every North Carolinian is keeping more of the money earned, which is fundamental to building a stronger economy."[3]

Certainly, as the reforms have time to mature and other pieces of this comprehensive overhaul are phased in, North Carolina is positioned to be among the nation's top economic performers.

Indiana is Open for Business

Another success story in the area of pro-growth tax reform comes from the Hoosier State. Indiana has taken significant steps to build a more pro-growth economic climate in the past few years, and 2013 was no exception. Lawmakers in Indiana came together to pass a significant tax cut package that will spur more business investment and help grow their economy. The plan includes a reduction of the state income tax to be phased in over four years, ultimately reducing it to 3.23 percent from its current 3.4 percent. The plan also continues phasing in corporate income tax cuts passed in the previous legislative session and fully eliminates the state's economically damaging death tax. With the resulting competitive tax code and the right-to-work law, the message is clear: Indiana is open for business.[4]

Missouri enacts broad based tax cuts for the first time in nearly 100 years

Missouri's pro-growth reform efforts deserve an honorable mention. Although a tax cut package was passed by the legislature in the 2013 legislative session, Gov. Jay Nixon vetoed the bill, which the legislature was unable to overcome, and instead called a special session to pass a tax cut package for one specific company, Boeing, in an effort to entice them to move into the state. That special tax package passed, but it failed to lure Boeing into the non-right-to-work state.[5]

However, legislators in Missouri didn't give up on broad based tax reform. Earlier this year, a similar tax cut package was again passed by the Missouri legislature, and this time the governor's veto was overridden. The new Missouri tax cuts are the state's first broad based tax cuts to be enacted in almost 100 years. The package includes cutting the personal income tax rate from its current 6 percent down to 5.5 percent gradually over several years, and phasing in a 25 percent deduction for business income that is taxed through the personal income tax code. The total value of the tax cuts is estimated to be $620 million dollars—an amount that will now remain in the pockets of Missouri citizens and businesses.

Although this is great news for citizens and businesses in Missouri, and is certainly a significant step in the right direction for tax policy, the tax cut package comes with some important caveats. First, the tax cuts do not begin until 2017 and will not be fully phased in until 2022 (if revenue estimates are met). Second, the state must collect $150 million of revenue above the highest level in the preceding three years for the next year's scheduled incremental tax cut to take effect.

Even with these restraints, the Missouri tax cuts represent an acknowledgment that the status quo is unacceptable when it comes to the state's tax code. Missouri lawmakers have taken the first step in helping the state realize its potential for economic growth.[6]

In addition, there is the prospect for more pro-growth policies with a renewed effort to pass right-to-work legislation. Despite the governor's stern objections, there seems to be growing interest in giving Missouri employees the right to choose whether or not they would like to belong to a union. The effort is gaining momentum in Missouri and passing the legislation would not only make Missouri a viable location for companies to relocate, but it would improve economic and competitive conditions for existing companies.[7]

Ohio Cuts Taxes in New Budget

In mid-June of 2014, Ohio passed pro-growth tax reform as part of a mid-biennium budget update. The bill accelerated scheduled income tax cuts to 10 percent (previously they were scheduled for a 9 percent reduction), increased the personal deduction for lower and middle income Ohioans, and increased the small business tax credit to 75 percent.[8]

The small business tax cut moves Ohio closer to the reforms of Kansas, which allows for the deduction of all non-wage small business income filed by so-called "pass-through entities" in the personal income tax code. Businesses can deduct 75 percent of their first $250,000 of business income, up from a previous figure of 50 percent.

Kansas' Tax Cutting Streak Continues

Not to be outdone by neighboring Missouri, Kansas passed another tax cut package this past session. While the tax cut wasn't a high profile rate reduction, the legislature did vote to phase out a little known mortgage registration fee—the result of which is expected to save home buyers in Kansas millions of dollars. By reducing and eliminating this fee, it will be easier for Kansas residents to purchase homes and allow them to keep more of their own money.[9]

Commenting on the hidden nature of the mortgage registration fee, Sen. Jeff Melcher said, "It's just an unfair tax and it's a hidden tax. Nobody realizes that they're paying it, it's just another hidden way for them to get into taxpayers' pockets without them even knowing it." He went on to note that if counties believe that this revenue is necessary and important to maintain, then they should raise taxes that voters are aware of, such as property taxes, so that they can be held properly accountable.[10]

Colorado Voters Reject Tax Hikes, Choose Growth

Taxpayers in Colorado chose jobs, economic opportunity, and growth in 2013 by saying "thanks, but no thanks" to Amendment 66. A ballot measure, Amendment 66, would have eliminated Colorado's flat rate income tax of 4.63 percent in favor of a new tiered income tax system that would tax income below $75,000 at 5 percent and income above that amount at 5.9 percent. The result would have been nearly $1 billion in new taxes on *all* Coloradans—both high and low income earners.

Despite an influx of out of state money to support the initiative, it was eventually defeated by Colorado voters by a 30 point margin.[11]

Illinois Narrowly Avoids the Economically Devastating Graduated Income Tax

A flat rate income tax is guaranteed by the state constitution in Illinois. This year, Illinois Sen. Don Harmon almost won an effort to put a constitutional amendment on the ballot that would ask voters to amend the constitution so that the Illinois legislature could implement a graduated income tax in lieu of the flat tax rate. The proposal came at a time when the state's temporary income tax hike (three percent to five percent) was set to partially expire, meaning the rate would fall to 3.75 percent if nothing changed.

Sen. Harmon's effort was stalled in the Illinois House when the proposal could not muster the votes to pass. Summarizing the voice of the opposition, Democrat Rep. Jack Franks, said, "I just don't think it's very fair, what's fair is allowing the temporary tax increase to expire...as we were promised. It's not a fair tax. It's a tax increase."[12]

Although proponents of the measure claim that this is only a temporary setback, any plans to implement a graduated income tax in Illinois will have to be delayed until at least 2015.

The Bad: Failed Tax Reform Measures

Oklahoma's Tax Reform Setback

It is worth noting that Oklahoma lawmakers also passed a tax cut package. It was, however, eventually struck down by Oklahoma's State Supreme Court because it contained a provision that authorized spending to renovate the state Capitol building. Oklahoma, like many other states, has a single subject rule, which means that bills can only deal with one subject at a time. Unfortunately, the tax cut package violated this rule and will not be enacted.[13]

Despite the setback, Oklahoma lawmakers are currently debating a few different tax cut proposals, and Gov. Mary Fallin has indicated that she is open to considering pro-growth tax reforms in the future.

Nebraska's Small Reforms

Nebraska is another state that seemed poised to significantly reform its tax code. While the effort did not yield the results that many experts and lawmakers expected, the state did form a commission to study tax reform options.

The state also passed a series of small but important tax cuts this legislative session. Nebraska eliminated the Alternative Minimum Tax (AMT), allowed business losses to be carried over 20 years rather than five, allowed contributions to a college savings plan to be tax deductible, and expanded a capital gains tax exclusion for companies that establish a program for employee stock options. These small reforms, coupled with the tax reform commission, positions Nebraska as a state to watch in the coming years, as it could enact some major pro-growth tax changes.[14]

Michigan's "Temporary" Income Tax Hike

Despite recent gains in the state of Michigan including repealing the Michigan Business Tax—a tax partially based upon business gross receipts widely opposed by economists—and phasing out the business personal property tax on business capital, tax reformers were ultimately defeated in the most recent legislative session as they strived to lower the state's income tax rate. The rate was temporarily increased in October 2007 from 3.9 percent to 4.35 percent. That rate was scheduled to gradually sunset back down to 3.9 percent at a rate of 0.1 percentage point a year beginning in 2009, but the rate reduction was suspended. Tax reformers attempted to use the state's budget surplus to bring rates back down to 3.9 percent but were unsuccessful.

Tennessee Unable to Repeal Hall Investment Tax

Tennessee is generally hailed as a state with a pro-growth tax policy, notably in its restraint from taxing the wage income of its citizens. Despite this, the state does have one major shortcoming: the Hall Tax on investment income. The tax is levied on "unearned" investment income. Despite the deceptive title of "unearned," it indeed does take risk and sound stewardship of capital dollars in order to "earn" an investment return. Moreover, capital investment is crucial to innovation, business expansion, wage growth, and secure retirement for seniors. The tax is an impediment to each of these desired outcomes.

While the Hall Tax brings in very little revenue,[15] hopeful reformers were ultimately unable to get all Republicans to sign on to the proposal to eliminate it—due to concerns over budget shortfalls—and it subsequently died during the legislative session.

The Ugly: State Setbacks for Economic Growth

Minnesota's $2 Billion Tax Hike

Over the last two years, Minnesota has sent conflicting signals on pro-growth policies. By raising taxes on cigarettes and also increasing the state's income tax rate to 9.85 percent on earners who make over $150,000 ($250,000 for married couples), lawmakers effectively passed a $2 billion tax hike during the 2013 legislative session. The income tax hike equates to a 2 percentage point increase over previous rates, and now makes Minnesota the state with the fourth highest income taxes in the country.[16] Additional tax increases as part of the $2 billion included instituting a gift tax and taxing various business inputs, such as storage and telecommunications equipment.

Despite the major tax increases of 2013, policymakers changed course during the 2014 legislative session and included a bill that is projected to reduce taxes in Minnesota by an estimated $443 million. This includes a sales tax exemption for business to business transactions, a repeal of the 2013 gift tax, and an increased exemption for the state's estate tax (the exemption will be phased in to $2 million from $1 million over the next five years). The tax cut bill also included several other smaller provisions that will decrease what Minnesotans have to pay.[17]

While the result of the two sessions is a net tax hike, the key takeaway is that many taxes that were created or increased in 2013 were immediately repealed in 2014.

Virginia's Controversial Transportation Funding Package

Virginia made national headlines last year when it enacted a controversial transportation funding package. The tax increase came in the form of a revenue positive tax swap for transportation funding. The gas tax of 17.5 cents per gallon was eliminated and there was a new tax added to the wholesale purchase of fuel (3.5 percent on gasoline and 6 percent on diesel). In addition to this swap, sales taxes were increased to fund more transportation spending. This includes a statewide sales tax increase and region-specific tax increases.[18]

Specifically, the statewide Virginia sales tax was increased from 5 percent to 5.3 percent. As part of the region-specific taxes, taxpayers in Northern Virginia and Hampton Roads will see an increase in sales tax from 5 percent to 6 percent. Unfortunately, the increased sales tax will be paid by drivers and non-drivers alike, which shifts costs away from those who "consume" the bulk of transportation spending and onto those who do not use the roads as much. Additionally, some of the increased revenue will go to fund the silver line Metro Rail extension to Dulles Airport, increasing costs for those who may or may not use the new silver line. Overall, the estimated tax hike on Virginians amounts to about $5.9 billion.[19]

Traditionally Liberal Leaning States Adopt Sound Economic Reforms

In spite of the economic evidence that shows lower taxes and a more free economy is far more conducive to economic growth, there are still some stubborn states that seemingly refuse to acknowledge the facts. As Herb Stein famously said, if something can't go on forever, it won't. During the last legislative session, we witnessed a growing number of states shift on tax policy. This reflects the understanding that catching up with their fast-growing free market and pro-growth counterparts is a necessity.

Purple States Move to the Right on Taxes

Wisconsin Modernizes the Tax Code

The 2013-2015 biennial budget passed last year in Wisconsin contained a cut to tax rates for every income bracket. Wisconsin's complex system of five personal income tax brackets was reduced to four, with the lowest income earners receiving a 4 percent tax cut, and couples making more than $315,000 also sending less to Madison with a new top personal income tax rate of 7.65 percent. Middle-income families will pay 4 to 7 percent less in the newly merged brackets. The enacted budget also eliminates 17 tax deductions and brings depreciation and capital loss standards to federal standards. The total income tax cut amounts to a taxpayer savings of $650 million over two years.[20]

In the 2014 legislative session, Wisconsin moved to decrease taxes even further with the governor signing a tax cut bill that will allow taxpayers to save about $541 million. The tax cut package reduces property taxes and income taxes, decreases the amount withheld from taxpayers from each paycheck, and cuts taxes for manufacturers. With projected budget surpluses and multiple tax cuts, Wisconsin has proved that it is committed to a pro-growth economy.[21]

New Mexico Cuts its Corporate Income Tax

Gov. Susana Martinez and the state legislature came together in 2013 to pass a significant corporate income tax reduction. The rate will decrease from 7.6 percent to 5.9 percent and will make it easier for New Mexico to remain competitive with states in the region.

Although the package was a compromise and included specific deductions and targeted tax incentives that are generally not ideal for sound tax policy, a bipartisan reduction of the top marginal corporate income tax rate is a step in the right direction to realize economic growth.[22]

The Michigan Comeback

Just a few years ago in 2009, Michigan ranked as poorly as 34th in the country in this publication. Thankfully, recent public policy changes should give Michigan citizens reason for optimism for a brighter and more prosperous future. This edition of *Rich States, Poor States* shows Michigan jumping from the 20th most competitive state in 2013, to the 12th most competitive state in 2014.[23]

By the end of 2013, Michigan—the longstanding bastion of organized labor—could no longer deny economic realities, and became the nation's 24th state to adopt a right-to-work law that gives workers the freedom to choose whether or not they would like to join a union. Advocates of worker freedom hail this as a major victory for both the state's workers and for Michigan's economic future.[24]

Now that workers have a choice, the SEIU healthcare affiliate has seen an 80 percent decrease in membership in Michigan. Combined with increasingly competitive tax policies, the right-to-work legislation will serve to energize the state and make Michigan once again a viable place to start, move, or grow a business.[25]

Michigan policymakers have undertaken a number of bold reforms in recent years to make the state more hospitable to large and small businesses alike. The Michigan business tax repeal, the phase-out of the personal property tax, the taxpayer audit guidance, regulatory reform, and adoption of a right-to-work policy ensure that Michigan is on the right track to a true and lasting economic recovery. By simplifying the bureaucracy, making it easier to start and grow businesses, and giving people the choice of whether or not they would prefer to join a union, Michigan is once again positioned for economic growth.

Deep Blue States Show a Pulse on Economics

New Jersey Considers Death Tax Reform

While New Jersey is facing a revenue shortfall and some of the ideas that have been suggested to bridge that gap would harm economic growth, there is still some serious discussion in the legislature on ways that New Jersey can stop losing wealthy residents who leave the state because of high taxes.

Specifically, New Jersey is considering serious reform to its estate (death tax) and inheritance taxes. New Jersey—whose legislature traditionally leans to the left—is one of only 19 states that still levies an estate and/or inheritance tax and one of only two states the levies both (Maryland is the other).[26]

Moreover, these taxes in New Jersey are particularly punitive. The rate is as high as 16 percent for both the estate and inheritance taxes and the exemption is only $675,000. By contrast, the federal exemption to the estate tax is $5.25 million and is indexed to rise with inflation. The high rates, double taxation, and low exemption make New Jersey a highly undesirable place to have an estate and makes it harder on small businesses who want to keep them in the family.[27]

Although there is currently no single plan that lawmakers are supporting, several options are being formulated. At a minimum, lawmakers are showing awareness to the problem and an understanding that they must change policies that ultimately force wealthy taxpayers out of the state.

Maryland Reforms the Estate Tax

Maryland is one of only two states that still maintains both an estate tax, also known as the death tax, and an inheritance tax (New Jersey is the only other state that still has both taxes). But Maryland lawmakers this session have made their estate tax less punitive and have given wealthy residents less of a reason to flee the state.

The legislature passed a bill to raise the estate tax exemption from $1 million this year to $1.5 million in 2015, $2 million in 2016, $3 million in 2017, and $4 million in 2018 before matching the federal exemption (projected to be $5.9 million) on January 1, 2019. From then on, the Maryland estate tax would be coupled with the federal exemption and would be indexed for inflation.[28]

Maryland's pro-growth reform comes as many states look at reforming their estate taxes. Of the 19 states and the District of Columbia that still levy a state level estate tax, Minnesota, Maine, New York, New Jersey, and the District of Columbia either have reformed their estate tax or are likely to in the near future. Additionally, death taxes have been repealed in the last four years by Indiana, Kansas, North Carolina, Ohio, and Oklahoma. Tennessee's estate tax is set to be completely phased out by January 2016.[29]

Rhode Island Looks to Gain an Edge in the Northeast

Rhode Island, a state that is not known for its conservative tax policy, recently adopted a budget that would help the state gain an economically competitive edge over some of its neighbors. The newly elected House Speaker, Nicholas Mattiello—a Democrat—has made it clear that reducing the tax burden of estate and corporate taxes is a priority.[30]

Those priorities were clear in the state's budget that passed through the Rhode Island House at the time of publication. The highlight of the budget includes a corporate income tax cut from 9 percent down to 7 percent for tax year 2015. The budget also raises the exemption for the state's estate tax from the current $910,725 to $1.5 million.[31]

The budget included various other provisions, but the focus of the budget remains on the measures for reducing taxes. If the budget is signed into law, Rhode Island would join many other traditionally blue states in reforming the estate tax and other similar states that are starting to realize that they are in competition for people, income, and businesses and that they need to make sure their tax codes are as competitive as possible.

Illinois' Token Pension Reforms

The chronic underfunding of state and local public pensions has turned the issue of underfunded pension systems from an overlooked issue into a major concern. Illinois, and especially Chicago, has become a poster child for dysfunctional and underfunded pension systems. Last year, Illinois became the second state in history to be indicted by the Securities and Exchange Commission for accounting fraud due to how the state handled and projected its pension obligations. This indictment put pressure on Illinois lawmakers to take a hard look at public pensions and make a strong effort to reform them.[32]

Not surprisingly, Illinois lawmakers did not pass the major pension reforms that were needed to secure the pension system for employees moving forward. However, it was not a complete loss for reformers, as some good reforms were passed, even if they are not as significant as would be needed to really fix Illinois' pension crisis.[33]

The plan includes curtailing cost of living adjustments for most workers, capping salary amounts that can be used to calculate an employee's pension, and raising the retirement age for many employees. In exchange, the employee contributions to their pensions will drop by 1 percent and the legislature agreed to more fully fund the pension system in its payments each year.[34]

While these changes are helpful, the core of the plan was an optional 401(k) style defined-contribution plan that is optional for new workers. Moving all new employees into the defined-contribution pension plan in the future is the best way to make sure that the pension system remains stable and reliable for years to come. Considering that these reforms took place in the left-leaning state of Illinois, there is reason reformers should consider this a victory, even if it is a small and symbolic one.

New York's Small Steps Toward Pro-Growth Reform

New York is no stranger to being in last place in the *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index.* However, even a state like New York cannot deny economic realities forever. The phenomenon of losing people, businesses, and income year after year has led Gov. Andrew Cuomo to address the state's uncompetitive economic climate and adopt a few pro-growth reforms, even if they are limited in scope.

Gov. Cuomo signed the FY2014-2015 budget into law and in doing so pushed New York in the direction of a more competitive economic climate. Though there are some targeted tax incentives that are a negative for economic growth, the overall budget contains some extremely positive reforms. The core positives of the plan include the following: [35]

- A corporate income tax rate reduction to 6.5 percent from 7.1 percent
- Coupling the state's estate tax exemption to the federal estate tax exemption (over time)
- Repealing the individual add-on minimum tax

While these reforms may seem small when compared with North Carolina or Indiana, the significance of pro-growth reforms in New York after years of ever rising taxes cannot be overstated.

The States' Continuing Pension Crises

Unfunded pension liabilities are one of the most important issues facing states today. The total combined unfunded pension liabilities from across the states stands at a staggering $3.9 trillion.[36]

ALEC's recent report, *Keeping the Promise: State Solutions for Government Pension Reform,*[37] discusses how the current defined-benefit plan structure for government pensions are unsustainable and provides solutions for reforms that benefit workers, retirees, and taxpayers. The defined-benefit pension plan style is used in the overwhelming majority of state and local pension plans.

Simply put, defined-benefit pension systems guarantee an employee a specific set amount of money periodically throughout retirement with no limit on the total cost. This arrangement is not altered due to market fluctuations or pension underfunding, and any gap between what is owed to the retiree and what the pension fund can pay must be supported entirely by the taxpayers—meaning that 100 percent of the risk is borne by taxpayers.

Defined-contribution plans by contrast split the risk between employees and taxpayers by establishing a dedicated amount of money that is invested on the employee's behalf throughout their working career. This can be supplemented by the employee and, since it is individualized, it is portable and employees can make sure that the state (their employer) is not underfunding their retirement accounts. At retirement, the money belongs to the employee to invest or turn into an annuity. Overall, the defined-contribution plan is a sustainable solution to public employee retirement problems and is structurally very similar to the 401(k) style plans that most private sector employees have.

While some states and municipalities choose to downplay the severity of unfunded pension liabilities resulting from defined-benefit plans, others are beginning to recognize these liabilities for the budget catastrophes that they are. They are taking steps to reform them before they become a crisis.

Keeping the Promise: Positive Pension Reforms

Oklahoma Passes a True Pension Overhaul

In the most significant pension reform of the decade, Oklahoma became the third state in the country to transition new hires into a 401(k) style defined-contribution pension plan. Oklahoma joins Michigan and Alaska in making the switch. The pension overhaul exempts teachers and public safety employees from the defined-benefit to defined-contribution transition, but all other new state employees, beginning in November of 2015, will be enrolled in the state's defined-contribution plan.

The pension reform will not impact current retirees or current employees, the changes will only concern new workers. This ambitious reform will be an essential part of Oklahoma's fiscal health for years to come. Although the state still faces significant unfunded liabilities from its current defined-benefit pension system, it is one of only three states that will no longer be accruing these massive liabilities every year. Oklahoma can now work over time to pay off unfunded liabilities, keep its promises to current workers and retirees, and also make sure that future employees will have a stable and sustainable retirement plan.[38]

Oklahoma is the most recent state to recognize that the traditional defined-benefit plans no longer serve a 21st century workforce, hopefully this major fiscal win will not go unnoticed in other states that are looking for ways to make sure their public servants are well taken care of in retirement.

Boeing Employees Choose a Defined-Contribution Pension Plan

Boeing is the latest example of a Fortune 100 company to offer defined-contribution plans for employees.[39] Recently, Boeing and the International Association of Machinists District 751 negotiated a contract that would allow Boeing to build the new 777X jet in Everett, WA Under the new contract, all workers will transition from a traditional defined-benefit plan into a modern defined-contribution plan.[40] The contract will freeze all benefits earned from the defined-benefit plan in 2016, and transition them into a defined-contribution plan. Of union members, 51 percent voted in favor of the contract, choosing a defined-contribution plan that promotes economic security and mobility.[41]

While nearly 85 percent of private sector employees across the country are enrolled in defined-contribution plans, the public sector continues to offer unsustainable defined-benefit plans.[42] And when the public sector makes pension promises they cannot afford, retirees, workers, and taxpayers suffer.[43]

This should serve as a wakeup call for pension crisis deniers. Defined-benefit plans are simply unsustainable in the long term. If states want to protect employees' pensions and also limit risks to the state budget and to taxpayers, lawmakers should follow the example of Boeing and move all new employees into a defined-contribution 401(k) style system.

Pension Reform Setbacks in States and Municipalities Across the Country

San Jose Fights an Uphill Battle

Since major pension reforms were first passed through ballot measures in San Jose in 2010, known as Measure B, San Jose Mayor Chuck Reed has emerged as one of the key leaders in the municipal pension reform effort. Unfortunately, Mayor Reed suffered a double setback in May of 2014 to his pension reform efforts.

A Santa Clara County Superior Court judge ruled in May of 2014 that increased employee contributions to pensions cannot go into effect before July 1, 2015. Employee pay also cannot be cut before that date. Increased employee contributions into the pension system was a key provision of Measure B, a voter approved ballot measure that was meant to get the city's pension costs under control.[44]

It is unclear if the union leaders, who have been vocally opposed to pension reform efforts such as Measure B, and city officials will reach any kind of agreement on employee pension contributions before July 1, 2015. Either way, this is a major setback in the city's efforts to reform pension costs.

In light of the lawsuits and other difficulties that San Jose has faced in the wake of Measure B and the pension funding battle, Mayor Reed is now attempting to put a statewide measure on the ballot that, if approved, would allow cities and localities to alter pension benefits and employee pension contributions for *future* work done. Meaning that pension benefits that public employees have already earned cannot be altered, but any pension benefits that they have yet to earn could potentially be changed.

This effort, however, was also dealt a setback when California Attorney General Kamala Harris issued ballot language for the initiative that Reed and other supporters said was unrepresentative of the issue at hand. Mayor Reed sued to get the language changed, but the judge decided in favor of Harris' language. If the ruling stands after all appeals are exhausted, Reed and other supporters of the initiative will then decide whether they still want to attempt to get the measure on November's ballot or if they will wait until 2016.[45]

Rhode Island's Pension Reforms Take a Major Step Backwards

Rhode Island State Treasurer Gina Raimondo became a sensation as a level-headed blue state official who seemed to understand the importance of enacting major pension reform. Her leadership was instrumental in passing the 2011 pension reform in Rhode Island that, while not the ideal, was a significant step in the right direction.

Unfortunately, since this success, she has decided to run for governor of Rhode Island and in the process has distanced herself from her signature pension reforms. Treasurer Raimondo came under fire from the president of the American Federation of Teachers, Randi Weingarten, because she chose to invest a portion of Rhode Island's pension funds in a hedge fund run by Daniel Loeb. Loeb's fund, Third Point LLC, achieved a return of almost 25 percent per year (outperforming most hedge funds) while Rhode Island's entire pension fund averaged about 14 percent.[46]

But Loeb is personally a large proponent of charter schools and is seen as public enemy number one by Weingarten. To stave off further opposition from Weingarten and other union special interests in her bid for Democratic nominee for Rhode Island governor, it appears that Raimondo caved to the pressure and withdrew state investments from Mr. Loeb's fund.[47] As Sen. Dan Liljenquist has said in *Keeping the Promise: State Solutions for Government Pension Reform,* pension reform is not a partisan issue, but a math issue. When politics are dragged into the pension debate, workers, retirees, and taxpayers suffer.

Pennsylvania Pension Reform Efforts Fizzle

Pennsylvania was on the short list of states that were expected to enact fundamental public pension reform in 2013. Unfortunately, the legislature simply could not reach an agreement on the best way to fix the state's pension problems, and consequently no plan was passed. Now in 2014, it looks like history could repeat itself.

There are a few different plans to address Pennsylvania's pensions, ranging from ramping up borrowing to putting new hires into a hybrid system. The apparent favorite plan right now would cap employee benefits that are traditionally uncapped in the defined-benefit system and would have employees receive anything above the cap in a 401(k) style defined-contribution plan. The opposing idea is to simply borrow more money to cover the pension shortfall in the form of $9 billion worth of pension obligation bonds.[48]

Although the hybrid option seems to be more popular—and the pension obligation bond idea doesn't have much support—there has been a noticeable lack of movement on the issue. It is unclear if 2014 will end up being another year in which Pennsylvania gets close to fundamental pension reform but can't quite push it over the finish line.

Pension Reform Stalls in Florida

Florida Speaker of the House Will Weatherford made pension reform a top priority in the 2013 legislative session, but reform efforts ultimately died on the Senate floor. The proposal was soundly structured and focused on getting employees out of defined-benefit plans and into defined-contribution plans.

These reform efforts respected the currently promised defined-benefit plans to state employees, but pushed to move new hires into defined-contribution plans. Though Florida is not among the worst funded public pension systems, it's not on sound footing and provides both risk and bad incentives that harm taxpayers. Despite the bill passing in the House, the bill was killed in the Senate. According to the Miami Herald, last year the "plan was defeated in a 22-18 vote by Democrats and Republicans backed by unions. Taking up the issue again in 2014, pension reform was defeated even quicker. This year, the measure didn't even get that far."[49]

Reformers are likely to take up the measure for a third straight legislative session in 2015.

Detroit's Bankruptcy: Here We Go Again

Detroit's bankruptcy proceedings have been a warning sign to cities, municipalities, and states that are still ignoring the high cost of not enacting pension reform. In the pension proceedings that have specifically addressed how the bankruptcy will affect retired public employees, there has been an interesting development.

Originally the city estimated a shortfall of pension payments of about $3.5 billion. This was expected to result in a cut of around 14 percent to retired police and fire employees and about 34 percent for all other employees. These deep cuts are the inevitable result of neglecting the pension problem and refusing to fix it before it's too late. But despite these dire predictions, the city has proposed a plan that keeps the pensions of current retirees at 73 percent to 100 percent of their current base pension plans under the city's current bankruptcy proposal—much smaller cuts than originally predicted. This leads to the natural question, where did the city find the money to do this?

The answer lies in a gimmick that the city used to avoid making difficult choices. The city has two funds for pensions; one fund is predicted to achieve a 6.25 percent rate of return each year and the other is expected to achieve a 6.5 rate of return each year. Both are probably higher estimates than are warranted (Moody's suggests 5.5 percent), but still far lower than the average pension fund in the country, which predicts about a 7 to 8 percent rate of return every year. So, the city simply changed the expected rate of return to 6.75 percent for both funds, and voila! No pension shortfall.[50]

Baselessly increasing the assumed rate of return for pension funds helped to land Detroit in bankruptcy in the first place and now the city has returned to old habits to avoid making actual difficult cuts. Here we go again.

Moreover, the Michigan state government has stepped in with $195 million in funds for the city; in a move many have called a partial bailout of the city. Additionally, private foundations have pledged funds to the city in order to soften the blow on current retirees' pension cuts. Though the funds help Detroit in the short-run, they do little to address its fundamental mismanagement and need for deep restructuring.[51]

Future Difficulties in Municipal Funding

Out of control pension costs are already squeezing municipal budgets and it will only get worse if pension systems are not fundamentally reformed. However, in addition to the inherent budget problems associated with defined-benefit pensions, there are a few other developments that will likely squeeze municipal budgets even more.

The bankruptcies in Detroit and Stockton, CA demonstrate an interesting fact and have created a troublesome precedent if left unchallenged. Municipal bondholders have essentially been given the cold shoulder in both cases. In Detroit, bankruptcy judges are considering proposals that would give bondholders only about 20 cents on the dollar that they are owed. In Stockton, some bondholders will not only see a cut in the interest they are owed but are likely to see a reduction in the principal that they are owed.[52]

While these situations are far from resolved and will likely face a long series of appeals, one thing is clear: Bondholders beware! The more likely cities are to file for bankruptcy, mostly due to unfunded pension liabilities, the more likely it is that bondholders will take the brunt of any cuts. If this trend continues and the risk for municipal bondholders increases, those bonds are going to be far more expensive in the future than they traditionally have been.

Another factor that could affect municipal funding and bonds is national tax reform. Congressman Dave Camp (R-MI) laid out his plan for tax reform and even though it will not likely be passed anytime soon, the comprehensive package is now the de facto starting point for tax reform in the future. One component of Rep. Camp's plan would require top earners to pay a surtax on previously untaxed municipal (muni) bond interest. Currently, state and local governments use tax-exempt muni bonds to fund capital projects such as bridges and new school buildings. The proposed surtax might negatively affect top bracket taxpayers' willingness to invest in muni bonds.[53]

Overall, eliminating this tax preference might be good tax policy. But in the near-term, the surtax will squeeze already tight municipal budgets. Adding a surtax to muni-bond interest—which effectively increases the cost of issuing muni bonds—could force state and local governments to choose whether to fund pensions or capital projects. Governments should act quickly to reform the greatest existing threat to their budgets: unfunded pension liabilities.

Congressman Camp's tax reform plan also contains a provision that would end the federal deductibility of state and local taxes, even property taxes. Since $470 billion was deducted by taxpayers who itemized in 2011, this would be a large tax increase for them, and would put enormous pressure on state and local governments to cut tax rates since those taxes would no longer be deductible.[54]

While these reform ideas are still in the formulation process and by no means set in stone, states and localities might not have to worry about tightening budgets in the immediate future. But the fact that these proposals are on the table and are a part of the baseline tax reform plan is significant. States and localities have a window of opportunity to address unfunded pension liabilities and they would be wise to take action now, before it becomes much more difficult.

Other Fiscal Issues in the States

Although taxes are extremely important to state policy and potential for economic growth, there are other policy factors that affect the growth potential of the state as well. From labor policy to financial risk, states continue to change these policies for better or for worse.

States Hike Their Minimum Wages to New Heights

Minimum wage increases are well-intentioned policies that have the unfortunate effect of regularly hurting those that they try to help.[55] By creating a price floor on labor that businesses must "purchase," these policies ensure that anyone who provides a return to the employer that is less than the artificially set wage floor will not be profitable for businesses anymore and will likely become unemployed.

The workers who lose jobs because of increases in the minimum wage are by definition the most vulnerable, since the product of their work is worth less than the new minimum that employers must pay. Fewer jobs and less opportunity is not an effective way to lift people out of poverty. Economic growth and a vibrant job market are far better at increasing the value of individuals' labor and increasing their earning power, thereby reducing poverty.

Ever since President Obama's call for a national increase of the minimum wage to $10.10 per hour, there has been renewed momentum in the states to take up the issue. To date, at least six states have raised their minimum wage or are seriously considering proposals to raise it.

Naturally, California leapt at any excuse to raise the minimum wage, and a plan to increase it successfully passed last year. The state passed a proposal to raise the minimum wage to $9 per hour as of July, 2014 and then to $10 per hour as of January, 2016. Before the increase, California already had a state mandated minimum wage of $8 per hour, $0.75 above the current federal floor of $7.25 per hour.[56]

Earlier this year, Maryland voted to raise its minimum wage. The fully phased in Maryland plan will hike the minimum wage to President Obama's recommended $10.10 per hour by 2018. The $10.10 rate will be phased in however, with the first increase set for $8 per hour on January 1, 2015, then $8.25 per hour by July 2015, $8.75 per hour by July 2016, and $9.25 per hour by July 2017. The proposal has passed in both houses and Gov. Martin O'Malley is expected to sign the proposal into law.[57]

At $9.19, Washington state already has a high mandated minimum wage when compared to other states. Recently, individual cities within the state are attempting to push that even higher. Washington's SeaTac area has already approved a minimum wage of $15 per hour for hospitality and transportation workers near Seattle-Tacoma International Airport.[58]

Seattle followed suit and its city council voted to raise the city's minimum wage to $15 an hour over the next seven years. Franchisees however will have to accommodate the newly minted highest minimum wage in the nation in only 3 years, a move that has sparked a lawsuit because of the disparate treatment; since non-franchise competitors will have more than double the amount of time to adapt to the new minimum wage.[59]

New Jersey is another state that recently raised its minimum wage. Voters in November 2013 approved a ballot initiative that raised the state minimum wage from the federal floor of $7.25 per hour to $8.25 per hour. The New Jersey initiative was also unique in that it included a provision for an annual cost of living increase on the minimum wage. The $8.25 per hour minimum wage took effect January 1, 2014.[60]

Alaska will put a minimum wage issue on their August 2014 ballot. The initiative will ask voters to increase the minimum wage from its current $7.75 to $8.75 in January 2015 and then to $9.75 in January 2016. It would also be inflation adjusted after that and set to always be at least $1 above the federally mandated minimum.[61]

In addition to the states mentioned above, there are several states that are considering proposals to raise their state level minimum wages to $10.10 per hour. Pennsylvania is one state that is considering raising its minimum wage to $10.10 per hour, and there are even a few lawmakers in the legislature who are trying to push it as high as $12 per hour.[62] Connecticut has already passed legislation to increase its minimum wage to $10.10 per hour by 2017.[63]

In 2013, Maine passed legislation increasing its minimum wage to $9 per hour by 2016.[64] Massachusetts will have a ballot question in 2014 where voters will decide whether to raise their minimum wage to $10.50 per hour over two years and tie future increases to inflation.[65] Rhode Island is also considering a proposal to raise the state's minimum wage to $10 per hour by 2016 and tie it to inflation by 2017.[66] Hawaii passed legislation to increase its minimum wage to $10.10 per hour by 2018.[67]

Despite already having one of the highest minimum wages in the country, Vermont lawmakers voted to hike the minimum wage from $8.73 to $10.50 per hour by January 2018.[68] Under the new law, the minimum wage will increase to: $9.15 in January 2015, $9.60 in January 2016, $10.00 in January 2017, and $10.50 by 2018.[69]

Michigan Republican legislators passed an increase to the minimum wage in late May of 2014 in an effort to preempt an even worse minimum wage hike that was set to appear on the ballot in the state's 2014 election. The bill raises the minimum wage to $9.25 at a gradual pace over the next four years from its current rate of $7.40. The bill also indexes the minimum wage threshold to inflation, capped at 3.5 percent annually. The ballot proposal that was set to raise the state minimum wage if passed would have raised the minimum wage to $10.10 over three years, index the minimum wage to inflation, and increase the minimum wage for tip workers by $0.85 a year until it reached $10.10.[70]

Another state to take up the issue of increasing the minimum wage this year was New Hampshire. A bill to raise the minimum wage from $7.25 to $8.25 on January 1, 2015 and then to $9 per hour on January 1, 2016 passed the New Hampshire House of Representatives. The bill also tied the state's minimum wage to increase with the overall rate of inflation after the original increases fully phase in. However, the Senate rejected the minimum wage increase. As Senate Majority Leader Jeb Bradley explained, "We know this is a job killer. Let's kill this bill and preserve jobs in New Hampshire."[71]

States Become Financially Ready

States are beginning to realize that they are far more reliant on federal funds for state programs than they had once thought. A report from the nonpartisan government watchdog, State Budget Solutions, used Census data to reveal that on the whole, states received 31.6 percent of their total revenue from the federal government in 2012.[72] Additionally, the report points out that "Only 11 states depended on the federal government for more than one-third of their total revenues in 2001. By 2012, 24 states found themselves in this situation."

Despite states receiving an unsustainable amount of funds from Washington, state reliance on federal funds actually fell from 2011 to 2012.[73] The percentage of federal funds in state budgets had been on the increase, largely due to the American Recovery and Reinvestment

Act (ARRA, or the "stimulus" bill). A report by the U.S. Census Bureau shows that in 2007, states received more than $407 billion in federal grants. By 2011, that number had risen to over $575 billion. But with the stimulus funds beginning to dry up, federal funding of states dropped to $514.2 billion in 2012. This drop represents the first year-to-year decrease in federal grants to states since 1992.[74]

As the temporary funding from ARRA continues to dissipate, states will have to change the way they spend. Unfortunately, the costly strings attached to the federal funds, such as the burdensome "maintenance of effort" requirements, will last far longer than the federal support. As policymakers in Washington, D.C. face increasing pressure to reduce spending in order to keep public debt from skyrocketing, federal cutbacks seem inevitable.[75] Despite this reality, very few states have taken significant action to prepare for the fiscal shortfalls ahead.

To make matters worse, these federal funds never come without strings attached. Federal money promotes federal interests over state interests and it can be a dangerous temptation for lawmakers to become overly dependent on these funds. A historical example of this is the 55 mph speed limit imposed between 1974 and 1995. States were denied transportation funding unless they complied with this one-size-fits-all policy.

Amid concerns about a potential decline in federal funds, a growing national debt, and an increasing awareness of federal "strings" attached to the dollars, states are taking proactive steps to reduce their dependence on federal funds. After all, the federal government is more than $17.5 trillion in debt, which is about 105 percent of GDP. This figure is projected to increase to 112 percent of GDP by 2018 according to the Congressional Budget Office.[76]

Utah is one state that recognizes these potential problems and is leading the effort to prepare. In 2011, the Utah legislature passed H.B. 138, *The Federal Receipts Reporting Requirements Act*.[77] This bill required all state agencies to disclose total federal receipts, including federal funding's percentage of their respective budgets, and also to disclose what their specific contingency plan is if federal receipts are diminished. By developing a plan to operate state agencies in case federal funds dwindle, Utah has a stable economic outlook. The state's strong fiscal management record has earned Utah strong AAA ratings from Moody's,[78] Standard and Poor's,[79] and Fitch.

Utah has other plans on ways they can better be prepared. Financial Ready Utah is an initiative that brings together the state's leadership to make sure that Utah is equipped to face the fiscal challenges ahead. Last year, the state auditor, state treasurer, Senate president, House speaker and a team of legislators came together to pass a package of bills as part of the initiative that, among other things, creates a federal funds review commission to identify risks and to implement a comprehensive planning measure to address challenges of an uncertain fiscal future.[80]

Sen. Deidre Henderson, one of the lawmakers leading the initiative, says that "States are far too dependent on federal dollars. It would be financial malpractice for states not to create fiscal emergency plans to prepare for the inevitable time when those federal funds dwindle or disappear."[81]

Like Utah, Idaho is another state that has implemented measures to prepare for an increasingly uncertain financial future. Gov. C.L. "Butch" Otter established Idaho's new fiscal preparedness initiative through an executive order. The executive order requires state agencies to submit a yearly report to the Division of Financial Management. Among agency requirements in the yearly report are the following: A detailed amount of federal funds received for the preceding fiscal year; the federal funds to be utilized for the current and upcoming fiscal year; and an identification of any agency obligations, agreements, and joint exercise of powers agreements that may be impacted by federal or state decisions regarding federal receipts. The executive order also requires calculations on the amount of federal funds to the total appropriation of an agency, along with documentation from the Division of Financial Management that describes the agency's plan for operating if there is a reduction of 10 percent or more in federal funds that the state receives.[82]

Idaho's economic future will benefit from fiscal preparedness. According to a study by the Idaho Freedom Foundation and the Sutherland Institute's Center for Self-Government in the West, Idaho's reliance on federal funds has grown by more than 80 percent in the past decade.[83] At the very least, the information will now be available to assess federal funding and make more informed decisions regarding many of the federal grants, which often come with strings attached.[84] By developing a contingency plan to operate agencies in the event federal funds are decreased, Idaho can have a better fiscal outlook.

Hopefully, the success stories of Utah and Idaho will continue to inspire other states across the country to examine their own budgets and financially prepare for whatever might come their way.

Predictions for 2015 Tax Changes

As the benefits enjoyed by more economically free and lower tax states become increasingly hard to ignore, there are a number of states that are reasonably expected to take action to reform their tax codes for economic growth. While we don't have a crystal ball, we suggest you keep your eyes on the states below as they consider fundamental reforms next year.

Further Reform for Economic Growth

Nebraska is one state that should be watched closely in 2015. The state has gone through a series of small but important tax reforms that have positioned it well for a broader tax overhaul. Those smaller reforms and the tax study commission have set the stage for real positive reform. It is unclear what exactly will be done in the near future, but given the economic climate, it is likely the state will look at possibly reforming and/or cutting the state's income tax.

While Oklahoma's reform efforts were halted in 2013, there is cause for hope. Because the income tax cuts that passed in 2013 were struck down by the State Supreme Court—as opposed to not making it out of the legislature—and because several different tax cut proposals have resurfaced this year, there are some good reasons to expect that the state will likely enact pro-growth tax reforms soon.

As was mentioned earlier in this chapter, Missouri has reignited the debate over right-to-work. While this major reform would have significant economic benefits for Missouri, it is generally considered to be an insurmountable challenge for those pursuing worker freedoms because of the polarizing nature of the topic in Missouri politics. However, with potential votes and/or ballot measures being considered, Missouri may just surprise everyone.

Arizona is in the middle of an economic upswing resulting from having a competitive economic climate, having their housing sector finally start to recover, and from being a neighbor of economically dysfunctional California. These advantages led to the introduction of several pro-growth proposals in 2013 and 2014. It is likely that the trend of pro-growth proposals will continue into 2015.

Tennessee reformers will look once again to repealing the Hall Tax on "unearned" investment income, coming off a defeat of repeal efforts in the 2014 session. Though Tennessee does not have an income tax on wages, it does levy a damaging tax on investment income. Investment income is a primary ingredient for economic growth so a repeal of the tax would serve as a major boon to the economy, as well as citizens reaching retirement.

Fresh off a defeat in their efforts to lower Michigan's income tax rate before a "temporary" tax hike takes effect, reformers will return to the battlefield again in the coming legislative session. Michigan has had much success with tax reform in recent years with the repeal of the Michigan Business Tax and the phase-out of the personal property tax on small businesses. Reformers will look to build on those successes and continue to improve the state's competitiveness.

Georgia may also look to lower income and corporate income tax rates in the coming legislative session. The state has hosted a number of hearings on the virtues of reform proposals and a caucus of reformers is eager to take major strides toward improving the state's competitiveness in the coming legislative session.[85]

These efforts have largely been led by Georgia Sen. Judson Hill, the chairman of the Senate Finance Committee. The income tax cut hearings have focused on discussing the recent reforms in North Carolina and what that means for economic competition with Georgia. In fact, the hearings have not only discussed how best to match North Carolina's reforms but how Georgia might even become more economically competitive than North Carolina.[86]

Potential Tax Hikes in the States

Despite some good prospects for pro-growth reform in the states, there are also some potentially negative proposals that are lingering across the country.

Nevada voters will consider a question on the November 2014 ballot on whether or not the state should adopt an economically damaging margins tax. The margins tax initiative that is being considered is modeled after the modified gross receipts tax in Texas that charges one percent tax of gross revenue (not profit) on businesses, with a few options on what can be deducted from the businesses' "total revenue." The Nevada plan differs in one very significant way however; if accepted, the tax rate will be 2 percent instead—double the Texas rate.

Maryland will most likely also see some economically damaging proposals re-emerge next session. Despite the positive step of expanding the exemption for the state's estate tax, Maryland seems committed to permanently being economically second best to Virginia in the region. Because the state has increased taxes or fees over 32 times from 2007 to 2012, it seems unlikely that this trend will end any time soon.

Illinois is another state that will most likely try to raise taxes next year. The state passed a budget that creates a significant deficit and some lawmakers might try to use this as an excuse to bring back the discussion of a graduated income tax that was narrowly defeated in 2014.

Illinois may not be the only state that attempts to use budget shortfalls as an excuse to raise taxes next year. At the national level, the fiscal cliff at the end of 2012 prompted a sell-off of capital gains by those that wisely wanted to avoid the potential for a higher tax rate. This then caused a one-time surge in capital gains revenues, which many states count as ordinary income. This income tax spike then was factored into budgeting baselines for states and when this revenue surge was not repeated, states were left with significant deficits.[87]

Unfortunately, while this should be a lesson on why states should not rely on the volatile revenue source of personal income taxes, many states may use this as a convenient excuse to call for tax increases.

Surprisingly, one state governor who has taken this lesson to heart is California's Jerry Brown. While he is not planning to cut or eliminate California's income tax anytime soon, he has consistently called for spending restraint in light of rosier budget outlooks. This more tempered take on how California should plan to spend money has caused some friction with liberal legislators who want to embrace the optimistic revenue forecasts and spend that revenue on new projects.[88] But Gov. Brown is holding firm on his calls to be more realistic about what kind of revenue growth (or decline) the state can reasonably expect.

Conclusion

As the competition between the 50 "laboratories of democracy" continues to heat up, the economic effects of pro-growth tax and fiscal policies will become increasingly clear. The past 50 years of data point to a clear connection between pro-growth policies of lower taxes, less regulations, and competitive labor policies with the creation of healthier state economies.

As we'll discuss in further chapters of this book, numbers don't lie. Big government advocates can try to rationalize numbers in various ways, but in the end, the results are clear. The states that embrace free markets and limited government fare much better than their high-tax, big government counterparts.

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CHAPTER 2

America on the Move

America on the Move

This is our seventh edition of *Rich States, Poor States*. The purpose of this study is to present state lawmakers with a road map to jobs, growth, and prosperity. It is always gratifying when some governors and legislators take our advice and equally demoralizing when states run in the opposite direction of sound policy.

Often times the policymakers who ignore our formula for success parrot a line that many progressives spout: These policy changes on taxes, regulations, spending, debt, and labor don't make much difference in terms of future growth. Our reading of the evidence comes to the opposite conclusion: Calibrating the basic fiscal and economic policy incentives in the right way matters significantly in terms of what states get richer over time and which fall behind.[1]

Getting the policy matrix right can make a big difference in the outcomes that taxpayers care most about: The growth of family incomes, the number of high-paying jobs, the rate of new business creation, and the value of real estate in one state or city versus another. Taxes matter. Spending and indebtedness matter. Regulations and the ease of starting a business matter. The right to work and to not be forced to join a union matters.

In this chapter, we'll discuss two distinctively different approaches to public policy: the pro-growth approach and the tax and spend approach. States following the pro-growth approach have policies that promote freedom for workers, spend at responsible levels, and keep tax rates competitive. We like to say that the pro-growth approach helps to limit the size and power of government, while increasing the overall size of the economy. On the other hand, states that follow the tax and spend approach implement policies that increase spending, taxes, and regulatory burdens.

Which approach leads to state economic prosperity? To answer that question, we've taken a look at the states that Americans are moving to—and the states Americans are leaving in droves. While multiple factors impact individuals' moving decisions, we find that the pro-growth approach creates an environment of economic opportunities. As Milton Friedman famously remarked, "the clearest demonstration of how much people value freedom is the way they vote with their feet when they have no other way to vote."[2]

Movin' On Up

To demonstrate the power of this point, we examine population movements across state borders. In this section, we will explore a wide variety of measures, including adjusted gross income (AGI), net domestic migration, and moving van data.

First, we'll take a look at adjusted gross income. Travis Brown, author of *How Money Walks*, finds that $2.2 trillion dollars in AGI has migrated from one state to another from 1992 to 2011.[3] Keep in mind that AGI only measures tax filers, meaning that the $2.2 trillion figure does not include groups of Americans that do not file tax returns.

Second, we'll take a look at net domestic migration. During that same time period, roughly 62 million taxpayers moved from one state to another.[4] Net domestic migration measures the amount of people that file taxes in one state one year and file taxes in a different state the next year; the data is collected and published by the Internal Revenue Service. This is different than general population growth because absolute domestic migration does not include birth rates, or immigrants from outside the United States.[5] Net domestic migration is important because it measures the choices that Americans make to move from one state to another.

This migration is a big deal for the economy. Think, for example, what it means for real estate values and home prices. They rise in places that people want to relocate to, ignoring the unfortunate price increases associated with restrictive zoning codes. They fall in the places where people are fleeing. Want to buy a house in Detroit? In 2012 you could buy homes for less than $1,000 in some burned out and abandoned areas of the Motor City.[6] Some of these places are being steamrollered and left as empty places that once were bustling areas of activity.

Here is another way to think about it. Economist Dr. Richard Vedder found that from 1990 to 1999, about one thousand persons moved every day for nine years to the states with no income taxes. As he explains, "more persons fled to the no income tax havens than moved from East to West Germany during the Cold War…one of the greatest migrations in human history occurred—and most Americans do not even know about it!"[7]

An exploration of moving van records sheds additional light on the economic implications of Americans on the move. The U-Haul Moving Company Web site (www.uhaul.com) allows you to type in a pair of U.S. cities to learn how much it costs to move from point A to B. Figure 1 demonstrates that if you want to move, say, from Austin, TX to Los Angeles, CA, the moving van will cost you $689 to rent. But if you want to move out of Los Angeles, CA to Austin, TX the same van costs $1,548. A move from Dallas, TX to Philadelphia, PA costs $738, versus $1,467 to swap homes in the other direction. The biggest discrepancy we could find was nearly a three-fold difference between Chicago, IL and Houston, TX. The cost is $348 from Houston, TX to Chicago, IL; but the same rental is $1,137 from Chicago, IL to Houston, TX.

The reason for these price differentials is that if the price were the same all the vans would end up in Dallas, TX, Fort Lauderdale, FL and Charlotte, NC, and there would be no vans to be had in Hartford, CT, Los Angeles, CA, or Pittsburgh, PA. The van companies have to pay individuals to drive the vans back from the highly desirable locations. Progressives contend that Americans are willing to pay more taxes to get better government services, but their migration patterns reveal the opposite. The pro-growth approach to tax and fiscal policy creates an environment of economic opportunity—and taxpayers will move to pursue better opportunities.

Table 2 | **U-Haul Truck Rental Prices, June 2014**

Departing City	Arrival City	Cost	Departing City	Arrival City	Cost	Ratio
Buffalo, NY	Charleston, SC	$1,268	Charleston, SC	Buffalo, NY	$583	2.17
New York City, NY	Atlanta, GA	$1,231	Atlanta, GA	New York City, NY	$477	2.58
Youngstown, OH	Beaufort, SC	$820	Beaufort, SC	Youngstown, OH	$455	1.80
Providence, RI	Orlando, FL	$1,369	Orlando, FL	Providence, RI	$668	2.05
Los Angeles, CA	Austin, TX	$1,548	Austin, TX	Los Angeles, CA	$689	2.25
Newark, NJ	Ft. Worth, TX	$2,140	Ft. Worth, TX	Newark, NJ	$775	2.76
Philadelphia, PA	Dallas, TX	$1,467	Dallas, TX	Philadelphia, PA	$738	1.99
Chicago, IL	Phoenix, AZ	$1,533	Phoenix, AZ	Chicago, IL	$859	1.78
New York City, NY	Charlotte, NC	$1,240	Charlotte, NC	New York City, NY	$407	3.05
Chicago, IL	Houston, TX	$1,137	Houston, TX	Chicago, IL	$348	3.27

Source: U-Haul

North to South

Based on an overview of the data, the most important demographic trend in America is the geographic shift in the balance of economic power from the Northeast to the South. The biggest winners in this interstate competition for jobs and growth have generally been states such as the Carolinas, Florida, Texas, and Tennessee. Further to the west and in the mountain regions of the country, states are flying high too. This list includes Arizona, Idaho, the Dakotas, Utah, and Wyoming.

The states facing economic decline continue to be in the traditional rust belt regions of the Northeast and Midwest. The demoralizing symptoms of economic despair in the declining states typically 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 Census Bureau reports that 54 percent of U.S. population growth from 2000-2010 occurred in the following six states: Texas, Florida, Georgia, North Carolina, Tennessee, and Arizona.[8] In addition, five other states enjoyed large population growth of more than 15 percent throughout the decade: Nevada, Utah, Colorado, Idaho, and South Carolina. Contrast this with the ten states which saw less than four percent growth the decade: Rhode Island, Louisiana, Ohio, Illinois, Massachusetts, New York, Pennsylvania, Michigan, Vermont, and West Virginia. And Michigan actually lost population over the ten years! [9]

Another way to analyze this demographic trend is through net domestic migration, a key metric of our national economic performance ranking. For example, Table 3 compares the 10 states with the greatest net in-migration with the ten states with the greatest net out-migration from 2003 to 2012. During this time period, 1,527,359 New Yorkers left the Empire State. Despite all of the natural geographical advantages that California has—its gorgeous weather, idyllic beaches and iconic cultural standing—1,429,475 Californians escaped from the state. In the Land of Lincoln, 623,467 taxpayers fled Illinois in search of better economic opportunities. Meanwhile, states that have adopted pro-growth policies continue to grow. During the same time period, 1,041,977 people moved to the Lone Star State. Florida, North Carolina, Arizona, and Georgia were also popular destinations.

The key question is: Why are people leaving places like California for Texas? Weather matters for sure. Natural resources are a big plus. Those are mostly factors that states have no control over. Nevada isn't going to become a beachfront area, North Dakota is always going to be cold, Texas is going to have lots of oil for decades to come, and Seattle will always be rainy and Arizona

Table 3 | **State Migration Winners and Losers**

The Ten States with the Greatest Net In-Migration Net Domestic Migration (Cumulative 2003-2012)			**The Ten States with the Greatest Net Out-Migration** Net Domestic Migration (Cumulative 2003-2012)		
State	**Net Domestic Migration**	**Rank**	**State**	**Net Domestic Migration**	**Rank**
Texas	1,041,977	1	Connecticut	-117,924	41
Florida	1,027,561	2	Maryland	-123,674	42
North Carolina	642,378	3	Massachusetts	-239,960	43
Arizona	618,037	4	Louisiana	-253,511	44
Georgia	485,993	5	Ohio	-365,002	45
South Carolina	318,593	6	New Jersey	-491,479	46
Tennessee	282,763	7	Michigan	-573,817	47
Nevada	273,594	8	Illinois	-623,467	48
Washington	249,650	9	California	-1,429,475	49
Colorado	206,484	10	New York	-1,527,359	50

Source: U.S. Census Bureau

sunny. So yes, California will always have a natural advantage over Minnesota, and Texas will have an advantage over Rhode Island. But it's what states do with their resources and how they overcome some of their geographical limitations through pro-growth policies that can change the pace of growth—and help make an undesirable location a desirable one.

The Results are in: The Northeast's Failed Tax and Spend Experiment

Our overview of demographic trends demonstrates that most Americans choose to call the Great Plains, Midwest, or the South their new home. Let's take a look at the region where people are fleeing—the Northeast, America's New Rust Belt. The Northeast provides an excellent case study on the unintended consequences of the tax and spend approach to fiscal policy.

Northeast state officials have insisted that high taxes are costs that families will accept. However, there is no Berlin Wall around the Northeast. Employers, taxpayers, and workers have the freedom to move elsewhere. Americans have been voting with their feet against the Northeast's tax and spend policies—creating a massive brain drain from the region.

In the mid-1990s it appeared that the Northeast might have finally awakened to the error of its ways. In New Jersey, Gov. Christine Todd Whitman cut income tax rates. Gov. George Pataki and Mayor Rudy Giuliani took many bold steps to stop the economic decline in New York. Pennsylvania Gov. Tom Ridge pushed for pro-growth reforms in the Keystone State. However, today's politicians like Gov. Dan Malloy of Connecticut and Gov. Deval Patrick of Massachusetts are urging income redistribution, higher tax rates, and another round of big government spending. As Table 4 demonstrates, all of the Northeast states have a corporate tax rate well above the national average, and most of the states have a personal income tax rate above the norm.

However, there are a few bright spots in the economically troubled Northeast. As we mentioned earlier in this publication, some states in the Northeast are considering estate and corporate tax reform. We also must give special recognition to New Hampshire. People often refer to the Live Free or Die State's zero personal income tax, zero sales tax, and low excise tax rates as the "New Hampshire Advantage." While most of the Northeast states in recent years have raised their tax rates, the New Hampshire Advantage has allowed the Granite State to compete for jobs and investments. We can only hope that other states in the Northeast region will one day follow suit.

Table 4 | **Highest Marginal Income Tax Rates in the Northeast**

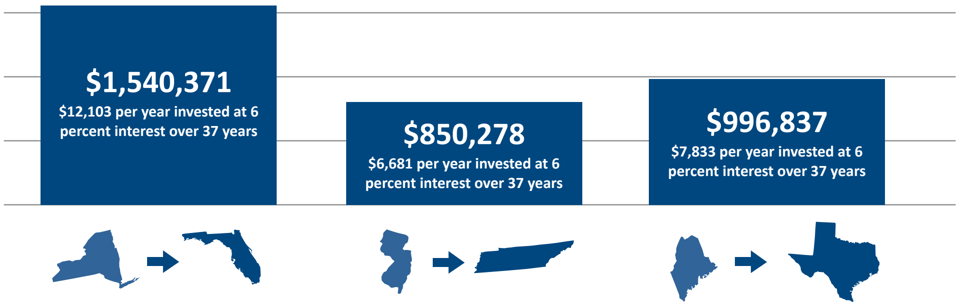
State	Personal Income Tax	Corporate Income Tax
Connecticut	6.70%	9.00%
Maine	7.95%	8.93%
Massachusetts	5.20%	8.00%
Rhode Island	5.99%	9.00%
Vermont	8.95%	8.50%
Delaware	7.85%	10.41%
Maryland	8.95%	8.25%
New Jersey	9.97%	9.00%
New York	12.70%	17.16%
Pennsylvania	7.00%	17.07%
New Hampshire	0.00%	8.50%
United States Median	6.00%	7.40%

Source: Laffer Associates

Save Taxes by Moving...out of the Northeast

A key indicator of the Northeast's economic decline is how much money one can save by leaving America's New Rust Belt. Tax migration calculators, such as the Laffer Center's *Save Taxes By Moving,* quantifies the savings that a family can save in state income taxes just by escaping the Northeast. For example Figure 2 shows that, a family of four with an income of $150,000 in New York, NY can save $12,103 per year in state income taxes by moving to Miami, FL. If the family breadwinner invested that $12,103 per year at a six percent interest rate, by the time that individual retires at age 67, he or she would have an additional $1,540,371 net worth for their family.[10] If our family moves from Newark, NJ to Nashville, TN they can save $6,681 per year in state income taxes. By the time the family breadwinner retires, he or she would have an additional $850,278 net worth for their family.[11] Finally, if the same family moves from Portland, ME to Houston, TX, they can

Figure 2 | **Savings by Moving Out of the Northeast**



A family of four with an income of $150,000 in New York, NY can save $12,103 per year in state income taxes by moving to Miami, FL.

A family of four with an income of $150,000 in Newark, NJ can save $6,681 per year in state income taxes by moving to Nashville, TN.

A family of four with an income of $150,000 in Portland, ME can save $7,833 per year in state income taxes by moving to Houston, TX.

Source: SaveTaxesByMoving.com

save $7,833 per year in state income taxes, with an additional $996,837 net worth by retirement.[12] With the savings in state income taxes alone, this family now has greater economic opportunities: To start a new business, obtain higher paying jobs, and achieve a better standard of living.

The Northeast Brain Drain

The Northeast was home to a smaller share of the U.S. population due to the more than 2.4 million person net exodus over the past decade. According to data from the Bureau of Economic Analysis, the Northeast has a smaller industrial base today than in the past 50 years, relative to the nation as a whole.[13] For the rest of the United States—which has impressively restructured its economy to meet the challenges of the productivity-driven information age—the Northeast is increasingly culturally alluring but lacks the economic opportunities necessary to draw citizens.

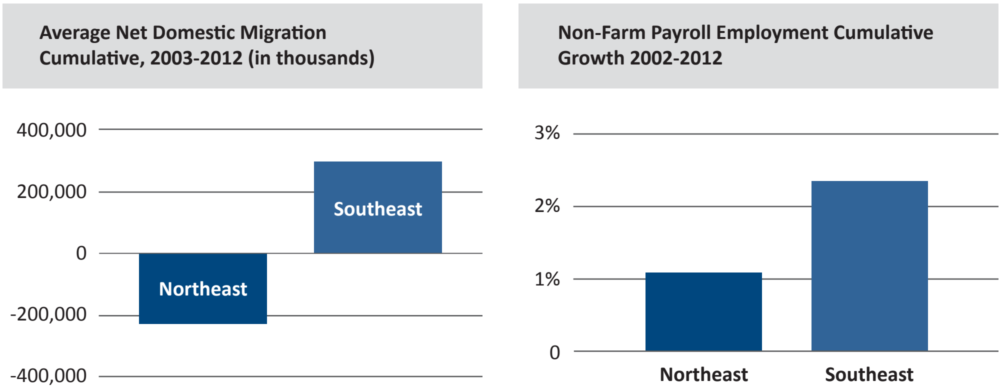
Moving from net domestic migration figures to total population growth, (which accounts for birth rates and foreign immigration gains) Census data demonstrates that the Northeast's population growth record is still extremely poor. For example, New York and Pennsylvania's populations have barely grown over the past three decades (at 7.9 percent and 11.1 percent respectively).[14] The 11 Atlantic states (Vermont, Pennsylvania, Maine, New Hampshire, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Delaware, and Maryland) plus Washington, D.C. experienced a disappointing population gain of less than 8.5 million, or just 15.2 percent from 1983 to 2013. The rest of the nation grew 41.4 percent, nearly three times faster. [15] The ten largest cities of the Northeast, once the centers of America's industrial muscle, gained just over a million people by population, a dismal nine percent from 1983 to 2013.[16] Without New York City in the midst, which enjoyed a financial resurgence through this period, more than 290,000 in population were lost.[17]

The Northeast: Closed for Business?

Not only are taxpayers seeking much needed tax relief, but the Northeast's forced unionism makes it difficult for employers to grow, expand, and hire. Of the 24 right-to-work states, zero are in the Northeast—though New Hampshire did try to end forced unionism in 2012. This may be one of the greatest factors limiting this region's ability to compete for jobs and investments. For example, a *Cato Journal* study by economist Dr. Richard Vedder found that from 2000-2008, 4.8 million Americans moved from the forced union states to the right-to-work states. That's one person each minute of every day.[18] Additionally, a *Journal of Labor* study found that after adjusting for economic variables, wages increase faster in states that give employees the freedom to decide whether or not to join a union.[19] Without right-to-work legislation, employers and employees in the Northeast face challenging economic hurdles.

Another hurdle is lack of economic oppor-

Figure 3 | **Northeast Migration and Jobs**



Source: Laffer Associates, Bureau of Labor Statistics and U.S Census Bureau

tunities in the Northeast. Public assistance policies in the Northeast often discourage individual empowerment to learn, grow, and move up the income ladder. Welfare benefits in many Northeast states pay the equivalent of a $32,000 a year salaried job.[20] Former Pennsylvania Secretary of Public Welfare Gary Alexander found that a single mother of two in the Keystone State is better off working a job that pays $29,000, than a job that pays $69,000. When you add the government benefits ($28,327) that come with the $29,000 job, the result is $57,327 in net income. If the same mother worked a job that pays $69,000, after taxes she would only take home $57,045, which would disqualify her from receiving government assistance.[21]

Strikingly, Pennsylvania is not even among the most generous states in the Northeast in terms of providing public assistance. Workers in the Northeast frequently have a disincentive to take a higher paying job due to the "welfare cliff" as described above. Instead of creating a prosperous economic environment that provides everyone with an opportunity to grow, the Northeast pursues polices that make it difficult for low income earners to get ahead.

As a result of these hurdles for employers and employees, the Northeast has a poor economic growth record. For example, Figure 3 compares the Northeast and Southeast's migration trends and job creation. All of the data points to one conclusion: The Northeast is a declining region. These states are suffering from a slow-motion version of the economic sclerosis now paralyzing much of Europe, where overbearing labor policies, high taxes, and massive government spending impede growth.

Stories from the States: How is that Income Tax Working Out for You?

The income tax is a policy favored by many of the Northeastern states, so we have to ask—how does the income tax impact economic growth? The experiences of Connecticut, Ohio, and New Jersey serve as great case studies about how the income tax influences state economies.

For example, for each of the 50 states plus D.C. and for each year of available IRS migration data, Figure 4 displays the number of net in-migrant tax returns in a given state as a share of the gross number of migrant tax returns for that same state. We have ranked each column by highest to lowest net in-migrant returns as a share of gross migrant returns, thus showing the magnitude and direction of how tax returns have migrated into or out of a state over time. We have then highlighted Connecticut, Ohio and New Jersey for each year to demonstrate how many tax returns these states have lost each year due to citizens voting with their feet.

Ohio

One of the authors of this book, Dr. Laffer, is a Buckeye through and through, tracing most of his family to their Northeastern Ohio roots in the early 1800s. On one of his recent family visits to

Figure 4 | **Net New Taxpayers as a Percentage of Total Taxpayers by State**

(Returns in + returns out, ranked highest to lowest)

	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
1	ID	NV	NV	NV	NV	NV	NV	NV	NV	FL	NV	NV	AZ	AZ	SC	SC	TX	TX
	NV	AZ	AZ	AZ	AZ	AZ	AZ	AZ	FL	NV	FL	FL	FL	NV	NC	NC	SC	DC
	CO	ID	NC	NC	NC	NC	CO	GA	AZ	AZ	AZ	AZ	NV	TX	NV	TX	NC	CO
	OR	GA	GA	GA	FL	FL	GA	FL	CO	OR	ME	DE	ID	NC	AZ	CO	CO	OK
	AZ	NC	OR	OR	GA	GA	NC	CO	GA	ME	DE	NC	NC	GA	GA	OR	WY	LA
	MT	CO	TN	TN	CO	CO	SC	NC	NC	DE	SC	ID	SC	SC	TN	AZ	WA	SC
	WA	TN	ID	FL	OR	SC	FL	DE	NH	NC	ID	SC	TN	ID	TX	WA	DC	ND
	GA	FL	CO	CO	SC	OR	DE	NH	OR	GA	OR	GA	DE	OR	ID	GA	OK	NC
	UT	OR	FL	ID	WA	TX	NH	SC	DE	SC	VA	TN	OR	TN	OR	UT	OR	AK
	NC	UT	MT	AR	TN	TN	TN	VA	WA	NH	GA	MT	GA	FL	UT	TN	LA	WV
	TN	MT	AR	WA	ID	DE	ID	ME	ME	MD	TN	VA	AR	AL	WY	NV	TN	NM
	FL	NM	WA	SC	DE	WA	OR	TN	TX	TX	NC	ME	WA	WA	CO	ID	WV	VA
	AR	AR	UT	UT	UT	ID	TX	ID	SC	CO	MT	AR	MT	AR	WA	WY	AL	SD
	NM	WA	NM	DE	TX	NH	VA	MN	VA	VA	NH	NM	AL	DE	MT	MT	AR	FL
	AL	TX	DE	NH	NH	KY	WA	TX	ID	TN	NM	WA	TX	CO	DE	DE	AZ	KY
	DE	DE	MO	TX	AL	AL	MN	AR	MD	ID	KY	HI	NM	UT	LA	AL	GA	TN
	TX	MS	SC	MO	MO	VA	KY	OR	TN	RI	AR	AL	KY	MT	AL	LA	DE	AZ
	MN	KY	NH	MT	KY	AR	ME	VT	RI	WA	HI	KY	VA	NM	KY	AR	UT	DE
	KY	AL	TX	NM	AR	MS	MO	RI	CA	NM	WV	TX	CO	WY	AR	KY	NM	AR
	WV	MO	MS	KY	VA	OK	AR	WA	MN	WY	TX	MS	HI	OK	OK	SD	ND	OR
	MO	SC	KY	MN	MS	MO	MS	KY	VT	KY	RI	SD	MO	KY	NM	WV	KY	AL
	SC	SD	AL	MS	OK	KS	MD	MD	MO	AK	MD	NH	ME	MO	FL	OK	SD	WA
	MS	NH	VA	OK	MN	UT	VT	MO	KY	VT	MO	MO	UT	HI	WV	DC	VA	GA
	VA	VA	MN	AL	KS	CA	MA	WI	AR	WV	WA	WY	NH	WV	SD	MS	MT	MT
	WI	MN	IN	VT	IN	MN	MT	MT	DC	HI	AL	OR	WV	VA	MO	NM	AK	UT
	SD	WY	SD	VA	NM	MD	CA	CA	HI	MO	VT	WV	MS	DC	MS	VA	ID	MD
	IN	OK	VT	IN	ME	MA	RI	MS	WI	AR	AK	AK	OK	SD	DC	IA	MO	NE
	WY	IN	WI	WI	VT	VT	AL	IN	AK	OK	MS	CO	SD	NH	VA	MO	MA	HI
	OK	WI	NE	NE	MA	ME	WI	AL	MA	MT	OK	MD	WY	AK	ME	HI	NV	MO
	AK	AK	OK	ME	MT	IN	DC	SD	MT	WI	PA	VT	DC	IN	MN	FL	IA	IA
	NH	VT	WY	WV	MD	AK	OK	MA	UT	AL	WY	DC	MD	ME	NH	ND	KS	ID
	VT	WV	MD	WY	AK	NM	KS	UT	AL	MN	WI	WI	IN	MN	IN	KS	NE	KS
	KS	MD	WV	MD	WI	MT	IN	WY	OK	CT	CO	OK	VT	PA	PA	IN	MS	MS
	HI	KS	KS	SD	NE	WY	UT	DC	SD	MS	SD	PA	AK	VT	AK	ME	PA	VT
	MD	NE	LA	MA	CA	WI	AK	NM	WY	PA	IN	LA	PA	MD	KS	NH	MD	PA
	NE	HI	ME	MI	WY	WV	SD	KS	IN	UT	CT	ND	WI	IA	IA	AK	FL	MA
	ND	LA	ND	AK	WV	RI	WV	OK	MS	DC	MN	UT	MN	WI	ND	PA	IN	NV
	IA	ND	MI	ND	LA	LA	WY	CT	NM	KS	LA	IN	IA	KS	HI	MN	HI	WY
	PA	ME	IA	KS	MI	DC	NM	MI	CT	SD	NE	MN	LA	NE	WI	NE	CA	CA
	ME	PA	OH	OH	OH	NE	NE	AK	NJ	IN	DC	IA	NE	MS	VT	MA	VT	IN
	OH	IA	MA	IA	RI	IA	CT	WV	KS	CA	CA	NE	KS	ND	MD	WI	NH	NH
	LA	MA	AK	LA	SD	NJ	NJ	NJ	WV	NJ	KS	RI	ND	IL	IL	MD	MN	CT
	IL	OH	HI	PA	IA	SD	MI	PA	PA	LA	ND	KS	CT	CT	NE	IL	WI	WI
	NJ	NJ	PA	IL	ND	OH	IA	HI	MI	NE	UT	CA	IL	MA	MA	CA	IL	ME
	DC	IL	NJ	HI	NJ	CT	OH	NE	NE	MA	NJ	CT	NJ	OH	CT	VT	ME	RI
	RI	MI	IL	NJ	HI	PA	LA	OH	OH	OH	IA	OH	OH	NJ	CA	CT	CT	MN
	MA	DC	CT	RI	DC	MI	PA	IA	IL	IA	OH	NJ	RI	CA	OH	NY	NY	NJ
	MI	RI	RI	CT	IL	HI	IL	IL	IA	MI	MI	IL	CA	RI	RI	NJ	NJ	NY
	CT	CT	DC	DC	CT	IL	HI	LA	LA	ND	MA	MI	MA	NY	NJ	RI	OH	IL
	NY	NY	CA	CA	PA	ND	ND	ND	NY	IL	IL	MA	MI	MI	NY	OH	RI	OH
51	CA	CA	NY	NY	NY	NY	NY	NY	ND	NY	NY	NY	NY	LA	MI	MI	MI	MI

Connecticut **New Jersey** **Ohio** *Source: Laffer Associates, Internal Revenue Service*

Cleveland's Lakeview Cemetery, he surveyed the Cleveland where he had been raised. Today, the city is a hollowed-out, crushed shadow of its former self.

In Youngstown, where he was born, a city ordinance requiring abandoned houses to be torn down and grass planted where they once stood has transformed Youngstown from a thriving steel town into what looks like an abandoned farm. Legend has it that in years past, the then-mayor of Youngstown blurted out that "The Mahoning River [the river that runs through Youngstown] is for jobs not for fishes." Today, both jobs and "fishes" are gone.

To examine Ohio's poor performance over the past 20 years, we have listed and plotted in Figure 4 above, the number of federal tax returns moving into Ohio less the number of federal tax returns leaving Ohio as a share of the sum of both. Buckeyes have left in search of better opportunities, bringing their talents and businesses with them. In fact, during 2009-2010, Ohio lost more taxpayers then almost any other state (expect for Michigan). Furthermore, from 2003 to 2012, over 365,000 taxpayers left Ohio in search of better opportunities.

Buckeyes are packing up and moving into low tax states, and taking their incomes with them. From 1992-2011, Ohio has lost $19.5 billion in annual AGI: $6.80 billion to Florida, $1.61 billion to North Carolina, $1.26 billion to Texas, $1.24 billion to South Carolina, and $1.15 billion to Arizona, all states with more competitive tax policy.[22] Is the price of an income tax worth it for the Buckeye State?

New Jersey

In 1965, New Jersey had neither an income tax nor a sales tax. It was one of the fastest growing states in the nation, and people from all over the nation were moving into the Garden State.[23] To top it off, the state was on sound budgetary footing.[24] Then, in 1966, New Jersey adopted the sales tax and in 1976, the income tax.

Fast forward to 2009. Jon Corzine was New Jersey's governor and the state had been through years of tax increases, welfare expansion, and regulatory overreach. New Jersey had the highest property taxes in the nation, the third highest personal income tax rates, one of the highest corporate tax rates, as well as one of the most progressive tax structures.[25] The Garden State became one of the slowest growing states in the nation. People were leaving the state in droves, and the budget was deeply in the red.[26]

As we did for Ohio in Figure 4 on page 28, we calculated the net federal income tax returns moving into New Jersey. The Garden State is no longer a thriving state with a strong economy. For almost every year from 1992 to 2010, New Jersey landed in the bottom ten for out-migration nationally. In fact, from 2006 to 2010, New Jersey consistently ranked in the national bottom five, joined by New York, Illinois, Ohio, Rhode Island, and Michigan. The Garden State is hemorrhaging population: From 2002 to 2013, 491,479 taxpayers fled the Garden State.

Even though New Jersey adopted an income tax in a misguided attempt to generate more revenue, the Garden State continues to lose wealth. From 1992 to 2011, New Jersey has lost approximately $22.3 billion in annual AGI to other states.[27] The Garden State lost $3.12 billion AGI to Pennsylvania, $2.74 billion to North Carolina, $2.03 billion to California, and $1.86 billion to Virginia. What we find interesting is that Florida, which does not levy an income tax, received $12.06 billion in annual AGI from former New Jersey taxpayers during that same time period—a great deal more than the AGI that Pennsylvania, North Carolina, California, and Virginia received from former Garden State taxpayers.[28]

Connecticut

In 1991, under Gov. Lowell P. Weicker, Jr., Connecticut adopted an income tax with the highest tax rate set at 1.5 percent; it now stands at 6.7 percent.[29] As we described earlier for Ohio and New Jersey and as is shown in Figure 4 on page 28, we have calculated the net inflow of tax returns into Connecticut as a share of both inflows and outflows of federal tax returns. In the years immediately after the introduction of an income tax, Connecticut had a huge out-migration of tax returns. Connecticut never ranked better than 31st in terms of out-migration, usually ranking in the bottom ten.

Connecticut's high taxes have driven people away. From 2002 to 2013, 117,924 citizens left the state. These out-migrants have left Connecticut for the promise for better economic opportunities in other states. If "revealed preferences" mean anything, these former Connecticut residents prefer their new domiciles' taxes and provision of public services.

Additionally, when Connecticut's share of the total U.S. population falls, other states' shares of U.S. population have to increase. Where those former Connecticut residents ultimately settle down is also the place where they take their incomes and skills. These former Connecticut taxpayers will have a corresponding impact on their destination states just as their departure had on Connecticut. For example, from 1992 to 2011 (since the implementation of the income tax), Connecticut has lost $7.4 billion in annual AGI to other states.[30] The Constitution State lost $5.05 billion in annual AGI to Florida, $1.16 billion to North Carolina, $1.07 billion to Massachusetts, and $782.67 million to Virginia.[31] Again, no income tax Florida benefits economically from another state's folly.

The game is on in the interstate competition. However, as long as people are free to choose, this competition will result in the betterment of all.

The Shift in State Influence

Tax and spend policies come at a very high cost—the cost of state influence. The very demographic trends that are draining the region of economic energy are working against the Yankee states in terms of their political clout as well. In the 1950s the Northeastern states had 141 House seats. By 1970, they were down to 111. In 2000, this dipped to just 90 and to just 85 in 2010.[32]

The 2010 Census results reveal this new shift in state influence. What we find interesting is that states that embrace pro-growth policies tend to gain Congressional seats, and states that embrace the tax and spend approach tend to either not gain Congressional seats or lose seats. As Figure 5 shows, states in the Southern and Western regions such as Texas, Tennessee, Florida, and Georgia gained the most Congressional representation. States in the Northeast and the Midwest such as Ohio, New York, Pennsylvania, Illinois and Michigan lost Congressional seats. Furthermore, for the first time since becoming a state in 1850 California did not gain a Congressional seat.[33] Over the years, Americans have voted with their feet, moving to the states that embrace economic freedom and opportunity.

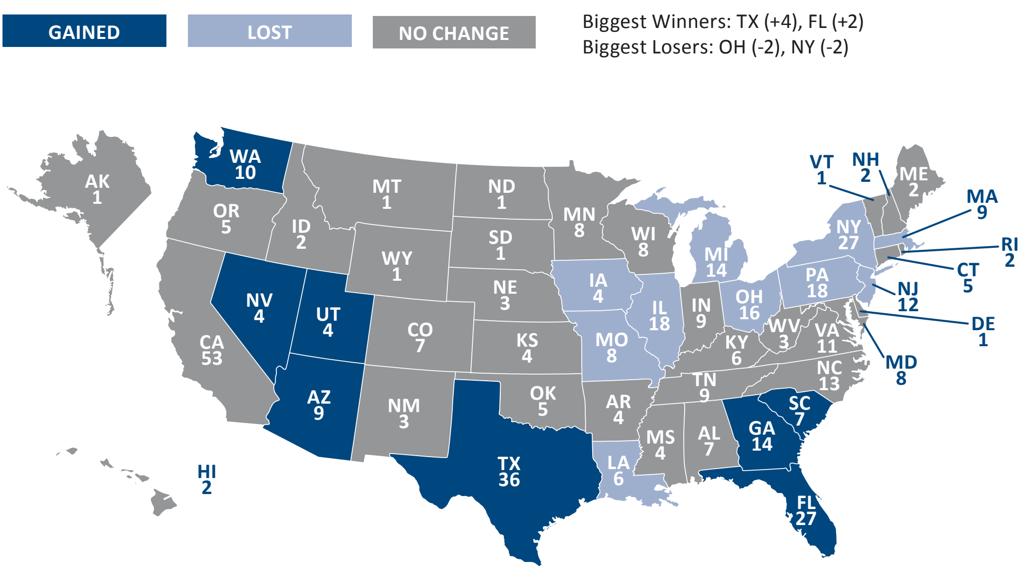
Still, there is hope. As we discussed earlier in this publication, states like Maryland, New York, and New Jersey are considering pro-growth reforms. The Northeast now confronts a clear choice: Change or fall behind. At the time of this writing, it is not clear this region will choose the right course. We hope for the good of the citizens there and the rest of the country that the Northeast starts to get it right.

The Growth Hot Spots

Above we chronicled the problems of the Northeast and we will now briefly highlight economically strong regions as well: The South, the Great Plains, the Midwest, and the Southwest. Florida, Texas, Alabama, North Dakota, and the Carolinas—states following the pro-growth approach to tax and fiscal policy—had some of the fastest growing metro areas in 2013.[34] On the flip side, metro areas in New York, Michigan, Rhode Island, and Ohio lost the most population.[35]

These trends demonstrate that taxpayers, entrepreneurs, and employers move to the areas with the best opportunities for growth. The South, the Great Plains, and the Southwest are following the pro-growth approach to tax and fiscal policy by keeping tax rates, spending, and regulatory burdens low. These regions realize that policies that advance freedom and choice for workers create economic prosperity. However, California, Illinois, and Northeastern states continue to try to tax and spend their way to a better economic future, with lackluster results.

FIGURE 5 | **Apportionment of the U.S. House of Representatives Based on the 2010 Census**



Source: U.S. Census Bureau, 2010

The data demonstrates that high tax burdens result in a weaker tax base, low economic activity, and higher levels of outmigration.[36] However, states that follow the tax and spend approach believe that redistributing income from high income earners and giving to low income earners is a key function of government. This is regardless of the fact that redistribution policies may make everyone, especially low income earners, worse off. An opportunity to earn an honest living is the most successful anti-poverty program. Redistribution policies take away economic opportunities from those that need them the most.[37]

Illinois, California, and the Northeastern states continue to pursue tax and fiscal policies that hinder economic growth. These states follow a labor policy of forced unionism, by denying workers the freedom to decide on whether or not to join a union. Workers have no choice, even if they feel that a union does not represent their interests. Furthermore, these states continue to increase their minimum wages, despite the fact that high minimum wages price low-income workers out of a job.[38]

Meanwhile, in the South, we predict that the region from Florida to Texas to Louisiana could become a vast income-tax free zone within a decade. Already, Florida, Texas and Tennessee impose the most competitive individual income tax rate of zero. Last year, Tennessee Gov. Bill Haslam signed into law legislation repealing the state gift tax and phasing out the state estate tax.[39] This session, Tennessee lawmakers discussed repealing the state's dreaded Hall Tax, a tax on unearned income.[40] North Carolina has already made historic changes to its tax code, and Georgia and Tennessee may reform their tax codes in the future.[41]

There are signs of hope as the pro-growth movement spreads throughout the country. The Hoosier State has passed right-to-work, repealed the inheritance tax, and reformed the personal property tax.[42] Lawmakers in Michigan repealed the economically destructive Michigan Business Tax, passed right-to-work and phased out the personal property tax.[43] In Kansas, Gov. Sam Brownback slashed the state's highest personal income tax rate from 6.45 percent to 4.9 percent, and he has his sights set on eliminating the income tax.[44] Gov. Scott Walker continues to advance positive labor and tax reforms in Wisconsin.[45]

While the pro-growth states in the South, Great Plains, Midwest, and Southwest move forward with positive reforms, most of the Northeast continues to try to tax and spend their way to prosperity. States following a pro-growth approach to tax and fiscal policy will continue to lead, and we hope that other states will follow in their direction.

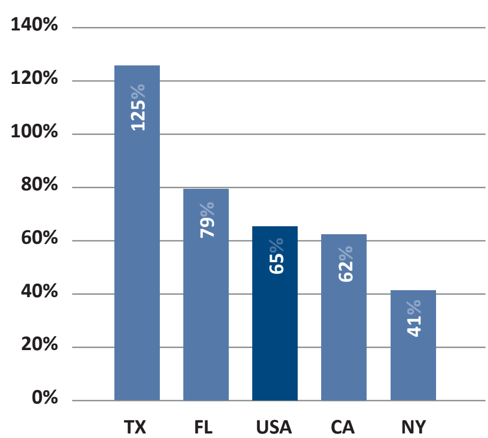
The Largest States: A Story of Growth and Decline

Another way to look at how the pro-growth approach benefits state economic growth is by comparing the four largest states, since California, Florida, New York, and Texas account for about one third of the U.S. population. It's worth comparing their performance against each other and the nation as a whole.

Texas and Florida have implemented relatively pro-growth fiscal and tax policies. Neither Texas nor Florida has an income tax and they are both right-to-work states. Both have also been growing much faster than the country as a whole—notwithstanding the big hit Florida took during the recession from 2008-2009.

By contrast, California and New York have implemented counterproductive fiscal policies that have eroded each state's relative economic competitiveness. Both states have among the highest taxes in the nation and both are not right-to-work.

Figure 6 | **Growth in Real Personal Income**
(1990-2014)



Source: Federal Reserve Bank of St. Louis, Federal Reserve Economic Data (FRED), and Bureau of Economic Analysis

Table 5 | **Growth in Number of Jobs**
(1990-2013) Total non-farm employees in thousands—seasonally adjusted

State	1990	2013	Percentage Change
California	12,494	14,234	13.9%
Florida	5,346	7,622	42.6%
New York	8,265	8,939	8.2%
Texas	6,995	11,259	61.0%
U.S. total	109,183	136,800	25.3%

Source: Bureau of Labor Statistics

Furthermore, these states have also been growing more slowly than the country as a whole.

The divergent experiences of these four states illustrate that when it comes to growth, it is the quality of the economic policies that matters, not necessarily the weather. California and New York share little in common other than that they have been following the tax and spend approach to tax and fiscal policy. However, as Figure 6 and Table 5 demonstrate, California and New York performed poorly in job and income growth, below the national average. Conversely, Texas and Florida performed better than the national average in both job and income growth, while California and New York stand out as economic growth cautionary tales.

Conclusion

Rich Karlgaard, publisher of *Forbes,* wisely remarked that, “the most valuable natural resource in the 21st century is brains. Smart people tend to be mobile. Watch where they go. Because where they go, robust economic activity will follow.”[46]

We have spent many years watching where people are going within the boundaries of the United States. What we find consistently over the years and decades is that brains, talent and ambitious Americans are moving to places with economic opportunity and sound public policies that encourage, rather than discourage, growth.

Which policies create economic growth? We’ve seen states that follow the pro-growth approach by keeping taxes, regulations, and spending low. In turn, this creates an environment where entrepreneurs, employers, and taxpayers can flourish. On the other hand, states that try to tax and spend their way to prosperity only create incentives for citizens to leave in search of better economic opportunities elsewhere.

This result is one of the most dramatic demographic shifts in American history. This migration is shifting the power center of America right before our very eyes. The movement isn’t random or even about weather or resources. Economic freedom is the magnet and states ignore this force at their own peril.

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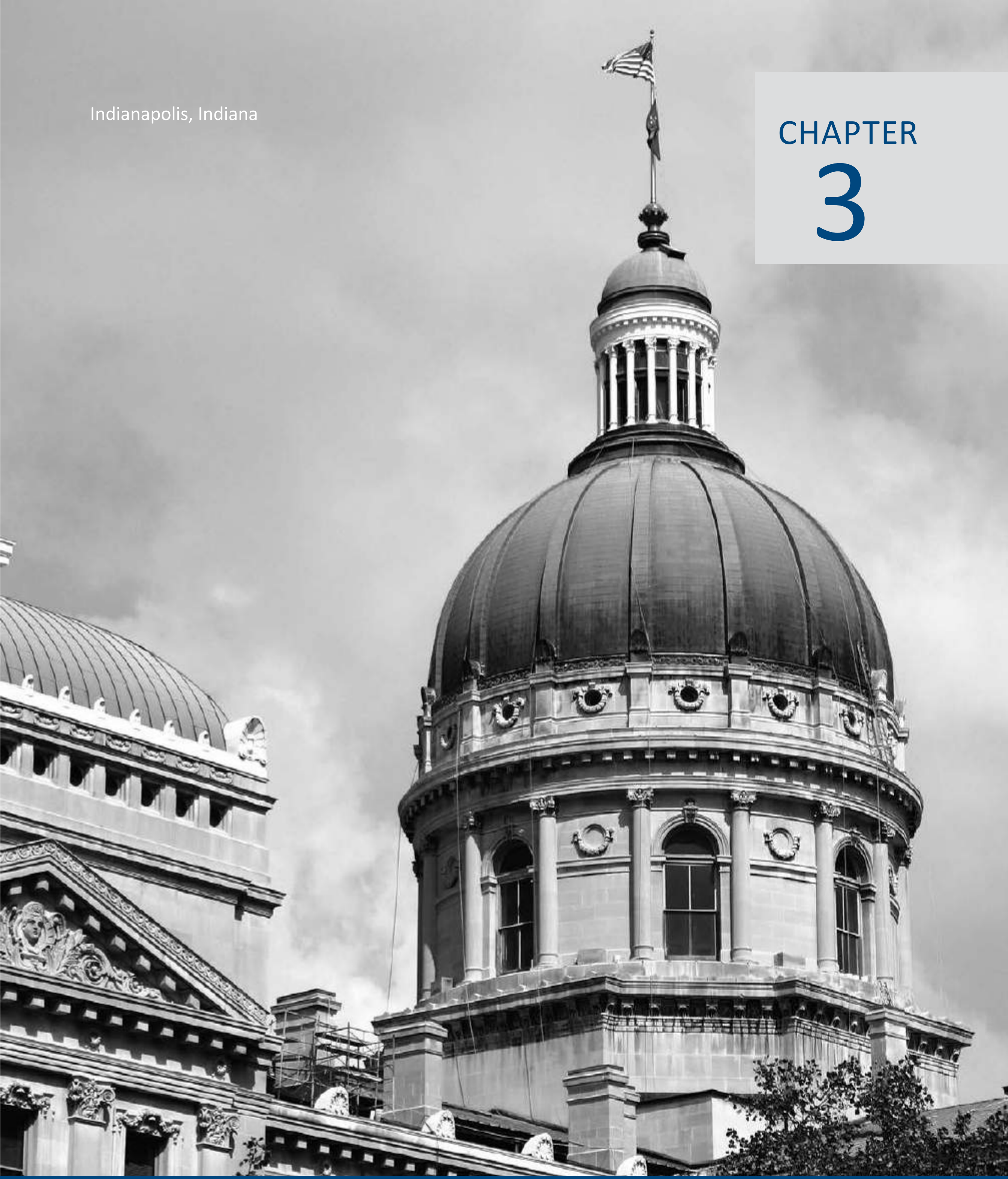


Indianapolis, Indiana

CHAPTER

3

Race to the Top

Race to the Top

One of the ingenious features of our federalist system in America is that it promotes competition between the states. As Justice Louis Brandeis put it, “states are laboratories of democracy.” By this he meant that good ideas, over time, will crowd out bad ideas. States will learn from each other, and this is the surest way to find efficient and pro-growth solutions to the crises in education, pensions, litigation, tax policy, transportation, corrections, and so on. This process of policy innovation and competition between states is what we call the “race to the top.”

Welfare was reformed first in states like Wisconsin and Michigan, then other states, and then finally their very successful work-based fixes trickled up to the federal government. We are seeing this now with criminal sentencing standards. Texas and several other states began a new initiative called “right on crime,” that is deemphasizing overly harsh prison sentences for drug users and other non-violent criminals as a way to turn around the lives of those who are convicted and to reduce prison costs for states. It seems to be working and other states are starting to adopt this approach.

Yet, when it comes to economic development and growth policies, when we try to teach states what works—and provide research which shows that our model works—we are often accused of favoring a “race to the bottom.” By this, our intellectual adversaries argue that the low tax, less regulation, more worker freedom (less union power) policies that we espouse are dangerous because they will lead all states down a destructive path of mindlessly cutting taxes, regulations, and services. When the states reach the trough of this policy pit, we are told, they will be left with a shrunken tax base, lousy schools and public services, roads splattered with pot holes, stagnant wages, a tattered safety net for the poor, and big tax cuts for the rich and powerful. It sounds pretty grim, but of course that is hardly the policy endgame we espouse. In reality, our prescriptions would in most cases help alleviate each of these problems.

Let us address the critics head-on. First, notice the shift in argument by those who disagree with our policy solutions. The same people who have for years argued that high tax and heavy regulation states are economically superior to those adopting the low tax and regulation policies we support, now argue that states that don’t cut taxes and regulations will be left behind if they don’t follow suit because they will become less competitive over time. This will then force states with high taxes, overly generous welfare benefits, and stifling regulations to join the race to cut them in order to remain competitive. Actually, yes, this is what we hope will happen under our system of competitive federalism. But then these advocates of more activist government say this race will lead every state to materially disadvantage many of their citizens by eviscerating their government services and tax base in order to attract more jobs.

But how can these policies trigger a race to the bottom if the policies don’t matter in terms of where people want to live and invest, or in terms of producing more jobs and higher incomes? If the Left were correct in their critique of our policy ideas, then there is no race here to be lost.

If the failure of limited government, free market policies is so clear and the public so strongly desires big government, what state electorate would tolerate this race to the bottom? Even if we had some mystical power over legislatures, surely some states like California would retain their progressive policies. In that case, if the "progressives" were right that their policy proposals are better for a state economy than ours, then these progressive states would start stealing jobs, businesses, and income from the states that follow our advice. People would then start moving to these places and more states would turn toward progressive policies and away from our free market policies. There would be no "race to the bottom" at all. This is the miracle of competitive federalism: Citizens can choose a policy environment that best services their varied interests.

The race to the bottom argument is an implicit concession that employers and workers really are attracted to areas with pro-growth policies and that we have been right all along. Now let us say that states across the country follow our advice on how to become "rich states." How is this a race to the bottom? If all states adopt the growth strategies we espouse, this hardly means that states will end up in a Darwinian dog eat dog world where the strong survive and the rest of the population is steadily devoured by the rich and powerful.

Growth is not a zero sum game—it's a positive sum game with the favorable outcome of more jobs, higher incomes, and more opportunity benefiting all, or at least nearly all. More investment, entrepreneurship, invention, and hard work are positive forces for progress. Let us say that states began, for instance, to look at the combined benefit structure of their welfare packages—which in some states can exceed $30,000 a year—and decided to trim back these benefits to encourage more work and output.[1] This strategy would mean more employment in every state that followed this course, and the effect would be a better economy in each of these states. If all states cut income tax rates, this would lead to more overall investment in every state, which would mean more prosperity everywhere. If every state adopts pro-growth energy policies to maximize their energy resources, this is a positive outcome for every state.

So growth and competition create a win-win for all states. The real zero sum game is the income redistribution strategy, because these policies are based mostly on robbing Peter to pay Paul. Furthermore, since Peter is a producer and Paul is a non-producer, these policies may even be negative sum games, leaving the whole economy worse off.

We are confident that if every state were to adopt the pro-growth policies we recommend in these pages of *Rich States, Poor States*, then each state and the nation as a whole would be better off. Imagine, for example, that every state began to drill, safely and economically, for our energy resources. Every state would get richer, though Texas and North Dakota might not have the sizable advantage they have now. Similarly, if every state enacted right-to-work policies, the overall efficiency of the U.S. economy would improve. When companies have to compete for business, such as with FedEx and UPS, the competition makes both entities more efficient and means lower costs and better service for customers. The same is true with state and local governments. When states have to compete for taxpayers, they are forced to provide better public services at lower costs for their customers, the citizens.

The Wealth and Poverty of Nations

Economic freedom has a tremendous impact on the wealth, health, quality of life, and decision of where to live for individuals. This point has largely been ignored by many leading demographers, economists, and especially politicians. To illustrate the power of policies and free markets, let's take a look at some similarly situated countries with very different economic systems. As we will see, the lesson of the last century was that socialism fails and freedom succeeds.

Consider the classic natural experiment after the Second World War, when geo-political events split several nations into two. One half of these nations adopted a socialist economy while the other half adopted more free market economic systems. Back in 1989, one of us (Moore)—with the late economist Julian Simon—examined what happened in some of those divided countries divided due to post war politics. Two of these sets of countries were South Korea and North Korea and China and Taiwan.[2] What makes this experiment near-perfect is that every other factor—natural resources, education, culture, climate, genes, and so on—was virtually the same in these pairs of countries, except for the fact that China had many more natural resources than the tiny and crowded island of Taiwan. Also, both pairs of countries started out at roughly the same standard of living prior to the separation.

During the next four decades—a very short time span in the course of human history—the nations recorded very different rates of progress. An important measure of national economic well-being is per capita income, which is the amount of gross national product (GNP) per person. This puts the capitalist countries at a disadvantage because they generally had higher rates of population growth and birthrates, as well as much more in-migration. However, in each case, the socialist country had a much lower per-capita income than its free counterpart. Taiwan's per capita income by 2004 was three to four times as high as that of mainland China's, due to differences in economic growth.[3] In 2012, the ratio for per capita gross domestic product (GDP) exceeded four.[4] South Korea's per capita GNP was nearly twice that of North Korea's—with a present GDP ratio of more than 16.

These official government figures do not reflect the fact that leaders in the command economies often underpriced basic goods and services, thus causing severe shortages and queues. When products—bread, chocolate, radios, cars—were purchased on the black markets in these countries, their prices were much higher than officially reported. In addition, we now know that the communist nations were very adept at lying about their standard of living and exaggerating their progress, so the differences in income were probably much greater than even these numbers suggest. Finally, the superior product quality of goods made in the West understates the real difference in living standards between socialist and free market nations.

When Moore and Simon went on to examine a broader range of socio-economic statistics, the findings were the same. The capitalist countries were richer, had more access to basic consumer items like cars and TVs; were healthier, had longer life expectancies, lower infant mortality rates; and had high education levels. Even on measures of equality the socialist nations fared no better; while most people were equally poor in these countries, there was also fantastic wealth hoarded by the political class.

Along these same lines, international research on the relationship between economic freedom and prosperity, as well as quality of life, shows that getting policy right pays dividends to political jurisdictions. The Cato Institute and the Frasier Institute, as well as The Heritage Foundation with *The Wall Street Journal*, publish annual economic freedom indices measuring economic freedom around the world. When those rankings are compared to various metrics of economic well-being and quality of life, it becomes clear that policy does deeply matter to social outcomes and the results are not subtle.[5]

One last point that is pertinent to the focus of this book on the economic performance of the states: In the 1950s, '60s, '70s, and '80s the citizens of these socialist countries voted with their feet—to the extent they were allowed. The migrations from socialist systems to capitalist systems were such a stampede that the socialist nations had to prevent people from leaving—e.g., by building the Berlin Wall. The lure of political and economic freedom was so great that tens of thousands risked being shot in the back or having their families imprisoned by fleeing the tyranny of collectivism.

The point of this example is not to suggest that the more liberal states in America are socialist. They are largely not—though they are more socialistic in their governing philosophies and with respect to certain policies. The point is to highlight a dramatic case study proving that economic policies do make a major difference in living standards. If natural resources were the key to prosperity, then China would have grown very rich after World War II and Taiwan and Hong Kong very poor. Socialists retort that Hong Kong and Taiwan were rich because of huge inflows of foreign investment. That is certainly true, but this begs the question of why people chose to invest in Hong Kong and not China. The answer is that the economic and political systems were much more conducive to investment.

So if national policies make a difference in living standards, why wouldn't state and local policies impact the rate of growth in one state versus another? Indeed, given how clear international results are on those points, we remain perplexed at our critics' unwillingness to admit that free market policy and competitiveness do matter. Perhaps, given that the 50 states have much more similar policy regimes than do North and South Korea, we should expect state differences in policy to have less pronounced differences on economic and quality of life outcomes. However, if indeed these factors do matter on the international level—and they clearly do—why would they become irrelevant in outcome differences between the 50 states? We continue to await a satisfactory explanation from our critics.

Income Taxes and Right-to-Work Matter Most

We have argued in previous editions of this report that the two policy decisions that have the biggest impact on growth among the states are 1) the highest income tax rate faced by business and individuals, and 2) whether a state has forced-union policies or right-to-work statutes allowing workers to opt out of unions. If states are right-to-work and keep their corporate and personal income taxes low, and all other factors are held constant, this should go a long way to making those states a place where jobs, people, and capital move. Sure enough, our latest analysis covering 2002-2012 confirms this conclusion once again.

We compared the economic results in the nine states with the highest income tax rates with the nine states without an income tax (including New Hampshire and Tennessee). In Table 6, we compare their ten year economic performance. It's no contest. States without an income tax sub-

TABLE 6 | **The Nine States with the Lowest and Highest Marginal Personal Income Tax (PIT) Rates**

10-Year Economic Performance

State	2014	2003-2013					2001-2011
	Top Marginal PIT Rate**	Population	Net Domestic Migration†	Non-Farm Payroll Employment	Personal Income	Gross State Product	State & Local Tax Revenue‡
Alaska	0.00%	13.4%	-2.1%	12.9%	62.6%	84.7%	232.8%
Florida	0.00%	15.0%	5.1%	4.8%	50.1%	37.0%	50.3%
Nevada	0.00%	24.1%	9.1%	8.0%	44.9%	46.2%	66.7%
South Dakota	0.00%	10.6%	2.6%	10.2%	62.3%	63.0%	50.9%
Texas	0.00%	20.1%	4.5%	19.5%	74.1%	81.7%	63.3%
Washington	0.00%	14.2%	3.8%	10.6%	55.2%	57.3%	48.6%
Wyoming	0.00%	15.7%	5.6%	16.2%	76.8%	113.5%	121.1%
Tennessee^	0.00%	11.1%	4.4%	3.3%	48.0%	39.2%	50.2%
New Hampshire^	0.00%	3.4%	0.2%	3.7%	43.6%	35.0%	54.5%
Avg. of 9 No Income Tax States*	0.00%	14.2%	3.7%	9.9%	57.5%	61.9%	82.0%
50-State Avg.*	**5.66%**	**9.1%**	**0.8%**	**5.9%**	**51.3%**	**51.0%**	**56.5%**
Avg. of 9 Highest Income Tax States*	10.39%	6.8%	-2.0%	4.3%	47.8%	47.0%	54.3%
Kentucky	8.20%	6.8%	1.4%	3.0%	44.7%	42.4%	38.9%
Maryland	8.95%	7.9%	-2.4%	4.4%	48.9%	48.9%	52.2%
Vermont	8.95%	1.4%	-1.1%	2.3%	45.7%	38.8%	63.5%
Minnesota	9.85%	7.3%	-1.1%	4.5%	45.7%	42.8%	46.5%
New Jersey	9.97%	3.5%	-5.6%	-1.0%	40.5%	34.6%	57.6%
Oregon	10.62%	10.8%	4.3%	6.4%	47.9%	71.4%	53.3%
Hawaii	11.00%	12.2%	-2.4%	8.8%	61.0%	54.9%	57.6%
New York	12.70%	2.5%	-7.5%	6.1%	49.8%	45.2%	64.7%
California	13.30%	8.7%	-3.7%	4.1%	46.0%	43.5%	54.0%

*Equal-weighted averages
**Top marginal PIT rate is the top marginal tax rate on personal earned income imposed as of 1/1/2014 using the tax rate of each state's largest city as a proxy for the local tax. The deductibility of federal taxes from state tax liability is included where applicable.
†Net domestic migration is calculated as the ten-year (2004-2013) sum of net domestic in-migrants divided by the mid-year (2009) population.

‡2001-2011 due to Census Bureau data release lag.
^Tennessee and New Hampshire tax interest and dividend income but not ordinary wage income.

Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis

TABLE 7 | **The Eight States with the Lowest and the Highest Marginal Corporate Income Tax (CIT) Rates**

10-Year Economic Performance

State	2014	2003-2013					2001-2011
	Top Marginal CIT Rate**	Population	Net Domestic Migration†	Non-Farm Payroll Employment	Personal Income	Gross State Product	State & Local Tax Revenue‡
Nevada	0.00%	24.1%	9.1%	8.0%	44.9%	46.2%	66.7%
South Dakota	0.00%	10.6%	2.6%	10.2%	62.3%	63.0%	50.9%
Wyoming	0.00%	15.7%	5.6%	16.2%	76.8%	113.5%	121.1%
Texas	2.65%	20.1%	4.5%	19.5%	74.1%	81.7%	63.3%
Ohio	3.62%	1.2%	-3.1%	-2.7%	35.0%	32.6%	28.2%
Alabama	4.23%	7.3%	2.1%	1.5%	44.5%	42.4%	45.1%
North Dakota	4.53%	13.2%	4.3%	33.5%	118.6%	149.4%	169.3%
Colorado	4.63%	16.3%	5.0%	10.6%	54.1%	51.3%	60.7%
Avg. of 8 Lowest Corporate Income Tax Rate States*	2.46%	13.6%	3.8%	12.1%	63.8%	72.5%	75.7%
50-State Avg.*	**7.08%**	**9.1%**	**0.8%**	**5.9%**	**51.3%**	**51.0%**	**56.5%**
Avg. of 8 Highest Corporate Income Tax Rate States*	11.81%	7.2%	-0.9%	5.1%	48.8%	51.6%	75.1%
Alaska	9.40%	13.4%	-2.1%	12.9%	62.6%	84.7%	232.8%
Illinois	9.50%	2.6%	-4.8%	-0.2%	38.2%	35.6%	45.4%
Minnesota	9.80%	7.3%	-1.1%	4.5%	45.7%	42.8%	46.5%
Iowa	9.90%	5.0%	-0.6%	6.2%	58.9%	54.8%	54.1%
Delaware	10.41%	13.2%	4.7%	2.9%	43.7%	38.1%	53.5%
Oregon	11.25%	10.8%	4.3%	6.4%	47.9%	71.4%	53.3%
Pennsylvania	17.05%	3.2%	-0.5%	2.3%	43.3%	40.3%	50.3%
New York	17.16%	2.5%	-7.5%	6.1%	49.8%	45.2%	64.7%

*Equal-weighted averages
**Top marginal CIT rate is the top marginal rate on corporate income imposed as of 1/1/14 using the tax rate of each state's largest city as a proxy for local taxes. In the case of gross receipts, margins, or business franchise taxes, a comparable tax rate is derived. See the appendix for details. The deductibility of federal taxes from state tax liability is included where applicable.
†Net domestic migration is calculated as the ten-year (2004-2013) sum of net domestic in-migrants divided by the mid-year (2009) population.
‡2001-2011 due to Census Bureau data release lag.

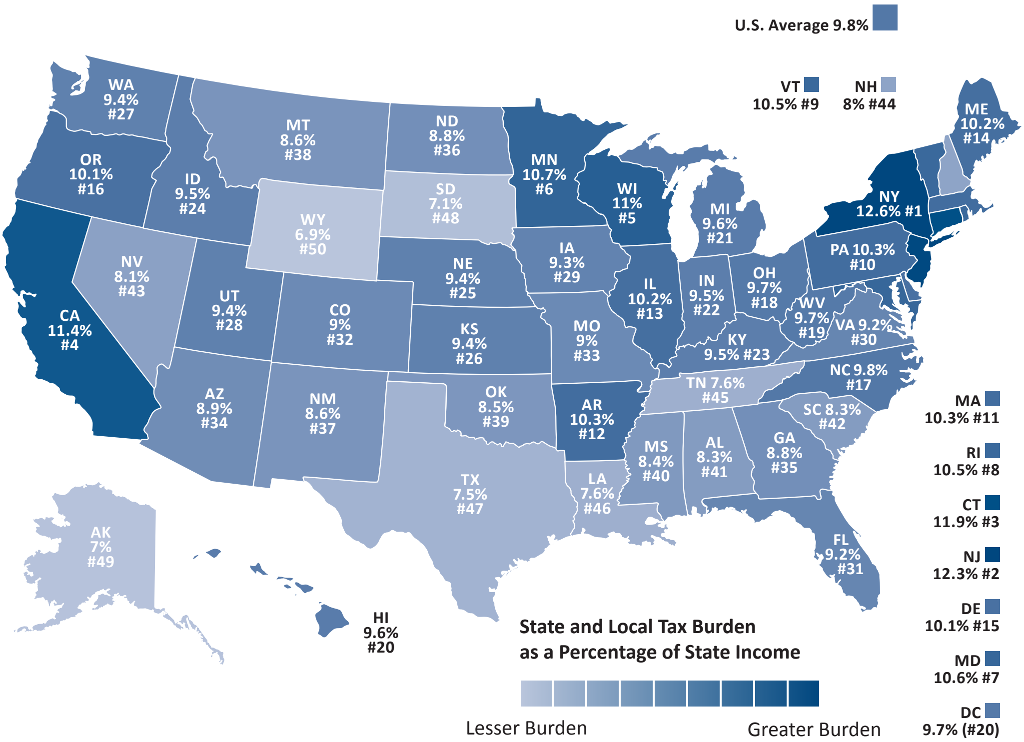
Source: Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis

stantially outperform their high-tax competitors.

Looking at the same data for the eight states with the highest top corporate income tax rates versus the eight states with the lowest top corporate income tax rates (including Nevada, South Dakota, and Wyoming, which have no corporate income tax or business gross receipts tax) shows similar results: states with low or no corporate income taxes are outperforming their high-tax counterparts.

A survey of the economic literature on the relationship between taxes and economic performance confirms the results of the two comparisons above. Dr. William McBride of the Tax Foundation analyzed the results from credible academic studies inquiring into the connection between taxes and growth, first in an initial paper, and then in a follow-up response after his review was attacked by the left-wing Center for Budget and Policy Priorities.[6] He concluded that the vast

FIGURE 7 | **State-Local Tax Burden by Rank Fiscal Year 2011**



Notes: As a unique state-local entity, Washington, DC is not included in rankings, but the figure in parentheses shows where it would rank.

Source: Tax Foundation calculations using data from Census Bureau, Rockefeller Institute of Economic Analysis, Council on State Taxation, and Travel Industry Association.
See www.taxfoundation.org/burdens

majority of research on the topic—roughly 90 percent of the studies published—shows that there is a significant negative relationship between taxes and economic growth. That is, when taxes go up, economic performance goes down.

McBride finds that all taxes harm economic growth, but taxes on income—personal, business, and investment—harm economic growth the most. Thus, it's important to point out here that sound tax policy is a two faceted challenge: Get the form right and keep the burden low. The form of taxation matters because taxes on wages, investment income, and business profits—all the product of productive behavior—reduce the incentive to engage in this productive behavior. When you tax something—say tobacco or alcohol consumption—you get less of it. That's one argument for so-called "sin taxes"—to reduce the consumption of these products. Similarly, taxes on productive behaviors reduce the reward for productive behaviors, therefore making leisure and consumption more desirable.

Separately, the overall burden of taxation, regardless of form, hurts economic growth due to the extraction of private resources into less efficient public coffers, and the increasing magnitude of bad incentives as the level of taxation increases. Figure 7 from the Tax Foundation ranks the overall burden of state and local taxation among the states.[7]

Updating some research from our colleague Richard Vedder, an economist at Ohio University, we found that over the past decade, more than 3,000 people on net every day of the year, including Sundays and holidays, packed up their bags, loaded up those moving vans, and moved to tax-

TABLE 8 | Right-To-Work States Benefit from Faster Growth

State	2003-2013			
	Net Domestic Migration†	Non-Farm Payroll Employment	Personal Income	Gross State Product
Avg. of 23 Right-to-Work States*	3.0%	8.6%	57.9%	58.8%
50-State Avg.*	0.8%	5.9%	51.3%	51.0%
Avg. of 27 Forced-Union States*	-1.1%	3.7%	45.8%	44.3%

*Equal-weighted averages
**Right-to-work status is as of 1/1/2013. For this reason, Michigan has been counted as a forced-union state (RTW did not go into effect in Michigan until March 2013).
†Net domestic migration is calculated as the ten-year (2004-2013) sum of net domestic in-migrants divided by the mid-year (2009) population.

Source: National Right to Work Legal Defense Foundation, Laffer Associates, U.S. Census Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis

Focusing in on the natural experiment of the Midwest while looking at a broader array of data encompassing deferences in employer provided health care coverage and the extent of innovation as measured by patents granted, the 12 Midwestern states see similar results. Since Indiana and Michigan did not enact right-to-work legislation until 2012, those states are classified as "forced-unionism" states for purposes of data analysis.

TABLE 9 | Midwestern Right-To-Work States Benefit from Faster Growth

State	Measure of Economic Health				
	Percentage Growth in Number of Private Sector Jobs 2002-2012	Poverty Rate 2012	Percentage Growth in Patents Annually Granted 2002-2012	Percentage Growth in Real Personal Income 2002-2012	Percentage Growth in Number of People Covered by Employment-Based Private Health Insurance 2002-2012
Right-to-Work States*	11.9%	12.9%	49.0%	32.9%	-2.6%
Forced-Union States*	-2.3%	15.0%	19.6%	11.5%	-11.9%

*Midwestern states include Illinois, Indiana, Michigan, Ohio, North Dakota, South Dakota, Wisconsin, Minnesota, Iowa, Nebraska, Kansas, and Missouri. For this table, Indiana and Michigan are considered forced-union states since they did not enact right-to-work legislation until 2012.

Source: U.S. Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Patent and Trademark Office

haven states like Florida, Texas, Nevada, and New Hampshire.[8]

What about right-to-work? The Department of Labor reported at the end of 2013 that union membership in America keeps shrinking. Unions lost 400,000 members in 2013 and the percentage of working Americans who belong to a union dipped to 11.3 percent way down from the all-time high of 34 percent in the 1950s.[9] Today, only one in 13 private sector workers is a member of a labor union—the smallest percentage in at least 60 years.

In right-to-work states, workers have the right to *not* join the union and not pay dues. In forced-unionism states, workers must join the union and pay dues if they work in a unionized establishment. In right-to-work states, union activities are in no way inhibited. Individual workers are simply empowered to leave the union without quitting their current job if they do not feel that union membership aligns with their values or provides them sufficient benefits. Unionism is no longer a condition of employment. We found overwhelming evidence that right-to-work states have much greater employment growth than forced-unionism states, as shown in table 10 which analyzes the performance of right-to-work states relative to their forced-unionism counterparts.

A survey of the literature on the economic effects of right-to-work laws confirms what the data above shows. Literature reviews done by two separate teams of researchers—Dr. Randall Pozdena and Dr. Eric Fruits, as well as Dr. Michael Hicks and Michael LaFaive—find significant support for the theory that right-to-work policies boost economic performance.[10] In addition, both research teams' own personal economic analyses come to similar conclusions that conform with the academic consensus.[11]

Workers are apparently starting to understand the negative effects of unions on jobs and overall economic improvement. In early 2014, the workers at a Volkswagen plant in right-to-work Chattanooga, TN famously voted down a United Auto Workers bid to unionize the plant. Many workers at the plant said they worried that a union would bankrupt the plant, sending their jobs elsewhere, and turn Chattanooga into bankrupt Detroit.[12]

Some critics might claim that we are cherry picking the years of analysis to come up with this dramatic conclusion on income taxes and right-to-work. We are not. This pattern has been consistent for the past 50 years or so and we would challenge our critics to find a period when the growth was running in the opposite direction. In our book "The Wealth of States" we show that this relationship is statistically significant for right-to-work and income tax rates.[13] We have examined every 10-year period since the 1960s and the story is always the same. Moreover, the economic research on both taxes and right-to-work, as noted above, demonstrates the importance of low taxes (income taxes on people and businesses in particular) and labor freedom—facilitated by right-to-work—to economic performance.

Dying to Tax You: The Deadly Estate Tax

There is another important economic growth killer in states: death taxes. The estate tax is an unfair double tax on income that was already taxed when it was earned by the individuals who ultimately leave an estate for their heirs. But the estate tax is not just unfair—it is a killer of jobs and incomes in states. Many studies indicate that the death tax is so inefficient, so adverse to saving and capital investment, and so complicated, that the states and the federal government would actually recoup a sizeable amount of the revenues lost from this tax (if repealed) with higher tax receipts resulting from long term economic growth. A 1991 study by George Mason University economist Richard Wagner, for example, suggests that the economically destructive impact of the death tax on capital formation is so large that states and the federal government would, over the long term, enhance their revenue collections without the tax.[14] Other studies suggest that the states and federal government will recapture from one-third to one-half the static revenue losses. A recent study for the American Council for Capital Formation in Washington, D.C., co-authored by Douglas Holtz-Eakin and Donald Marples at Syracuse University, highlights the negative impact of the estate tax:[15]

> *"Entrepreneurs are particularly hard hit by the estate tax; they face higher average estate tax rates and higher capital costs for new investment than do other individuals. The estate tax causes distortions in household decision making about work effort, saving, and investment (and the loss of economic efficiency) that are even greater in size than those from other taxes on income from capital."*

Additionally, work by Lawrence Summers, a top economic adviser to Presidents Clinton and Obama, has found that the death tax was responsible for lowering the total capital stock by over a trillion dollars.[16] The capital stock can be defined as the total value of durable assets in an economy that aid in production. It is the machines, factories, tools, computers, software, and technical know-how (i.e. human capital) that aid in the production of goods and services. As ALEC tax and fiscal policy analyst William Freeland pointed out in a recent essay:[17]

> *"It's hard to put a clear human price on such an economic consequence, but given that capital accumulation is the major driver of technological advancement, lower prices to consumers for goods and services, competitive firms that are able*

to expand hiring, and increasing wages of workers by improving labor productivity, it's safe to say that each and every American, along with citizens of the world, is worse off as a result of the death tax."

Prior to 2001, states could impose an estate tax of up to 16 percent with no extra burden on their residents because a federal income tax credit offset state estate taxes.[18] That policy has ended and now state death levies are paid out of the assets of the deceased without federal tax offset.

Four states—Indiana, North Carolina, Ohio and Tennessee—have recently reacted wisely to the economic evidence by eliminating or phasing out their estate taxes. This leaves 18 states plus the District of Columbia that still impose a gift or estate levy. Most of them still apply a 16 percent rate—as if federal rules haven't changed. See the table below.[19]

TABLE 10 | **Where Not to Die**

States with estate or inheritance taxes and the highest rate (*certain descendants exempt)

State	Estate Tax
Connecticut	12%
Delaware	16%
District of Columbia	16%
Hawaii	16%
Illinois	16%
Iowa*	15%
Kentucky*	16%
Maine	12%
Maryland	16%
Massachusetts	16%
Minnesota	16%
Nebraska	18%
New Jersey	16%
New York	16%
Oregon	16%
Pennsylvania	15%
Rhode Island	16%
Vermont	16%
Washington	19%

Source:The Family Business Coalition, 2013

The worst offender is Minnesota, which in 2013 enacted a new 10 percent gift tax with a $1 million exemption, though the state thankfully repealed the law a a year later in 2014. A gift tax is a levy on money given away while still alive. This tax was in addition to Minnesota's 16 percent estate tax. The new law was all the more punitive because it applied the 16 percent estate tax (six percent on top of the earlier 10 percent gift tax) to any gift within three years of death.

Successful people who have built up wealth continue to invest in the enterprise and save money in their later years in order to leave a legacy to their heirs. This accounts for the trillions of dollars of wealth passed from one generation to the next. The higher the tax rate, the more this incentive for wealth creation is reduced. The combined federal and state death tax rate now approaches 50 percent in many states (after accounting for deductions). This explains why estate tax planning and avoidance is a booming industry.

What's more, the high cost of avoidance and planning actually overshadows the revenue taken in by the tax. As the Tax Foundation points out in a recent study, three separate studies find that these compliance costs are larger than the revenue actually taken in by the death tax.[20] These are the hallmarks of a bad tax: costly compliance, low revenue, and large, detrimental unintended consequences. Table 11 from a recent ALEC essay which utilizes data from the Governing Institute and the Census Bureau, shows how little revenue the death tax generates for the states that employ it.[21] In every state, it funds government for less than 10 days, and in most states it funds it for significantly less than 10 days.

Moreover, state death taxes are especially futile because residents who are subject to the tax can avoid it by fleeing before they die. Even the infamously liberal late Sen. Howard Metzenbaum moved to Florida from Ohio and avoided estate taxes after he retired from politics.[22] A successful New York business owner with $50 million of lifetime savings can move his family and company to

TABLE 11 | **Death Tax Revenue By State**

State	Total Death and Gift Tax Revenue	Percent of Total State Revenue	Number of Days Death and Gift Tax Funds State Govt. Operations
Connecticut	$227,237,000	1.7%	6.2
Delaware	$16,229,000	0.5%	1.8
Hawaii	$6,899,000	0.1%	0.4
Illinois	$122,241,000	0.3%	1.1
Iowa	$65,535,000	0.9%	3.3
Kentucky	$41,351,000	0.4%	1.5
Maine	$49,323,000	1.3%	4.7
Maryland	$216,033,000	1.3%	4.7
Massachusetts	$309,638,000	1.4%	5.1
Minnesota	$161,309,000	0.8%	2.9
Nebraska	$1,551,000	Less than 0.1%	0.1
New Jersey	$642,182,000	2.3%	8.4
New York	$1,219,248,000	1.8%	6.6
Oregon	$76,250,000	0.9%	3.3
Pennslyvania	$778,597,000	2.4%	8.8
Rhode Island	$21,127,000	0.7%	2.6
Vermont	$35,880,000	1.3%	4.7
Washington	$122,740,000	0.7%	2.5

Source: Governing Institute, U.S. Census Bureau

Florida, Georgia, Texas or any of 29 other states and cut his estate tax liability by more than $7 million, based on New York's top estate tax rate of 16 percent.

Thousands of Minnesota snow birds move to Florida during the winter months already, and so the new tax adds an extra financial incentive not to return. The Center for the American Experiment, a Minnesota research group, found that $3 billion of income has been lost to the state since 1995 because of Minnesotans relocating to Florida and Arizona.[23] The think tank's conclusion should be required reading for policy makers in every state still imposing a death tax: "If enough people move away and stop paying Minnesota taxes, then Minnesota will experience a net revenue loss due to the estate and gift tax." This will mean that people making less than $1 million a year will be left paying the tab. Minnesotans already have a strong incentive to become snow birds and flee because of the cold winters. Now they have two reasons to leave.

A 2004 National Bureau of Economic Research study titled "Do the Rich Flee from High State Taxes?" finds that states lose as many as one in three dollars from their estate taxes because "wealthy elderly people change their state of residence to avoid high state taxes."[24] Note that this was when states imposed effective estate tax rates that were only one-third as high as they are enacting now. Under these new soak-the-rich schemes, some states could lose so many wealthy seniors that they may actually lose revenue over time.

In New York, more than 40 percent of income tax dollars statewide will come from those with earnings of $1 million or more in 2014.[25] However, a recent report by the *New York Sun* found that "it has been typical for New York to lose wealthy residents to so-called "retirement states" with warmer climes and more hospitable tax systems."[26] Estate tax lawyers told the *Sun* that "the costs of the state estate tax outweigh the benefits…because of loss of income and sales tax receipts as well as the economic loss engendered by the wealthy fleeing the state." A rational policy out of Albany would be to lay down a red carpet to encourage more rich people to move in, or at least to stay there. Instead, with its 16 percent estate tax, Albany politicians have effectively declared: "Invest anywhere but in New York."

Beware the Class Warriors

Income inequality is the number one issue in Washington, D.C. these days, and it has now hit the state capitals as well. No doubt, citizens want a system of governance and a tax system that they regard as "fair." Are people gaming the system or paying lobbyists and lawyers to buy them exemptions from taxes or laws? If so, that is unfair and inequitable. As our own Golden Rules of Taxation and ALEC's Principles of Taxation point out, taxes should be broad, neutral, and not play favorites.[27]

Moreover, they should consider that one way for states to get more money from the rich is to attract more rich people. Sometimes liberals forget this when they argue for soaking the rich. A 13 percent tax on someone who moves out of the state yields zero revenues for the state coffers.

Blue states have tried various strategies to level out incomes and wealth. First, they have raised income tax rates on middle to high income earners. Second, they have raised minimum wages to lift incomes of the poor. They have also attempted to increase the generosity of welfare payments and assistance to the poor and middle class. We find these policies usually make states poorer and less equal. They are all counterproductive policies in the quest to equalize incomes.

The desire to equalize income instead of opportunity is a major blind spot of our redistributionist critics. For one, there are major issues in many of the commonly cited measures of inequality and median wage stagnation that attempt to argue that the gap between the rich and the rest of America is growing. There are issues related to the technical definition of the unit of analysis ("household" vs. "tax file"), how income is defined (particularly whether government transfer payments and the income effects of the tax code are considered), changes in the cost of living over time that must be taken into account.[28] Adjustments to income data that take into account these issues see inequality growth essentially disappear. Similarly, median wages can be seen to grow steadily once appropriately adjusted.

Moreover, the focus on income or wealth inequality ignores the more important measure—income mobility. Income mobility measures how likely an individual born in one income group is to move into another income group. Measures of income mobility show that there essentially has been no change in income mobility for 50 years.[29] This isn't to say that mobility is high enough, but nostalgia for some golden age of American equality is misplaced. Moreover, the key to improving income mobility is to provide greater opportunity to individuals. That means employment, growing wages, and the possibility of becoming an entrepreneur. Which is to say, the problems of income inequality and mobility are fundamentally no different than the traditional core concerns of public finance: How do we maximize the growth of the economy by providing core public services, while minimizing interference with workers, entrepreneurs, firms, and investors?

In the years since 2008, many states have raised income tax rates on the "rich," reports the Tax Foundation, stating: "We have rarely seen so many states raise tax rates on the highest income group." The raises in the highest tax brackets were all enacted in states with liberal-controlled legislatures, reports *Stateline*. In each case, *Stateline* reports, "Liberals muscled through the tax rate increases, arguing that wealthier residents can afford a higher share of the tax burden—particularly in a recession."

We doubt the tax hikes aimed at the wealthiest residents are done. With the class envy argument louder than ever today, we expect big pushes for tax increases in Illinois, New York, and other blue states to continue. In the 1970s, 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.[30] It's a good bet that liberal legislatures will continue to try to raise rates on businesses and high income residents.

These personal income tax rates are paid frequently by small business owners and operators, so this could be a business killer. Many small businesses file under the personal income tax code, instead of the corporate income tax code, as so-called "pass-through" entities. Half of the income that would be taxed at progressive rates comes from business earnings.[31] This means fewer jobs and less business investment as businesses see the profits they may have reinvested head into the state treasury instead.

TABLE 12 | **The Terrible Trio**

Share of Taxes Paid By Rich

State	Tax Share Paid by Top 1%*	Top Tax Rate
California	48%	13.30%
New Jersey	46%	9.97%
New York	41%	12.70%

*This is percent paid of those making more than $500,000 a year or the richest 1.3% of tax filers. Tax rates include the local tax of the states largest city.

Sources: State and city revenue offices; Manhattan Institute; California Tax Commission; and Tax Foundation

We hate to keep picking on California, New Jersey, and New York, but they continue to be models of how not to govern a state—though Gov. Christie is heroically trying to turn things around in New Jersey. These three states each impose tax rates at or near the highest in the nation. They are about twice the national average. Our examination of the data from the state revenue offices discovered that in 2008 these jurisdictions collected between 40 and 50 percent of their income tax revenues from the wealthiest 1 percent of tax filers (see table).

Former New York City Mayor Michael Bloomberg once called Manhattan a "luxury product," meaning that people are willing to pay a premium to live there.[32] The polls in Sacramento say much the same thing about living in the Golden State. But what these jurisdictions are discovering is that 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 a business in Austin, Palm Beach, Nashville, Seattle, or countless other cities in states where there is no income tax at all. Furthermore, 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 the poor.

The result of these high tax rates has not been to balance state budgets or improve the financing of vital state services. Far from it. In 2009, 2010, and 2011 these states had to sharply cut state services. You can't balance the budget on the backs of the 1 percent of the most productive citizens of a state. They will leave, and they are leaving. The goal should be to bring them back, not to drive them away.

Liberals in Illinois understood this during the most recent legislative session. The state has a constitutionally protected flat income tax—one of the few bright spots in Illinois' otherwise dismal income tax code. Given large Democratic supermajorities in both houses of the legislature, the House Speaker and Democratic Party Chairman, Michael Madigan, only needs to keep his caucus together in order to pass the supermajority requirement in both houses necessary to bring a constitutional amendment to the voters of the state. But alas, two Democratic legislators defected, citing the adverse economic effects of a progressive income tax. Given Speaker Madigan's inability to find any Republicans willing to vote for the proposal, it died in the legislature.

Maryland tried to raise tax rates on the wealthy in 2007 when the politicians in Annapolis created a millionaire tax bracket, raising the top marginal income-tax rate to 6.25 percent. Since Prince George's and Montgomery counties also impose income taxes, the state-local tax rate can go as high as 9.45 percent. Gov. Martin O'Malley, a dedicated class warrior, declared that these richest 0.3 percent of filers were "willing and able to pay their fair share."

The next year the state auditors discovered that one-third of the millionaires disappeared from Maryland tax rolls.[33] In 2008, roughly 3,000 million-dollar income tax returns were filed by the end of April. The following year there were 2,000 returns, which the state comptroller's office concedes is a "substantial decline." On those missing returns, the government collects 6.25 percent of nothing. Instead of the state coffers gaining the extra $106 million the politicians predicted, millionaires paid $100 million *less* in taxes than they did last year—even at higher rates.

Of course, the majority of that loss in millionaire filings is a result of the recession. This only reinforces our argument that depending on the rich to finance government is ill-advised: Progressive tax rates create mountains of cash during good times that vanish during recessions. For 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."[34]

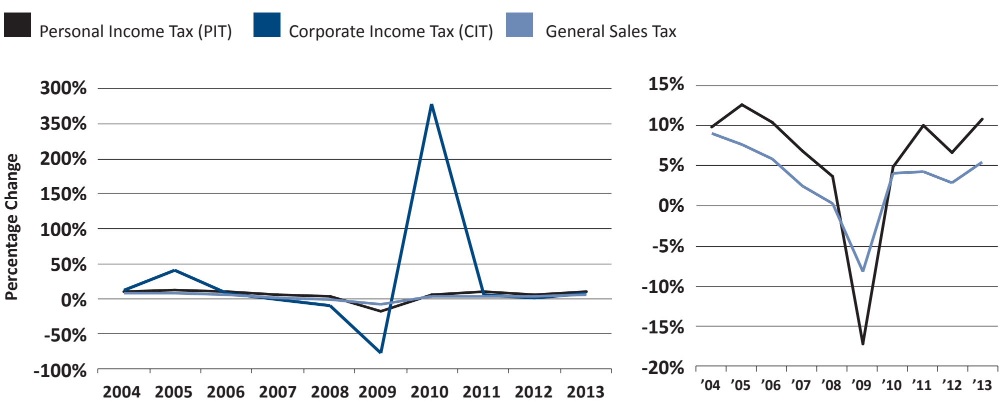
All of this means that the burden of paying for bloated government in Annapolis will fall on the middle class. Thanks to the futility of soaking the rich, these working families will now pay Mr. O'Malley's "fair share." Soak the rich, foiled again.

Pro-tax income-redistributionists argue that high tax rates on the rich are necessary to help the poor and to promote a just and equitable sharing of the tax burden based on ability to pay. In fact, one liberal think tank, the Institute on Taxation and Economic Policy (ITEP), publishes an annual report which analyzes the regressivity of each state's tax system.[35] This analysis is conducted by detailing "the precise distribution of state income taxes, sales and excise taxes, and property taxes paid by each income group."

An analysis by Liz Malm of the Tax Foundation shows some of the folly of ITEP's analysis.[36] Summarizing from her white paper, there is the explicit preference for growth harming income taxes over their preferable counterpart, sales and use taxes or property taxes in order to facilitate progressivity. This is to say, ITEP is prepared to sacrifice economic growth for increased progressivity. Not only this, but they insist on relying on the most volatile revenue source, thus ensuring that economic cycles and economic shocks have massive and devastating effects on tax revenues. Figure 8 demonstrates the volatility of state tax revenue.[37] But on a deeper level, ITEP ignores the status quo of progressivity in America. They focus on state progressivity, but once federal progressivity is also considered, an unfortunate truth emerges. The OECD has measured the United States' combined state and federal tax system as the most progressive in the entire world.[38] Let that sink in for a moment. Later in this chapter, Tables 13 and 14 from the aforementioned Tax Foundation report will show the status quo of American tax progressivity.[39]

Taking the analysis a step further, ITEP also ignores the so-called "benefit principle." The benefit principle suggests that taxes should be matched to the benefits individuals receive. Thus, people should pay for government services in

FIGURE 8 | **State Tax and Revenue Volatility**

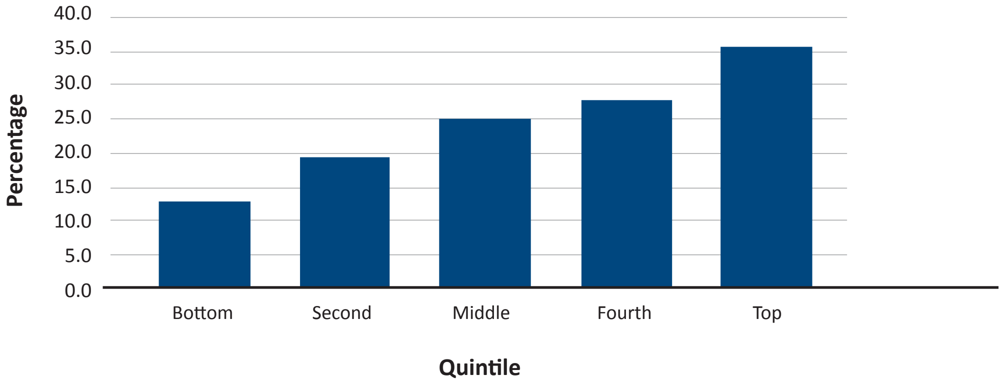


A closer look at PIT Percentage Change and General Sales Tax Percentage Change

Source: U.S. Census Bureau

FIGURE 9 | **Effective Tax Rates by Quintile**

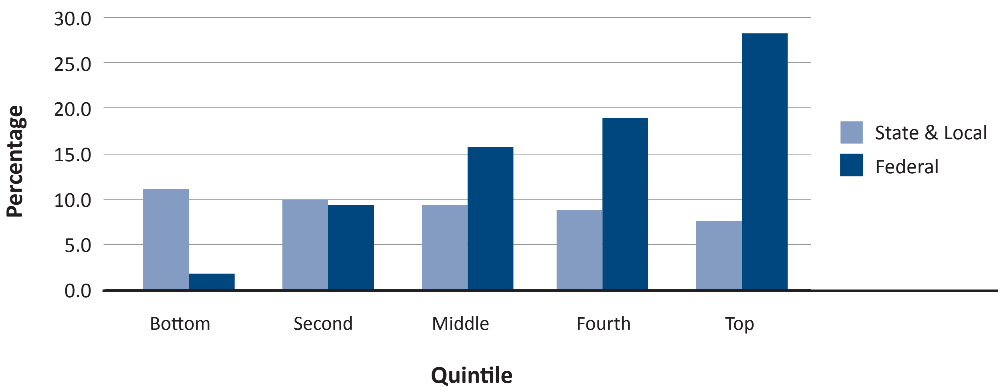
Combined Effective Rate (state and local combined)



Source: Original data from ITEP, graph created by Tax Foundation.

FIGURE 10 | **Effective Tax Rates by Quintile**

Federal vs. State & Local



ITEP computed the effective rate averages by aggregating the averages for each individual category of taxes as percentages of income.

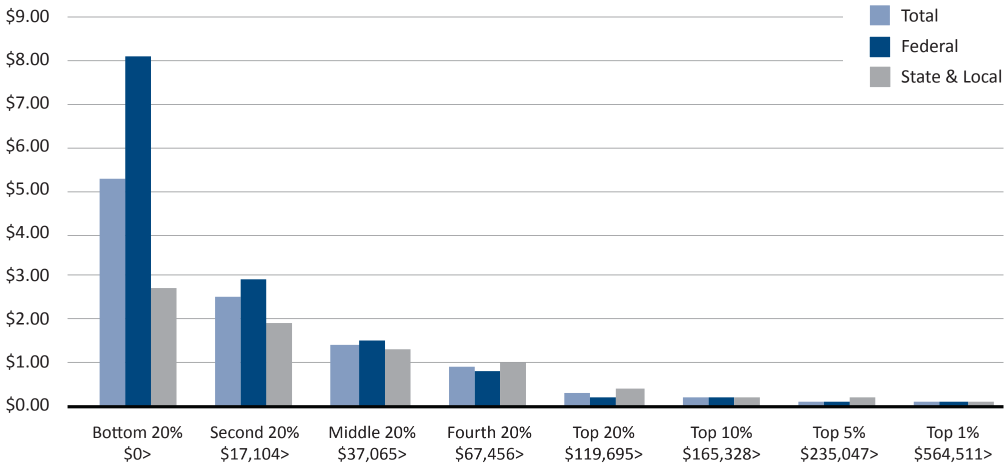
Source: Original source is a report by ITEP. The graph was produced first by ITEP, then the Tax Foundation, then here.

proportion to the government services that they use. Figure 11 from the Tax Foundation, though outdated, is important in that it matches the benefits of government spending on both the federal and the state and local level with its comparable taxation, all for each income group.[40] It shows that it is not the case that the wealthy are paying high progressive taxes because they benefit highly from government spending.

Thus, while ITEP quibbles over state progressivity, they ignore that the United States as a country is already the most progressive tax regime in the entire world. Thus, far from draconian, our tax system is approaching their ideal and states attempting to rebalance their tax system to formats more in line with international standards and pro-growth guidelines are right to ignore ITEP's recommendations.

Most Americans do not agree with the principles of ITEP and Citizens for Tax Justice, at least when voting with their feet for a state in which to live. We divided the total taxes as a percent-

FIGURE 11 | **Ratio of Total Spending Received for Every $1 of Taxes Paid in 2012**



Source: Graph was constructed by Tax Foundation using IRS, Census, BEA data

age of income paid by the poorest 20 percent of the population by the total taxes as a percentage of income paid by the top 1 percent of the population to assign each statea ratio. Of course, the lower the ratio is, the less regressivity inherent in the tax policy. Less regressivity and more progressivity is considered by liberal groups such as ITEP, Citizens for Tax Justice (a subsidiary of ITEP), and the Center for Budget and Policy Priorities to be desirable. We found that states with the least regressivity underperformed the national population growth between 2000 and 2013 by 1.2 percent while states with high regressivity exceeded the national population growth rate by 5.6 percent.[41] This suggests that millions of Americans vote with their feet against the Left's definition of

TABLE 13 | **States with the Most Regressive Taxes**

States	Taxes as a % of Income, Poorest 20%	Taxes as a % of Income, Top 1%	Ratio	Growth in Population Relative to National Average 2000-2013
Washington	16.9%	2.8%	604%	5.9%
Florida	13.2%	2.3%	574%	10.0%
South Dakota	11.6%	2.1%	552%	-0.4%
Wyoming	8.2%	1.6%	513%	5.7%
Tennessee	11.2%	2.8%	400%	1.8%
Texas	12.6%	3.2%	394%	14.5%
Nevada	9.0%	2.4%	375%	27.3%
New Hampshire	8.6%	2.4%	358%	-5.2%
Alaska	7.0%	2.4%	292%	4.9%
Illinois	13.8%	4.9%	282%	-8.6%
Average Ten Most Regressive States	**11.2%**	**2.7%**	**434%**	**5.6%**

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

TABLE 14 | **States with the Least Regressive Taxes**

States	Taxes as a % of Income, Poorest 20%	Taxes as a % of Income, Top 1%	Ratio	Growth in Population Relative to National Average 2000-2013
Vermont	8.7%	8.0%	109%	-9.4%
Oregon	8.3%	7.0%	119%	2.5%
California	10.6%	8.8%	120%	0.8%
Idaho	8.2%	6.4%	128%	12.3%
Delaware	5.7%	4.2%	136%	5.8%
Montana	6.4%	4.7%	136%	0.2%
West Virginia	8.7%	6.3%	138%	-9.8%
Maine	9.6%	6.9%	139%	-8.1%
Wisconsin	9.6%	6.9%	139%	-5.3%
Minnesota	9.0%	6.0%	142%	-2.2%
Average Ten Least Regressive States	**8.4%**	**6.6%**	**129%**	**-1.2%**

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

"tax fairness." People don't move to places with high tax rates, probably because jobs are created at a much faster pace in low tax rate and no income tax states.

Minimum Wage Means Maximum Job Loss

Next, is the issue of whether raising the minimum wage makes sense as a way to equalize incomes. President Obama says yes and many liberals in state houses agree, but they are sadly mistaken.

Objections to increasing the minimum wage focus on three main groups of people: Low-skilled employees, employers, and consumers. While an increase in the minimum wage will certainly help a small group of people who are currently being paid the minimum wage but whose return to employers is worth at least as much as the new minimum wage, the vast majority of people in all three of these groups will be negatively impacted by a minimum wage increase.

Conceptually, the objection to the minimum wage should make sense to clear thinkers. If a person's labor provides a certain return, the employer will pay that amount for their labor in hopes of getting a return that is more than what that employer paid for the labor. By forbidding employers from paying less than a certain amount in wages, it ensures that people whose labor is worth less than that, in terms of potential returns for the employer, will never be hired. The people whose labor is worth less than this amount are the ones who have few skills. Since working is the best way to increase skills and therefore increase the amount employers are willing to pay for one's labor, locking people with low skills out of employment makes it increasingly difficult for them to increase their value to potential employers.

This conceptual argument is confirmed by a wide body of economic literature. Studies show that states with minimum wage or living wage requirements have fewer employment opportunities for those at the lower rungs of the economic ladder. Dr. David Neumark and Dr. William Wascher find in their seminal treatise, "Minimum Wages," that a majority of research suggests higher minimum wages are correlated with lower employment.[42] Dr. Bryan Caplan adds to this research consensus by pointing out that a wide variety of labor research further makes the case that minimum wages kill jobs.[43] The Congressional Budget Office recently reported that raising the federal minimum wage from $7.50 to $10.10 an hour would destroy about 500,000 jobs by pricing low skilled workers out of the labor market.[44] These

500,000 jobs that would be destroyed belong to the people who most desperately need the income and work experience.

Service jobs often flow to areas with the least onerous wage requirements. States with high minimum wages also have more unemployment and longer spells of unemployment. The Employment Policies Institute has found that between 1996 and 2005, Washington, D.C. and 15 states that have raised the minimum wage have seen their employment growth lag national employment growth by 0.8 percent.[45] The minimum wage-raising states had 1.8 percent job growth versus 2.6 percent for the nation.

A rule of thumb by economist David Neumark of Cornell University, an expert on the employment effects of the minimum wage, is that every 10 percent increase in minimum wages causes about a one to three percent decline in low wage jobs.[46] This is no way to help the poor.

In addition to the immediate effect of low-skilled workers losing their jobs due to minimum wage increases, economists are increasingly examining the cost of minimum wage increases on entry level jobs that *would have been* created, but weren't because of an increased minimum wage. Jonathan Meer and Jeremy West, researchers at Texas A&M University, found that as the minimum wage increased, businesses had an increased incentive to invest in labor-saving automation wherever possible.[47] The study also calls attention to the decline in entry level positions that correspond to minimum wage increases as measured against pre-minimum wage increase expectations.

But it isn't just workers who are negatively impacted by increases in the minimum wage. Many businesses also are hurt by the policy. Most small businesses' primary expense is labor, and increasing the minimum wage means increasing their labor costs. This means that some businesses that are on the edge of profitability and cannot absorb these costs will end up going out of business.[48] This is especially true in lower income areas where businesses cannot pass on the higher cost of labor by raising the price of goods because their customers have less room in their

budgets to adjust for higher prices. Since the prices of their goods are relatively fixed, they are forced to make cutbacks in other areas, such as employee hours. This means that the worst effects of increases in the minimum wage are concentrated in already impoverished areas, which disproportionately hurts low-income workers and consumers.[49]

Businesses that are able to absorb the extra cost and stay in business still face other challenges. Attracting investors can be the defining opportunity of growing a regional or local business into a national brand. Investment capital can mean the difference between good and great for many small to medium sized businesses and minimum wage increases jeopardize the willingness of investors to support a business that is overly burdened with high labor costs. Minimum wage increases mean that otherwise profitable businesses will have a harder time getting access to investment capital and being able to grow.[50]

Businesses and low skilled workers might get hit with most of the negative consequences of the minimum wage, but consumers are also affected. Increased labor costs might be offset by increased prices. Economist Daniel Aaronson calls this a "price pass-through" when discussing the findings of a paper examining the topic. Mr. Aaronson and his co-authors found that while wages increased for some, businesses reacted by raising prices to levels higher than they otherwise would have been. This is especially true for food items and restaurants, where almost 100 percent of the increased labor cost was passed onto consumers through higher prices.[51] Many of these consumers will face increasing prices and no offsetting increased wages, especially since the same study found that over time GDP growth was expected to remain constant.

The minimum wage initiatives are well intentioned, but make poor public policy. While it remains true that there would be a certain segment of the population that would see an increase in wages, the cost of that increase is fewer jobs for the most vulnerable, increased costs for businesses, and higher prices for all consumers. While there are many public policies that would help the low wage working population, such as eliminating frivolous occupational licensing rules, increasing the minimum wage only ends up hurting those it was intended to help.

How the States Fare in International Competition

All of this is especially true when we consider that states and cities aren't just competing against each other, but against London, Paris, Berlin, Beijing, Jakarta, Mexico City, and any other place that would love to steal away businesses and jobs from America. Of course national economic policies have the biggest impact on whether Michigan can compete with Dublin, Tel Aviv, or Rio, but state policies also make a difference when a global company wants to build a new plant or research facility and is choosing between Indiana and India. "We are competing against everyone in the world here in Texas," says Gov. Rick Perry. "That is why we have to get the policies right at the state level."

We know on a national level that business tax rates make a difference in terms of the competitiveness of nations. The U.S. handicaps growth and gives a head start to other countries by imposing the highest statutory corporate income tax rate in the industrialized world. When adding in tax rates of the states to the charge, it turns out that several states levy corporate tax bills within one percent of the highest overall rate, including Illinois, California, Rhode Island, and New Jersey. So the state corporate rates compound the negative impact of the high U.S. federal rate. Lowering the federal tax rate through tax reform would help every state, and lowering the highest tax rates in states would help those states even more.

Exorbitant capital gains tax rates are also impeding growth. The United States federal capital gains tax rate already exceeds the OECD average by more than 10 percent. However, the negative impact on attracting capital is compounded when the state capital gains tax rates are considered. The effective marginal rate in California of 33 percent exceeds every OECD country except Denmark and France. New York and New Jersey are not far behind California, each with an effective marginal rate exceeding 30 percent—far from the OECD average of 18.2 percent. These high capital gains tax rates act as a disincentive to investment relative to other locales as the taxes directly lower the expected rate of return on any given investment.

The charts below from our friends at the Tax Foundation show where states rank internationally in terms of the combined federal-state capital gains tax rates and corporate income tax rates. It isn't a pretty picture.

TABLE 15 | COMPARING U.S. STATE CORPORATE TAXES TO THE OECD (2011)

OECD Overall Rank	Country/State	Federal Rate 2010	Top State/Provincial Corporate Tax Rate	Combined Federal and State Rate (Adjusted)
	Iowa	35.00%	12.00%	41.60%
	Pennsylvania	35.00%	9.99%	41.50%
	Minnesota	35.00%	9.80%	41.40%
	Illinois	35.00%	9.50%	41.20%
	Alaska	35.00%	9.40%	41.10%
	New Jersey	35.00%	9.36%	41.10%
	Rhode Island	35.00%	9.00%	40.90%
	Maine	35.00%	8.93%	40.80%
	California	35.00%	8.84%	40.70%
	Delaware	35.00%	8.70%	40.70%
	West Virginia	35.00%	8.70%	40.70%
	Indiana	35.00%	8.50%	40.50%
	New Hampshire	35.00%	8.50%	40.50%
	Vermont	35.00%	8.50%	40.50%
	Massachusetts	35.00%	8.25%	40.40%
	Maryland	35.00%	8.25%	40.40%
	Oregon	35.00%	7.90%	40.10%
	Wisconsin	35.00%	7.90%	40.10%
	Nebraska	35.00%	7.81%	40.10%
	Idaho	35.00%	7.60%	39.90%
	New Mexico	35.00%	7.60%	39.90%
	Connecticut	35.00%	7.50%	39.90%
	New York	35.00%	7.10%	39.60%
	Kansas	35.00%	7.00%	39.60%
	Arizona	35.00%	6.97%	39.50%
	North Carolina	35.00%	6.90%	39.50%
	Montana	35.00%	6.75%	39.40%
1	**United States**	**35.00%**	**6.56%**	**39.30%**
	Alabama	35.00%	6.50%	39.20%
	Arkansas	35.00%	6.50%	39.20%
	Tennessee	35.00%	6.50%	39.20%
	Hawaii	35.00%	6.40%	39.20%
	North Dakota	35.00%	6.40%	39.20%
	Missouri	35.00%	6.25%	39.10%
	Georgia	35.00%	6.00%	38.90%
	Kentucky	35.00%	6.00%	38.90%
	Oklahoma	35.00%	6.00%	38.90%
	Virginia	35.00%	6.00%	38.90%
	Florida	35.00%	5.50%	38.60%
	Louisiana	35.00%	8.00%	38.50%
	Mississippi	35.00%	5.00%	38.30%
	South Carolina	35.00%	5.00%	38.30%

OECD Overall Rank	Country/State	Federal Rate 2010	Top State/Provincial Corporate Tax Rate	Combined Federal and State Rate (Adjusted)
	Utah	35.00%	5.00%	38.30%
	*Michigan	35.00%	4.95%	38.20%
	Colorado	35.00%	4.63%	38.00%
	*Texas	35.00%	0.00%	35.00%
	*Washington	35.00%	0.00%	35.00%
	*Ohio	35.00%	0.00%	35.00%
	Nevada	35.00%	0.00%	35.00%
	South Dakota	35.00%	0.00%	35.00%
	Wyoming	35.00%	0.00%	35.00%
2	**Japan (2011 Rates)**	**30.00%**	**11.51%**	**34.54%**
3	**France**	**34.43%**	**0.00%**	**34.40%**
4	**Belgium**	**33.99%**	**0.00%**	**33.99%**
5	**Germany**	**15.83%**	**14.40%**	**30.18%**
6	**New Zealand**	**30.00%**	**0.00%**	**30.00%**
7	**Spain**	**30.00%**	**0.00%**	**30.00%**
8	**Australia**	**30.00%**	**0.00%**	**30.00%**
9	**Mexico**	**30.00%**	**0.00%**	**30.00%**
10	**Luxembourg**	**21.84%**	**6.75%**	**28.59%**
11	**Canada**	**16.50%**	**11.5%**	**28.00%**
12	**United Kingdom**	**28.00%**	**0.00%**	**28.00%**
13	**Norway**	**28.00%**	**0.00%**	**28.00%**
14	**Italy**	**27.50%**	**0.00%**	**27.50%**
15	**Portugal**	**25.00%**	**1.50%**	**26.50%**
16	**Sweden**	**26.30%**	**0.00%**	**26.30%**
17	**Finland**	**26.00%**	**0.00%**	**26.00%**
18	**Netherlands**	**25.50%**	**0.00%**	**25.50%**
19	**Austria**	**25.00%**	**0.00%**	**25.00%**
20	**Denmark**	**25.00%**	**0.00%**	**25.00%**
21	**Korea**	**22.00%**	**2.20%**	**24.20%**
22	**Greece**	**24.00%**	**0.00%**	**24.00%**
23	**Switzerland**	**8.50%**	**14.47%**	**21.17%**
24	**Turkey**	**20.00%**	**0.00%**	**20.00%**
25	**Czech Republic**	**19.00%**	**0.00%**	**19.00%**
26	**Hungary**	**19.00%**	**0.00%**	**19.00%**
27	**Poland**	**19.00%**	**0.00%**	**19.00%**
28	**Slovak Republic**	**19.00%**	**0.00%**	**19.00%**
29	**Chile**	**17.00%**	**0.00%**	**17.00%**
30	**Iceland**	**15.00%**	**0.00%**	**15.00%**
31	**Ireland**	**12.50%**	**0.00%**	**12.50%**

*These states do not have a corporate income tax.
*Ohio, Texas, and Washington state have gross receipts-style business taxes, not traditional corporate income taxes. Michigan's gross receipts tax is not included. Combined rate adjusted for federal deduction of state tax. Iowa and Louisiana are also adjusted for federal deductibility.

Source: Ernst and Young, Deloitte, Tax Foundation, and author's calculations. Data is from 2011 which is the most recent version available.

TABLE 16 | Top Marginal Tax Rate on Capital Gains, by OECD Nation and U.S. State, 2014

Rank	State/Country	Rate
1	**Denmark**	42.0%
2	**France**	38.0%
3	California	33.0%
3	**Ireland**	33.0%
5	**Finland**	32.0%
6	New York	31.5%
7	Oregon	31.0%
8	Minnesota	30.9%
9	New Jersey	30.4%
9	Vermont	30.4%
9	D.C.	30.4%
12	Maryland	30.3%
13	**Sweden**	30.0%
14	Maine	29.8%
15	Iowa	29.6%
16	Idaho	29.4%
16	Hawaii	29.4%
18	Nebraska	29.1%
19	Connecticut	29.0%
19	Delaware	29.0%
21	West Virginia	28.9%
22	**United States**	28.7%
23	Georgia	28.6%
23	Kentucky	28.6%
23	Missouri	28.6%
23	Rhode Island	28.6%
27	North Carolina	28.5%
27	Virginia	28.5%
29	Ohio	28.3%
30	Wisconsin	28.2%
30	Oklahoma	28.2%
32	Massachusetts	28.1%
33	**Portugal**	28.0%
33	**United Kingdom**	28.0%
33	Illinois	28.0%
33	Mississippi	28.0%
33	Utah	28.0%
38	Arkansas	27.9%
38	Montana	27.9%
38	Louisiana	27.9%
38	Kansas	27.9%
42	Indiana	27.8%
42	Michigan	27.8%
42	Colorado	27.8%
45	Arizona	27.7%
46	Alabama	27.4%
47	South Carolina	27.3%
48	**Norway**	27.0%
48	**Spain**	27.0%
50	Pennsylvania	26.8%
51	New Mexico	26.5%
52	North Dakota	26.3%
53	Tennessee	25.0%
53	New Hampshire	25.0%
53	**Austria**	25.0%
53	**Germany**	25.0%
53	**Israel**	25.0%
53	**Slovak Republic**	25.0%
53	Alaska	25.0%
53	Florida	25.0%
53	Nevada	25.0%
53	South Dakota	25.0%
53	Texas	25.0%
53	Washington	25.0%
53	Wyoming	25.0%
66	**Australia**	22.5%
66	**Canada**	22.5%
68	**Estonia**	21.0%
69	**Chile**	20.0%
69	**Iceland**	20.0%
69	**Italy**	20.0%
69	**Japan**	20.0%
73	**Poland**	19.0%
74	**Hungary**	16.0%
75	**Greece**	15.0%
76	**Mexico**	10.0%
77	**Belgium**	0.0%
77	**Czech Republic**	0.0%
77	**Korea**	0.0%
77	**Luxembourg**	0.0%
77	**Netherlands**	0.0%
77	**New Zealand**	0.0%
77	**Slovenia**	0.0%
77	**Switzerland**	0.0%
77	**Turkey**	0.0%
	OECD Simple Average	18.2%

Source: Ernst and Young, Deloitte, Tax Foundation, and author's calculations

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

The next issue in this "race to the bottom" debate is whether tax reductions lead to a subsequent deterioration in a state's fiscal condition. The evidence from the 1990s and 2000s indicates precisely the opposite. If tax cuts contribute to fiscal deterioration, then the bond ratings of states that cut taxes should be worse than those of states that raise them. A Cato Institute comparison of tax raising and tax cutting states in the early 1990s found that in the tax cutting states, the average Moody's bond rating in 1995 was between AAA and AA. In the tax raising states, the average Moody's bond rating was between AA and A1. Moreover, the tax cutting states had much larger budget reserves (7.1 percent of state expenditures) than the tax increasing states (1.7 percent).[52]

The best modern example of tax hikes not helping state bond ratings is the sad plight of Illinois. In January 2011 Illinois Gov. Pat Quinn bullied through the legislature a 67 percent personal income tax hike, the biggest in state history.[53] The income tax rose to five percent from three percent. The corporate tax rate soared to 9.5 percent, giving the state the fourth highest corporate tax rate in the industrialized world. This provoked Indiana Gov. Mitch Daniels to remark that being a neighboring state to Illinois was like living down the street from the Simpsons.[54]

Two and a half years later, Springfield was still swimming in red ink. According to a 2013 report by the state comptroller, Illinois finished the 2011 fiscal year $6.1 billion in the red with the amount of unpaid bills expected to grow to about $9 billion by December.[55]

Most astounding is what has happened to Illinois' bond ratings. A 2013 analysis from the Illinois Policy Institute reports that the Land of Lincoln "has suffered 13 downgrades from the three major rating agencies since Gov. Pat Quinn took office in 2009."[56] In the summer of 2013, Fitch Ratings and Moody's Investors Service downgraded Illinois to A- and A3 respectively.[57] Then Fitch further chopped Chicago's credit rating by an unusually large three notches to AA- on $8 billion of debt.

We're no fans of exclusively using bond ratings to measure state health. However it's instructive that even the rating agencies have been forced to concede that giant tax hikes haven't solved the structural imbalance, which is driven by runaway pension costs. Moody's explained its downgrade by noting "severe pension liabilities [are] the state's greatest credit challenge."[58] Standard and Poor's has even gone so far as to call low reliance on income taxes a strong boon to a high credit rating due to the incredible volatility of income tax relative to consumption taxes or property taxes.[59]

As for Illinois, the "optimistic" estimate is that taxpayers are facing a $97 billion unfunded public employee pension deficit. Using a more realisitic estimate on the rate of return on pension reserves, however, widens that gap to closer to $200 billion.[60]

Minor pension reform band aids signed by Mr. Quinn haven't stopped the fiscal bleeding, while tax increases have arguably made the pension crisis worse by delaying action. In the Windy City, Mayor Rahm Emanuel's solution is to try to plug a multi-billion funding gap by taxing smokers another 75 cents a pack.

Meanwhile, Indiana and Iowa, neighbors of Illinois, have cut taxes, not raised them. Despite this, both states have balanced budgets and AAA bond ratings.[62]

However, that is not the end of the story of how high tax states like Illinois waste money and leave their states awash in red ink. An analysis by the Illinois Policy Institute finds that "eighty cents of every tax hike dollar went to government worker pensions," not to schools, roads, police, or balancing the budget.[63] So Illinois progressives are hatching their latest tax scheme to scrap the constitutionally-mandated flat rate income tax, and replace it with a "progressive" tax that includes a top rate of 11 percent. That's more than double the current rate of five percent and more than triple the three percent when Gov. Quinn entered office.

Illinois is one of seven states that constitutionally require that the income tax be applied at a "non-graduated rate," i.e., a flat tax (the other six are Colorado, Indiana, Massachusetts, Michigan, Pennsylvania, and Utah).[64] These flat tax requirements were wisely put into state constitutions on equal protection grounds—that the laws should apply equally to all citizens. Liberals hate that because if they want to soak the rich, they have to raise taxes on everyone. Property taxes are notoriously high, and the sales tax rate in Chicago is 9.5 percent.[65] The joke going around the state these days is "bring back Blagojevich," the disgraced prior governor who is now in prison.

The unions promise voters that the new money will be used for investments like schools and roads, but no one who understands the state's finances believes that for a second. This is about another bailout for an overly generous pension system that pays out too much compared to what private workers receive.

The progressive tax is being sold as a tax cut for the middle class, but that's myopic and disingenuous. According to Tax Foundation data, 31 of the 34 states with progressive rates assess a higher marginal rate on income of $50,000 than Illinois does now.[66] It's easier to sell a seven percent rate on $75,000 if you can claim that's better than "the rich" who pay 11 percent. "The rich" are a quantitatively smaller group than the remainder of the tax base, and therefore struggle to assemble a coalition of voters to oppose high tax-and-spend policies because an unfortunate few bear a disproportionate large share of the burden and net benefit. A steeply progressive tax code also creates a cycle of revenue booms and busts, given the high volatility of tax receipts on personal and corporate income taxes. Legislators spend like lottery winners in the good times, only to raise taxes again as revenues decline sharply in economic downturns.

Illinois shows again that for states dominated by public unions, the appetite for ever-more tax revenue is voracious. It is also disconnected from any conception of what the private economy can afford. Illinois, in short, is a case study in how higher taxes don't lead to less debt. The so-called tradeoff is in fact a false choice.

Illinois is just one example. California has among the highest taxes in the nation and it has one of the worst credit ratings. Many of its cities have declared bankruptcy or are near to bankruptcy. Another sad case study is Detroit. This has long been one of America's most heavily taxed cities, providing a plethora of municipal services.[67] Yet its outcomes were catastrophic for all involved, especially those at the bottom of the income ladder who saw their jobs eliminated, their property values in the inner city fall by more than half, and their taxes rise year after year. If high taxes and spending were the antidote to poverty and urban decay, Detroit would be a glittering city on a hill. Instead, they are in bankruptcy. While this may provide them a second chance, they must avoid the high taxes and out of control spending that led them to unsustainable debt in the first place, or risk further economic decline.

Does State Spending Lead to Better Results?

It is often argued that proponents of low taxes and limited governments favor the end of taxation, regulation, safety nets and government services. Of course, that is not true. Roads, schools, police, and basic services can be critical to the economic vitality of a state. What we are saying is that how they are financed and how good these services are makes a big difference. Spending more money on schools in ways that don't help raise achievement levels doesn't make a place more attractive. Penalizing the wealth producers and employers in a state isn't a smart way to raise revenues to pay for vital services. One point we have made in these pages is that states with smart tax policies often bring in more revenues than states with destructive tax policies. Growth is a very good way to raise revenues.

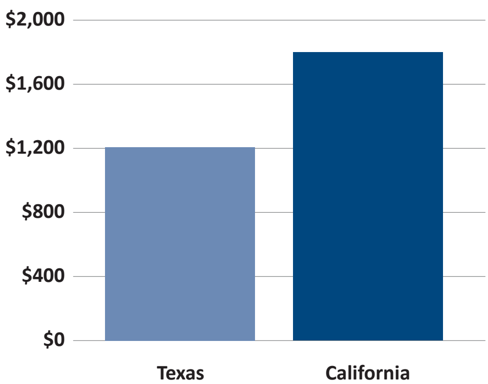
Now let us examine whether states that spend more on roads, prisons, and other basic municipal services actually get better results. The answer here is often no. High spending states do not have better public services than low spending states in general. They simply spend more for the same or often worse outcomes.

California spends nearly 200 percent more per mile of highway built than most states.[68] In contrast, high efficiency allows Texas to employ 30 percent more highway employees per 10,000 of population than California. Road conditions in Texas are ranked 23rd in the nation, while California ranks dead last despite spending so much.

The public education system in Texas is in far better shape compared to California despite much lower per pupil spending. Due to high efficiency, Texas does more with less funding. Texas employs 345 educators for every 10,000 of population, while California employs only 231 educators per 10,000 of population.[69] Due to strong arming by the teachers union, California pays its educators 40 percent more per full-time employee than does Texas.[70] These markedly higher costs do not translate into better results. As measured by the U.S. Department of Education, California student test scores are the fourth worst in the nation, while Texas students' scores are 29th out of 50.[71]

In crime control, the same scenario unfolds. California pays its law enforcement employees 70 percent more and pays its corrections employees 93 percent more compared to Texas.[72] Texas utilizes these personnel cost savings to provide more services relative to California at a lower per capita cost. Texas has more law enforcement employees per 10,000 of population than does California (28.9 versus 26.4, respectively) and has far more prisoners (923 prisoners per 100,000 population) than does California (621 prisoners per 100,000 population).[73] Their efficiency is especially evidenced by the fact that the annual cost of a prisoner held in Texas is just half that of California—$58.60 a day compared to $129.00 per day in California.[74]

FIGURE 12 | **Welfare Spending Per Capita**



Source: US Census Bureau, 2012 American Community Survey

Texas applies the same efficiency in fire protection to achieve greater results with lower per capita costs. Texas employs 9.2 individuals per 10,000 of population as fire fighters versus California at 7.7 individuals per 10,000.[75] Even so, Texas actually spends less per capita for greater fire protection capabilities in large part because California pays fire protection personnel 86 percent more than does Texas.[76]

As a result of public sector unions bullying California legislators into providing these sky-high salaries, states such as California and Illinois have much higher pension obligations, meaning more of the tax dollars in these states go to paying for public employee retirement benefits. These benefits do not provide taxpayers with improved quality of services; but they do provide politicians with a solid base of support. California's teachers union has been the single largest contributor to political campaigns in California over the past decade ($212 million), double that of the next largest contributor, also a state government employees union.[77]

Then there is the issue of helping the poor. Does more spending help the poor at the state level and help avert poverty? In many cases, the answer is clearly no. Here again, California and Texas are instructive. California has much higher welfare benefits, spending nearly 50 percent more per capita compared to Texas ($1,795 vs. $1,201) in the "public welfare" category according to the latest year available from the Census Bureau.[78] It has far more social programs. The chart below shows the per capita spending comparisons. California has one of the most generous safety nets in the nation. Texas is considered one of the least generous states. Adjusted for the cost of living, Texas has significantly less poverty as a share of its population (16.5 percent) than does California (23.5 percent).[79] Even using the numbers from the United States Census Bureau, California has a poverty rate nearly identical to Texas (17 percent vs. 17.9 percent respectively).[80] This is despite the massive difference in spending on anti-poverty programs. Using the Supplemental Poverty Measure provided by the Census Bureau, which adjusts for state-to-state cost of living differences, Texas, three year poverty rate is 16.9 percent compared to California's 23.8 percent.[81]

Many liberals confuse government spending efforts (dollars spent) with government spending outcomes. This entirely ignores that businesses measure efficiency by lowering costs for comparable outlays, not adding to them. For example, many states and localities have moved toward privatization of traditional municipal services. This means instead of paying for security, garbage collection, snow plowing, and other such activities with their tax dollars, they pay private firms on a fee for service basis. Taxes and spending are generally lower in these areas, as the residents pay directly for the services from private vendors.

In other areas, communities rely on citizens to provide services. Many localities have volunteer fire and ambulance services and this shaves costs and tax bills too. There is no evidence that these volunteer or private providers offer lower quality services than the public sector and there is much evidence that nongovernmental services are of higher quality.

What About Schools?

Polls consistently find that Americans care deeply about having good public schools—especially in their own communities. Voters put such a high premium on good schools that they often approve tax increases if the money is dedicated to education. Hence, liberals have equated tax cuts with bad schools, underfunded schools, or other investment needs. Politicians are understandably sensitive to this argument. However, there are many fallacies to this argument, which dates back to Proposition 13 in California nearly four decades ago.

First, school funding already has been rising dramatically for a very long time. In 1970, spending in the public schools was roughly $3,400 per pupil (in today's dollars).[82] By 2000, per pupil U.S. education expenditures had doubled to $7,000, even after adjusting for inflation. According to the figures from the most recent Public Education Finances Report available from the United States Census Bureau, per student spending is $10,560 nationwide. Smaller class sizes are an important metric for many when considering effective public education, yet class sizes have already been steadily declining for the past quarter century. Since 1970, the number of pupils per teacher has declined by 23 percent, from 22.6 to 17.3.[83]

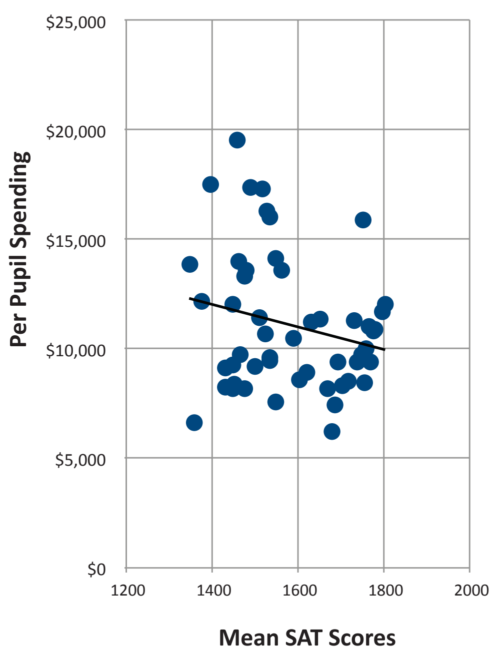
There is no evidence that this higher funding has led to better schools. First, look at the scatterplot of school spending and test scores. Above a necessary minimum funding level, additional dollars spent are not correlated with better student performance. In fact, a simple regression analysis shows a light negative correlation between much higher than average school funding and test scores. Could it be that the duplicative layers of school bureaucracy evidenced in high spending school systems impede academic success? Recent state-by-state research by the Cato Institute concurs: Funding does not appear to be connected to educational outcomes.[84]

If simply more money were the answer to improving education, then the highest-spending states would have the finest education systems in the land and the lowest-spending states would be performing poorly. However, state officials who believe that increased education funding is the solution to better school performance may be interested to learn that in 2011 (the latest year available from the Census Bureau), the ten highest-spending states spent nearly twice as much as the ten lowest-spending states, excluding D.C. ($15,419 vs. $7,869). At the same time, average SAT scores in the more frugal states last year were three percent higher than in the big-spending states.[85]

Many inner city private schools spend about half what the public schools spend, but have higher student achievement records.[86] Charter schools typically spend less than the traditional public schools but have higher test scores and graduation rates.

There is no debate that America's schools need to do a better job of educating our children if the nation is to remain internationally competi-

FIGURE 13 | **Per Pupil Spending vs. Mean SAT Scores**



Source: US Census Bureau, 2011 Public Education Finances Report
Source: College Board

tive in the next century. Spending more money on public schools, however, has been tried in earnest for decades, and it has yielded mixed results at best. As education analysts John Chubb and Terry Moe of the Brookings Institution have noted, "As for money, the relationship between it and effective schools has been studied to death. The unanimous conclusion is that there is no connection between school funding and school performance."[87]

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

Finally, pro-growth tax cuts often lead to higher property values and thus more property tax revenues for cities and school districts. Prosperity is the best way to fund public schools.

Rich States, Poor States Matters

You don't need to simply take our word that these rankings matter. The data clearly shows the impact of embracing a free market public policy climate. Not only do the peer-reviewed studies and the data provided in previous sections of this edition of *Rich States, Poor States* establish this, but independent analysis of the *Rich States, Poor States* economic outlook index itself also confirms it.

Many critics of *Rich States, Poor States* insist on comparing our economic outlook rankings (forward looking) from a given year against our economic performance rankings from that same year (backwards looking at the last ten years of data). This despite the fact that states like North Carolina, Michigan, Kansas, and Wisconsin have only recently made big improvements to their public policy environments and those changes have largely not had an opportunity to improve economic performance in those states given that policy changes sometimes take time to realize their full effect. This is further exacerbated by the fact that these rankings look back at a whole decade of data on economic performance. Even still, we see the top ten states in our economic outlook index outperforming the bottom ten states on the three criteria of the economic performance rankings: State gross domestic product growth, non-farm payroll job growth, and net migration. Table 17 displays the results.

To more properly consider this analysis, it makes sense to look at past economic outlook rankings and compare them to recent economic performance rankings. In table 18, we took the top and bottom ten economic performance rank-

TABLE 17 | **Current *Rich States, Poor States* Economic Outlook Rankings Compared to Current Performance** (2000-2010)

Top 10 States

State	GSP Growth	Migration	Job Growth
Utah	74.9	63,532	17.7
South Dakota	53.8	16,932	9.8
Indiana	43.1	-27,203	0.5
North Dakota	125.1	10,441	32.2
Idaho	54.5	94,969	9.7
North Carolina	50.9	642,378	5.2
Arizona	50.7	618,037	9.0
Nevada	61.4	273,594	8.3
Georgia	38.1	485,993	2.2
Wyoming	99.5	29,112	16.6
Average Top 10	**65.2**	**220,770**	**11.1**

Bottom 10 States

State	GSP Growth	Migration	Job Growth
Rhode Island	33.6	-63,806	-3.3
Oregon	66.2	166,474	3.7
Montana	70.0	46,200	11.7
Connecticut	35.8	-117,924	-0.9
New Jersey	34.8	-491,479	-1.4
Minnesota	46.2	-64,954	3.0
California	44.4	-1,429,475	0.4
Illinois	39.7	-623,467	-1.6
Vermont	39.4	-5,973	2.4
New York	46.6	-1,527,359	4.4
Average Bottom 10	**45.7**	**-411,176**	**1.8**

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

TABLE 18 | **Past Rich States, Poor States Economic Outlook Rankings Compared to Current Performance**

Top 10 States

State	GSP Growth	Migration	Job Growth
Utah	74.9	63,532	17.7
South Dakota	53.8	16,932	9.8
Arizona	50.7	618,037	9.0
Colorado	46.9	206,484	7.1
Wyoming	99.5	29,112	16.6
Virginia	53.3	139,202	7.1
Tennessee	43.5	282,763	2.3
Georgia	38.1	485,993	2.2
Nevada	61.4	273,594	8.3
Idaho	54.5	94,969	9.7
Average Top 10	**57.7**	**221,062**	**9.0**

Bottom 10 States

State	GSP Growth	Migration	Job Growth
Hawaii	61.8	-26,409	8.7
Pennsylvania	41.7	-26,848	1.9
California	44.4	-1,429,475	0.4
Illinois	39.7	-623,467	-1.6
Ohio	28.0	-365,002	-4.7
Maine	34.2	12,953	-1.6
Rhode Island	33.6	-63,806	-3.3
New Jersey	34.8	-491,479	-1.4
Vermont	39.4	-5,973	2.4
New York	46.6	-1,527,359	4.4
Average Bottom 10	**40.4**	**-454,687**	**0.5**

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

ing states from an average of the first three years for the index: 2008-2010. We then compared those states that most constantly performed near the top or bottom from 2008-2010 and looked at their economic outlook rankings from the most recent version of *Rich States, Poor States*. As in the chart before, the results are clear: States that embrace a low tax, low regulation, and limited government public policy agenda have outperformed their competitors over the last decade.

Moving beyond a simple review of the data to a more high powered statistical analysis, the facts still favor the importance of *Rich States, Poor States*. Two empirical research economists, Dr. Randall Pozdena and Dr. Eric Fruits, analyzed the *Rich States, Poor States* economic outlook rankings in a recent publication titled “Tax Myths Debunked.”[88] They compared the economic outlook rankings to the Philadelphia Federal Reserve Bank’s index of state economic health using various time parameters. They found that depending on timing, *Rich States, Poor States* explains between 25 percent and 40 percent of the variation in state economic health. Given the incredible number of determinants of state economic performance, this is a sizable statistical result.

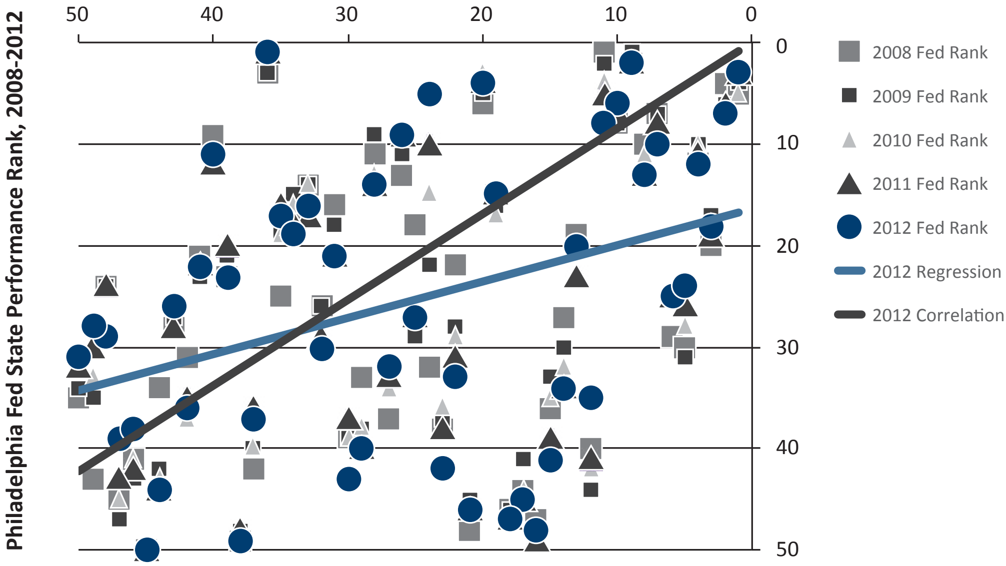
The totality of these results should be of no surprise to any student of economics, particularly those familiar with the international connection between economic freedom and economic performance. Data and theory suggest that states that embrace low taxes, moderate regulations, and limited government outcompete their big government counterparts. It should be of no surprise: When government puts more money in the pockets of employees and citizens and cuts the red tape that encroaches on seemingly every action, firms can grow, hire, offer pay raises, and generate wealth to be shared.

Conclusion

Everyone’s familiar with the popular TV ad that reminds us, “When insurance companies compete, you win.” The same is true of states, cities, and countries.

But progressives—they used to be called “liberals”—don’t like competition very much. Perhaps that is because their ideas don’t work when they are put to the test. Progressives obviously don’t want to have to compete in races they can’t win. It must be infuriating for our progressive friends in states like Connecticut, Massachusetts, New Jersey, and New York to learn that their states are attracting fewer new people than states that they have long ridiculed as backwaters or

FIGURE 14 | **Higher ALEC-Laffer Ranks Are Associated with Higher State Performance Ranks**



Source: Tax Myths Debunked, American Legislative Exchange Council

fly over country, such as Alabama and Arkansas. Massachusetts, New York, and Rhode Island had less population growth than the nation's poorest state, Mississippi. It's a slow bleed, so in short time spans it is sometimes not immediately noticeable. However, over a decade or two, or three, the compounding effect of differential growth rates makes a big difference in living standards and economic vitality.

The term progressive is rooted in the word "progress." Yet what is happening in "progressive states" is anything but progress when it comes to competing for jobs, talent, and businesses. The progressive states are falling behind.

What we have prescribed in this book is not a race to the bottom, but a race to the top. We believe America is the best hope for the world, a beacon of freedom for others to be guided by. Our nation and the 50 states should be global leaders in the race toward prosperity and eliminating poverty and deprivation. As we have said in these pages and in many previous editions of this book, the dream is to make poor people richer, not rich people poorer, and to make Detroit and Newark look more like Austin or Orlando, not vice versa. Our hope is that we have provided governors, legislators, mayors, and all public officials with a GPS guide to drive us all to a more prosperous future—and to stay there.

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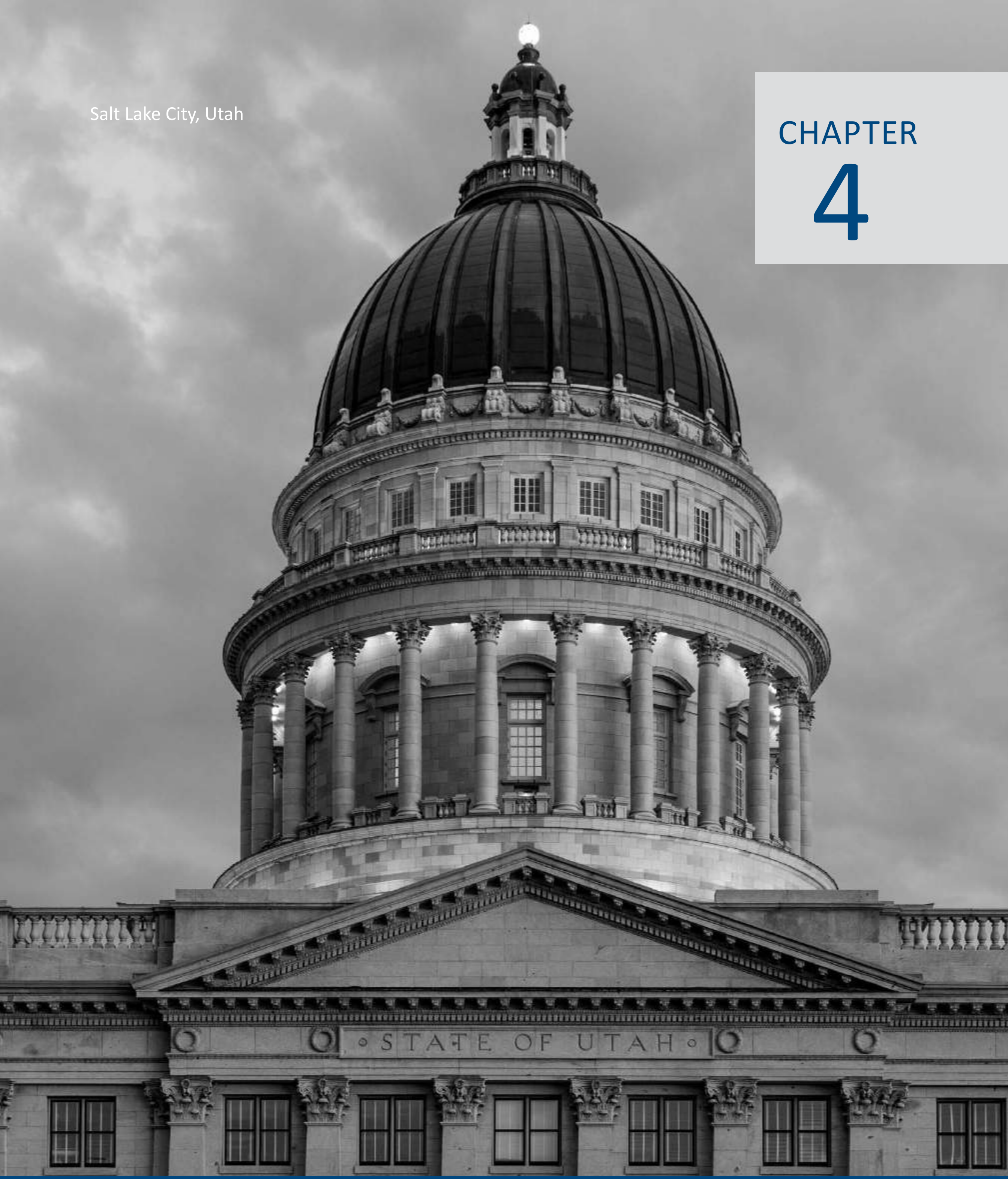


Salt Lake City, Utah

CHAPTER

4

State Rankings

State Rankings

The Economic Outlook Ranking is a forecast based on a state's current standing in 15 state policy variables. Each of these factors is influenced directly by state lawmakers through the legislative process. Generally speaking, states that spend less—especially on income transfer programs, and states that tax less—particularly on productive activities such as working or investing—experience higher growth rates than states that tax and spend more.

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

Table 1 | **ALEC-Laffer State Economic Outlook Rankings, 2014**

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

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

Table 2 | **ALEC-Laffer State Economic Performance Rankings, 2002-2012**

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

Alabama

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

30 Economic Performance Rank

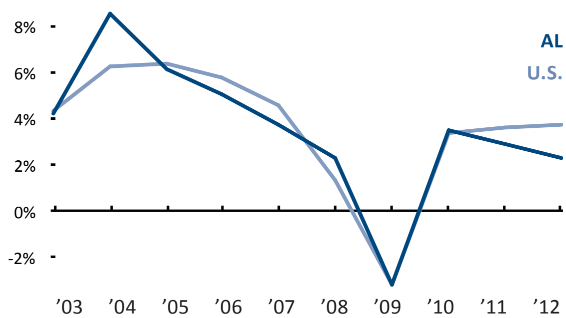
20 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

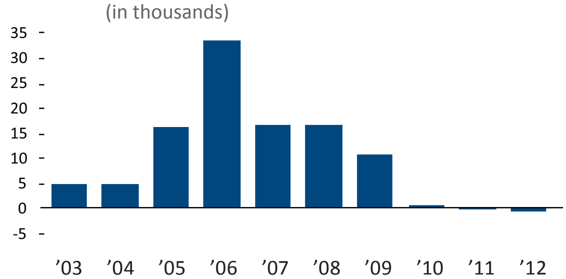
Cumulative Growth 2002-2012 46.6% Rank: 27



Absolute Domestic Migration

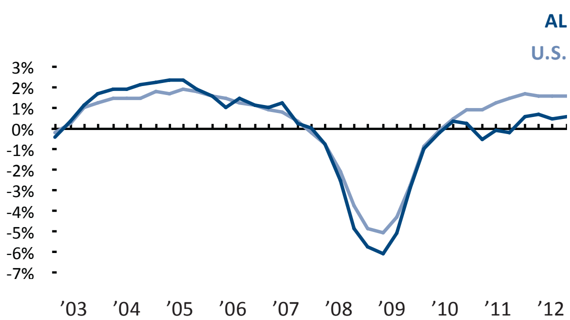
Cumulative 2003-2012 104,239 Rank: 13

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 0.1% Rank: 41



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	15	16	17	20	21	17

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.02%	12
Top Marginal Corporate Income Tax Rate	4.23%	6
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	-$1.76	1
Property Tax Burden (per $1,000 of personal income)	$15.65	1
Sales Tax Burden (per $1,000 of personal income)	$24.02	29
Remaining Tax Burden (per $1,000 of personal income)	$24.13	43
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.30	19
Debt Service as a Share of Tax Revenue	8.1%	23
Public Employees Per 10,000 of Population (full-time equivalent)	592.5	40
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	52.8	43
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.97	30
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Alaska

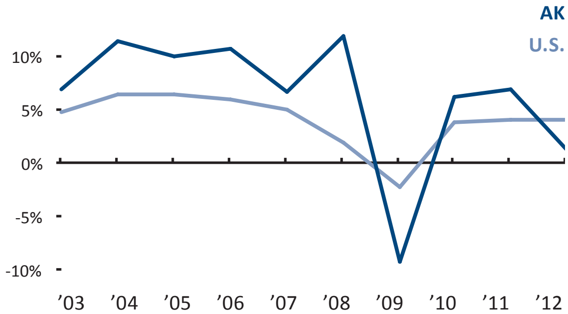
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

11 Economic Performance Rank

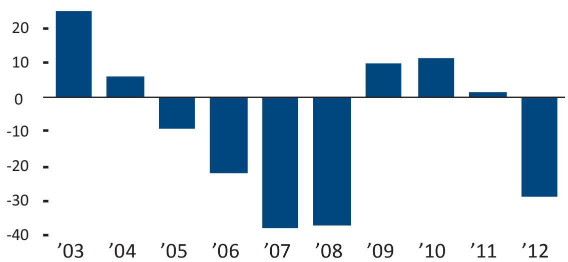
18 Economic Outlook Rank

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

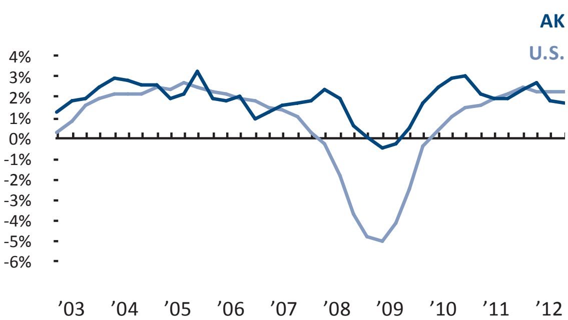
State Gross Domestic Product
Cumulative Growth 2002-2012 79.5% Rank: 3



Absolute Domestic Migration
Cumulative 2003-2012 -7,930 Rank: 30
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 12.8% Rank: 5



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	37	38	22	29	29	21

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)	$44.29	42
Sales Tax Burden (per $1,000 of personal income)	$9.92	5
Remaining Tax Burden (per $1,000 of personal income)	$14.96	8
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$20.67	1
Debt Service as a Share of Tax Revenue	5.9%	8
Public Employees Per 10,000 of Population (full-time equivalent)	753.2	49
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.1	13
State Minimum Wage (federal floor is $7.25)	$7.75	34
Average Workers' Compensation Costs (per $100 of payroll)	$3.01	50
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Arizona

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

8 Economic Performance Rank

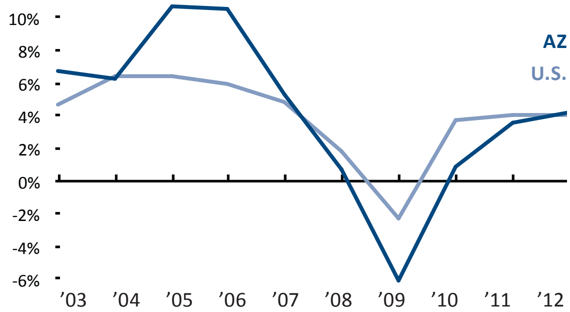
7 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

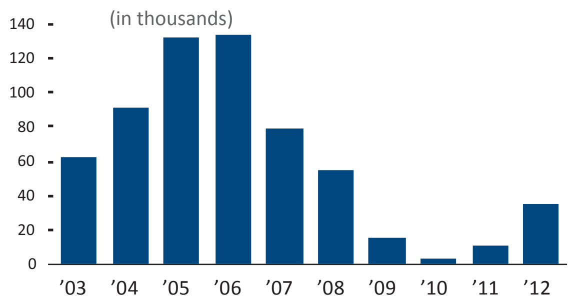
State Gross Domestic Product

Cumulative Growth 2002-2012 50.7% Rank: 23



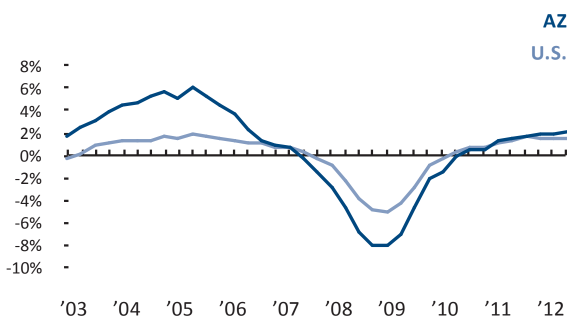
Absolute Domestic Migration

Cumulative 2003-2012 618,037 Rank: 4



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 9.0% Rank: 9



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	6	3	3	12	9	6

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.54%	13
Top Marginal Corporate Income Tax Rate	6.50%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.60	31
Property Tax Burden (per $1,000 of personal income)	$31.72	27
Sales Tax Burden (per $1,000 of personal income)	$36.69	45
Remaining Tax Burden (per $1,000 of personal income)	$12.80	3
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.55	12
Debt Service as a Share of Tax Revenue	11.6%	46
Public Employees Per 10,000 of Population (full-time equivalent)	431.8	2
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.8	17
State Minimum Wage (federal floor is $7.25)	$7.90	35
Average Workers' Compensation Costs (per $100 of payroll)	$1.61	14
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Arkansas

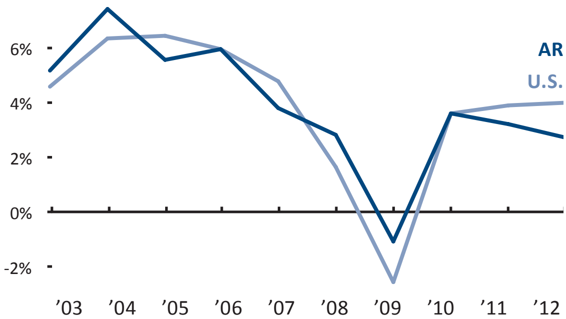
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

21 Economic Performance Rank

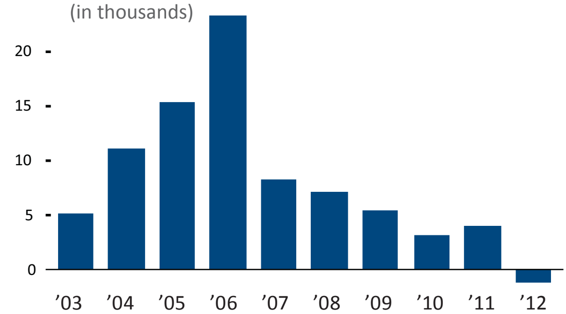
26 Economic Outlook Rank

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

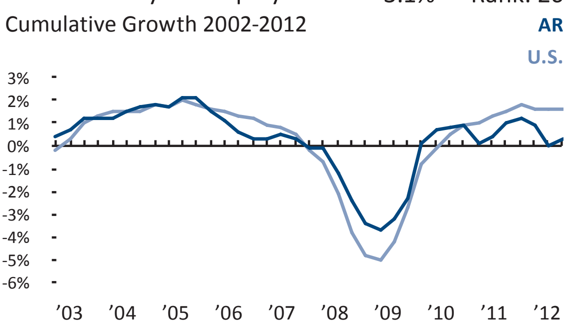
State Gross Domestic Product
Cumulative Growth 2002-2012 47.7% Rank: 25



Absolute Domestic Migration
Cumulative 2003-2012 80,218 Rank: 15
(in thousands)



Non-Farm Payroll Employment 3.1% Rank: 26
Cumulative Growth 2002-2012



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	11	12	13	13	11	24

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	35
Top Marginal Corporate Income Tax Rate	6.50%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$14.42	40
Property Tax Burden (per $1,000 of personal income)	$18.72	4
Sales Tax Burden (per $1,000 of personal income)	$37.70	46
Remaining Tax Burden (per $1,000 of personal income)	$18.17	26
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.92	43
Debt Service as a Share of Tax Revenue	5.3%	5
Public Employees Per 10,000 of Population (full-time equivalent)	598.1	41
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.2	35
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.19	3
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

California

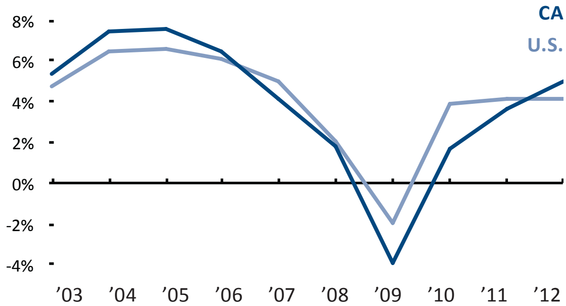
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

43 Economic Performance Rank

47 Economic Outlook Rank

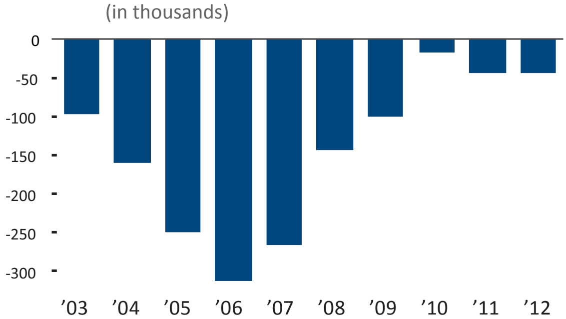
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 44.4% Rank: 32

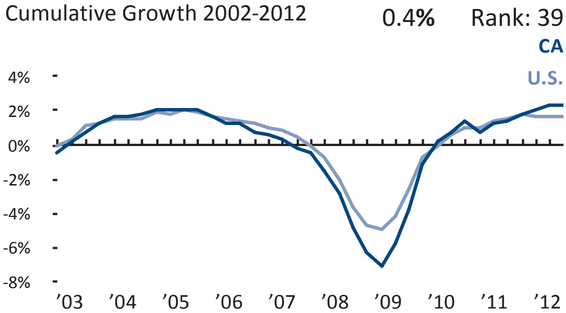


Absolute Domestic Migration
Cumulative 2003-2012 -1,429,475 Rank: 49

(in thousands)



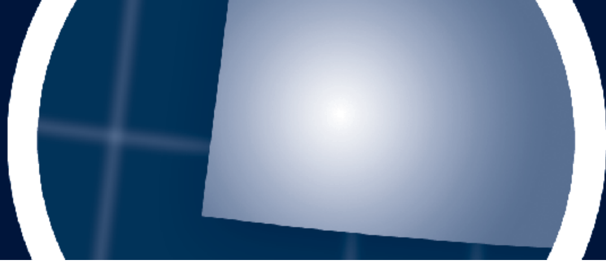
Non-Farm Payroll Employment
Cumulative Growth 2002-2012 0.4% Rank: 39



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	42	43	46	47	38	47

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	13.30%	50
Top Marginal Corporate Income Tax Rate	8.84%	38
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$37.80	50
Property Tax Burden (per $1,000 of personal income)	$32.65	28
Sales Tax Burden (per $1,000 of personal income)	$24.47	31
Remaining Tax Burden (per $1,000 of personal income)	$19.20	28
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$4.03	49
Debt Service as a Share of Tax Revenue	10.4%	39
Public Employees Per 10,000 of Population (full-time equivalent)	466.1	4
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	50.6	47
State Minimum Wage (federal floor is $7.25)	$8.00	39
Average Workers' Compensation Costs (per $100 of payroll)	$2.92	48
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3



Colorado

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

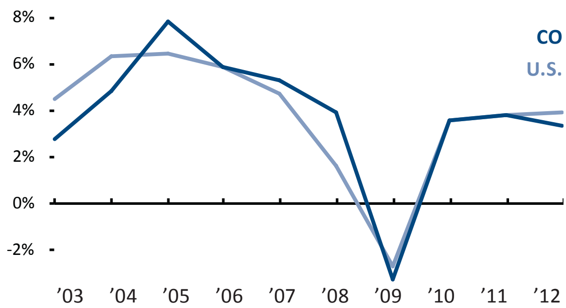
16 Economic Performance Rank

22 Economic Outlook Rank

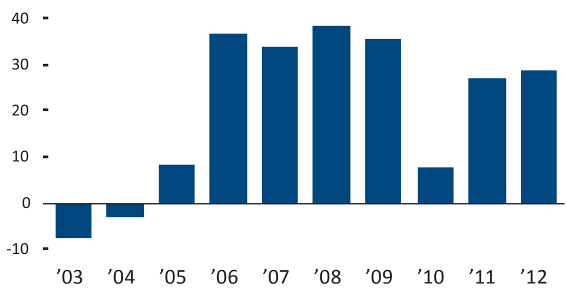
Economic Performance Rank (1=best 50=worst)

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

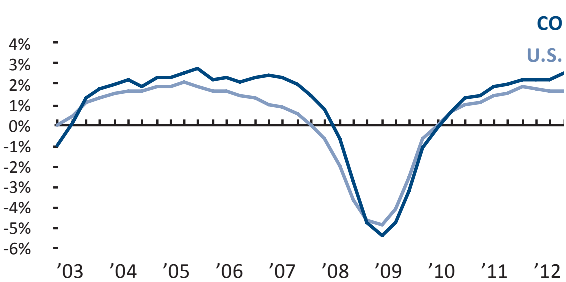
State Gross Domestic Product
Cumulative Growth 2002-2012 46.9% Rank: 26



Absolute Domestic Migration
Cumulative 2003-2012 206,484 Rank: 10
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 7.1% Rank: 14



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	9	2	2	6	8	16

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.63%	14
Top Marginal Corporate Income Tax Rate	4.63%	8
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.27	20
Property Tax Burden (per $1,000 of personal income)	$38.08	38
Sales Tax Burden (per $1,000 of personal income)	$23.91	27
Remaining Tax Burden (per $1,000 of personal income)	$14.52	7
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.48	40
Debt Service as a Share of Tax Revenue	11.8%	47
Public Employees Per 10,000 of Population (full-time equivalent)	527.0	21
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.2	23
State Minimum Wage (federal floor is $7.25)	$8.00	39
Average Workers' Compensation Costs (per $100 of payroll)	$1.42	8
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	3	1

Connecticut

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

45 Economic Performance Rank

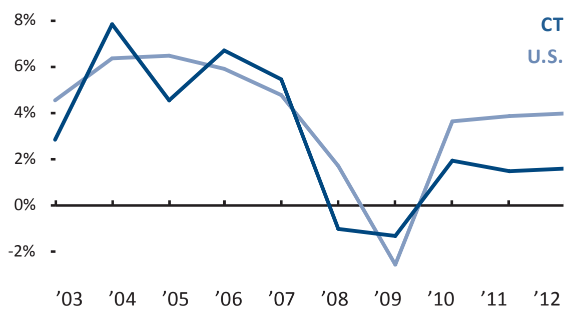
44 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

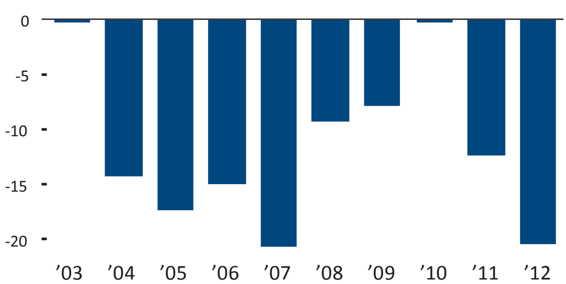
Cumulative Growth 2002-2012 35.8% Rank: 44



Absolute Domestic Migration

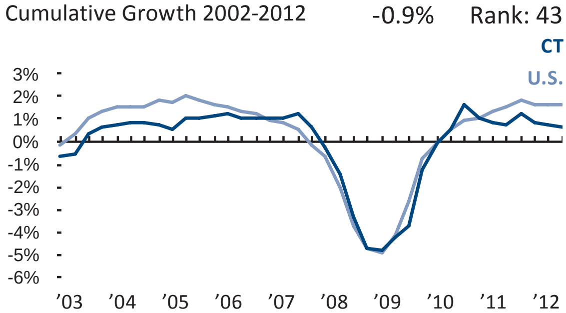
Cumulative 2003-2012 -117,924 Rank: 41

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 -0.9% Rank: 43



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	40	32	36	35	44	43

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.70%	30
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.67	26
Property Tax Burden (per $1,000 of personal income)	$45.36	43
Sales Tax Burden (per $1,000 of personal income)	$15.98	10
Remaining Tax Burden (per $1,000 of personal income)	$15.43	11
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$1.90	47
Debt Service as a Share of Tax Revenue	8.3%	26
Public Employees Per 10,000 of Population (full-time equivalent)	513.0	16
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.8	25
State Minimum Wage (federal floor is $7.25)	$8.70	47
Average Workers' Compensation Costs (per $100 of payroll)	$2.99	49
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Delaware

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

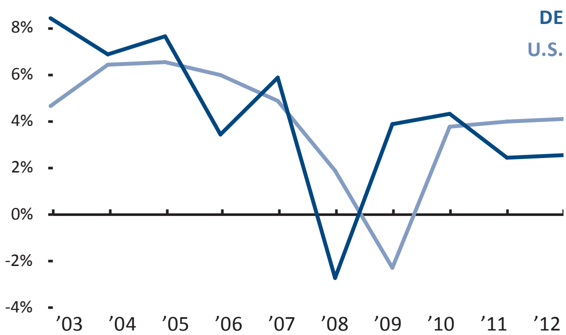
26 Economic Performance Rank

27 Economic Outlook Rank

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

State Gross Domestic Product

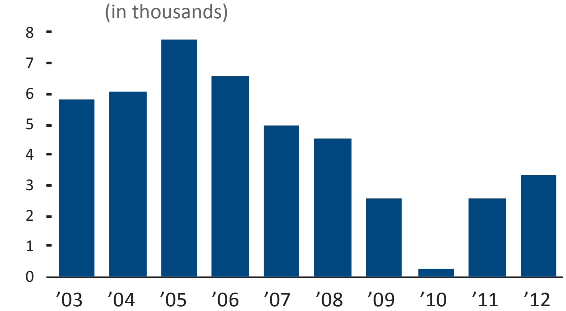
Cumulative Growth 2002-2012 51.1% Rank: 21



Absolute Domestic Migration

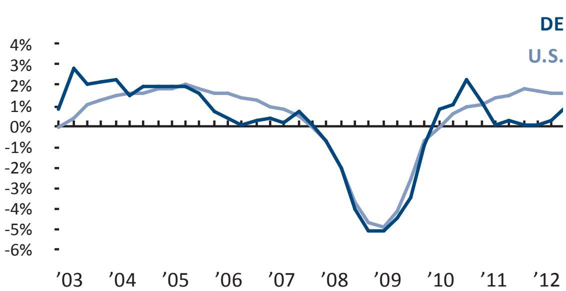
Cumulative 2003-2012 44,580 Rank: 20

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 1.2% Rank: 37



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	31	31	37	34	34	30

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.85%	39
Top Marginal Corporate Income Tax Rate	10.41%	47
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.70	38
Property Tax Burden (per $1,000 of personal income)	$17.50	3
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$48.06	50
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.55	13
Debt Service as a Share of Tax Revenue	8.6%	29
Public Employees Per 10,000 of Population (full-time equivalent)	544.1	27
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	75.8	1
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.77	21
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Florida

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

19 Economic Performance Rank

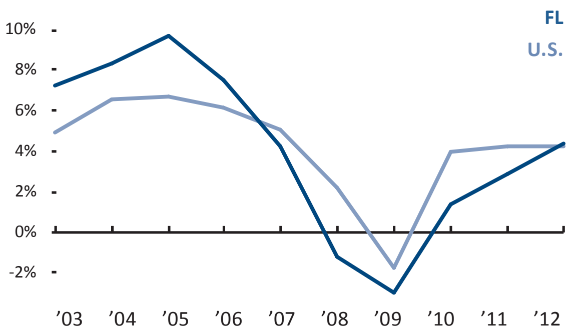
16 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

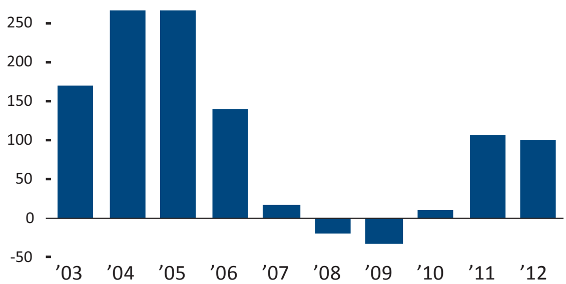
Cumulative Growth 2002-2012 45.0% Rank: 31



Absolute Domestic Migration

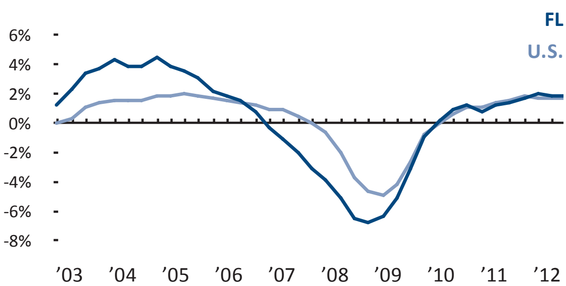
Cumulative 2003-2012 1,027,561 Rank: 2

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 3.4% Rank: 25



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	16	11	5	10	13	9

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)	$34.80	30
Sales Tax Burden (per $1,000 of personal income)	$28.34	38
Remaining Tax Burden (per $1,000 of personal income)	$21.83	40
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.03	31
Debt Service as a Share of Tax Revenue	9.1%	34
Public Employees Per 10,000 of Population (full-time equivalent)	466.7	5
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	55.3	41
State Minimum Wage (federal floor is $7.25)	$7.93	37
Average Workers' Compensation Costs (per $100 of payroll)	$1.82	22
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Georgia

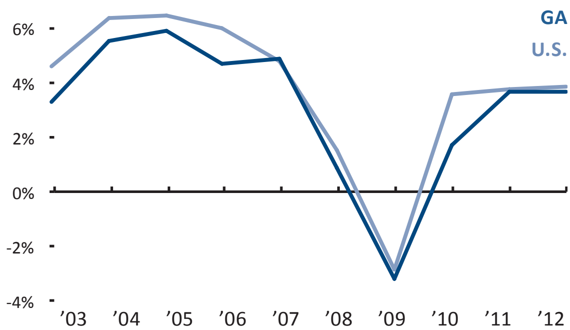
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

27 Economic Performance Rank

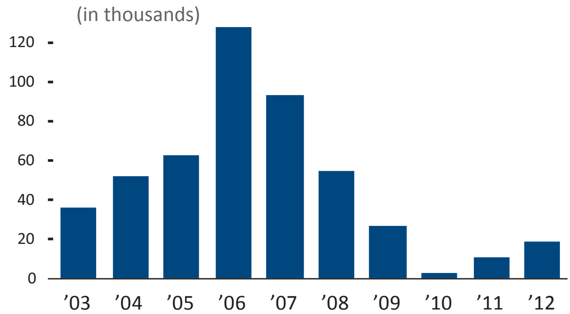
9 Economic Outlook Rank

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

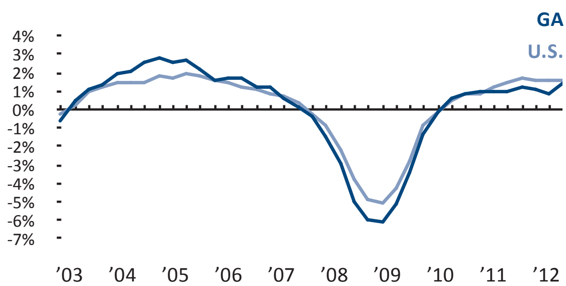
State Gross Domestic Product
Cumulative Growth 2002-2012 38.1% Rank: 42



Absolute Domestic Migration
Cumulative 2003-2012 485,993 Rank: 5



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 2.2% Rank: 34



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	8	8	9	11	10	8

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.00%	27
Top Marginal Corporate Income Tax Rate	6.00%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.53	22
Property Tax Burden (per $1,000 of personal income)	$29.95	23
Sales Tax Burden (per $1,000 of personal income)	$24.72	32
Remaining Tax Burden (per $1,000 of personal income)	$11.32	1
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.37	18
Debt Service as a Share of Tax Revenue	7.5%	19
Public Employees Per 10,000 of Population (full-time equivalent)	518.5	18
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	64.0	24
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.88	24
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Hawaii

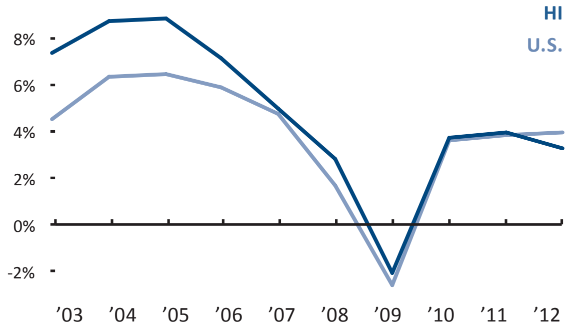
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

17 Economic Performance Rank

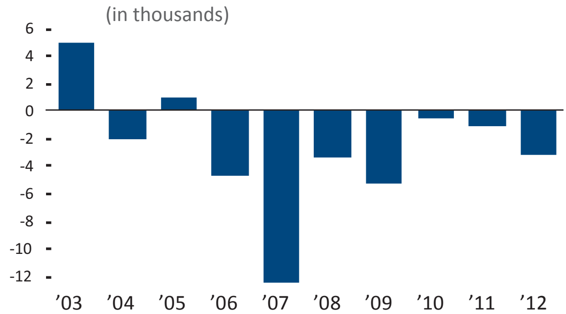
36 Economic Outlook Rank

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

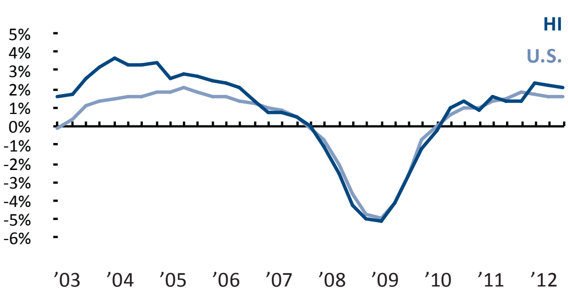
State Gross Domestic Product
Cumulative Growth 2002-2012 61.8% Rank: 11



Absolute Domestic Migration
Cumulative 2003-2012 -26,409 Rank: 31



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 8.7% Rank: 10



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	41	41	39	46	46	40

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)	$13.54	37
Property Tax Burden (per $1,000 of personal income)	$22.62	9
Sales Tax Burden (per $1,000 of personal income)	$42.62	50
Remaining Tax Burden (per $1,000 of personal income)	$24.54	45
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.74	9
Debt Service as a Share of Tax Revenue	8.5%	27
Public Employees Per 10,000 of Population (full-time equivalent)	535.1	24
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.5	29
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.66	16
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Idaho

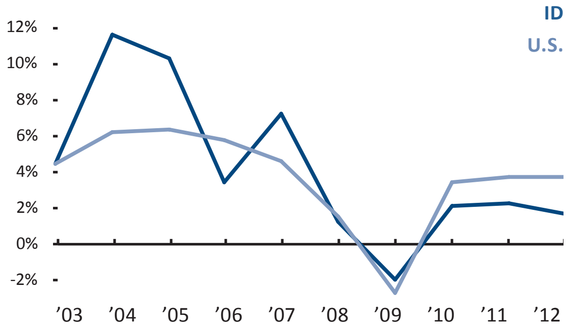
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

10 Economic Performance Rank

5 Economic Outlook Rank

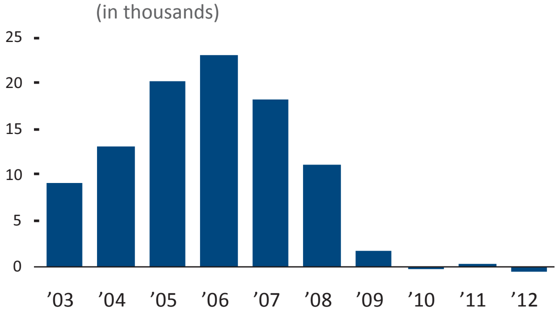
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 54.4% Rank: 16

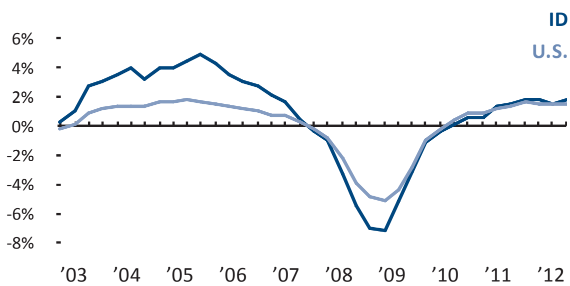


Absolute Domestic Migration
Cumulative 2003-2012 94,969 Rank: 14

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 9.7% Rank: 8



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	10	14	7	5	6	7

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.40%	37
Top Marginal Corporate Income Tax Rate	7.40%	28
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.26	36
Property Tax Burden (per $1,000 of personal income)	$26.41	14
Sales Tax Burden (per $1,000 of personal income)	$22.92	24
Remaining Tax Burden (per $1,000 of personal income)	$15.62	13
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.47	14
Debt Service as a Share of Tax Revenue	5.8%	7
Public Employees Per 10,000 of Population (full-time equivalent)	491.2	10
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.5	6
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	32
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Illinois

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

46 Economic Performance Rank

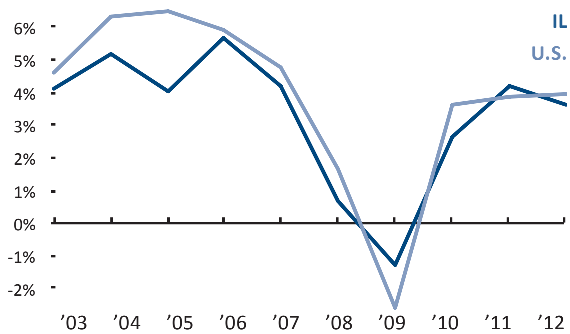
48 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

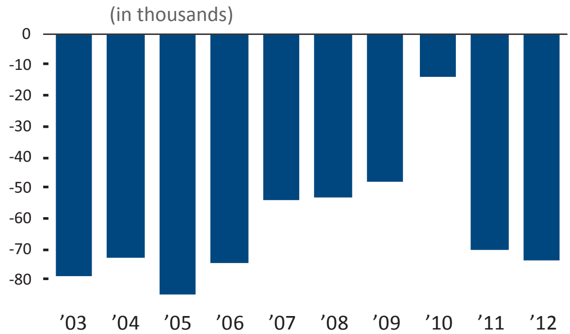
State Gross Domestic Product

Cumulative Growth 2002-2012 39.7% Rank: 39



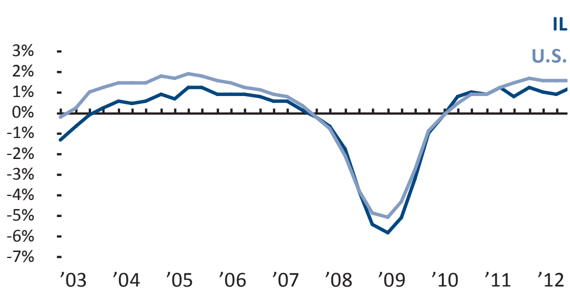
Absolute Domestic Migration

Cumulative 2003-2012 -623,467 Rank: 48



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 -1.6% Rank: 47



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	43	44	47	44	48	48

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	17
Top Marginal Corporate Income Tax Rate	9.50%	44
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$1.42	14
Property Tax Burden (per $1,000 of personal income)	$43.51	41
Sales Tax Burden (per $1,000 of personal income)	$16.36	11
Remaining Tax Burden (per $1,000 of personal income)	$21.68	38
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.43	39
Debt Service as a Share of Tax Revenue	11.1%	43
Public Employees Per 10,000 of Population (full-time equivalent)	499.4	11
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	51.3	46
State Minimum Wage (federal floor is $7.25)	$8.25	44
Average Workers' Compensation Costs (per $100 of payroll)	$2.83	47
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Indiana

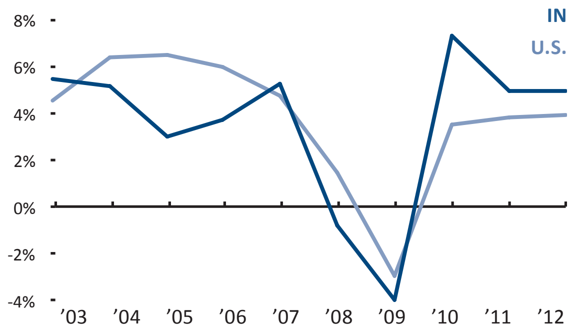
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

38 Economic Performance Rank

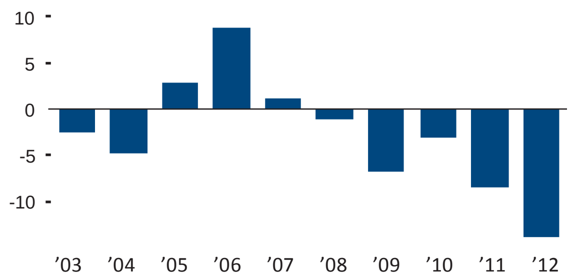
3 Economic Outlook Rank

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

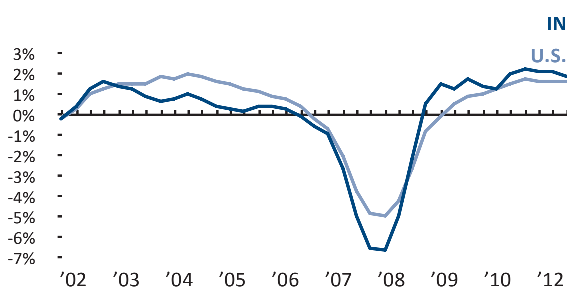
State Gross Domestic Product
Cumulative Growth 2002-2012 43.1% Rank: 34



Absolute Domestic Migration
Cumulative 2003-2012 -27,203 Rank: 33
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 0.5% Rank: 38



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	12	17	20	16	24	14

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.02%	20
Top Marginal Corporate Income Tax Rate	7.50%	29
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.67	13
Property Tax Burden (per $1,000 of personal income)	$27.44	17
Sales Tax Burden (per $1,000 of personal income)	$27.25	35
Remaining Tax Burden (per $1,000 of personal income)	$15.85	14
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.59	11
Debt Service as a Share of Tax Revenue	9.0%	33
Public Employees Per 10,000 of Population (full-time equivalent)	505.0	13
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.0	14
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.16	2
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Iowa

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

24 Economic Performance Rank

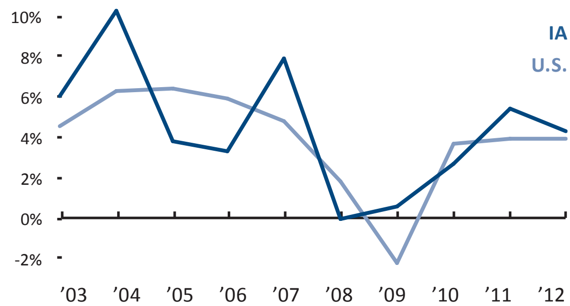
25 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

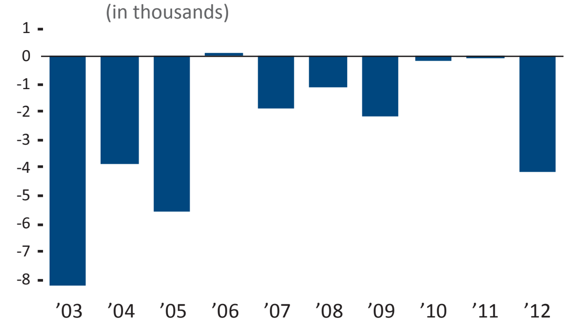
Cumulative Growth 2002-2012 54.6% Rank: 15



Absolute Domestic Migration

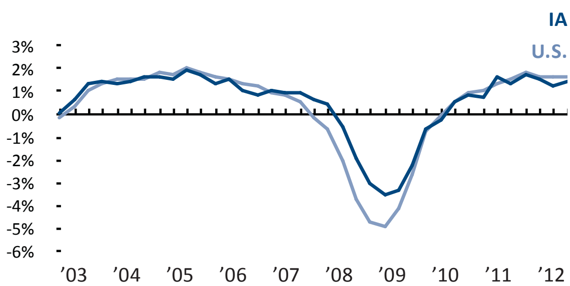
Cumulative 2003-2012 -27,470 Rank: 34

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 4.9% Rank: 19



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	25	35	28	23	22	25

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.42%	23
Top Marginal Corporate Income Tax Rate	9.90%	46
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.89	33
Property Tax Burden (per $1,000 of personal income)	$35.15	32
Sales Tax Burden (per $1,000 of personal income)	$23.34	26
Remaining Tax Burden (per $1,000 of personal income)	$17.57	21
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.12	21
Debt Service as a Share of Tax Revenue	5.0%	3
Public Employees Per 10,000 of Population (full-time equivalent)	564.8	33
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.5	10
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.90	26
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Kansas

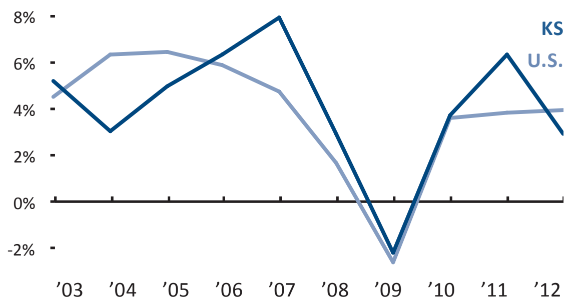
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

32 Economic Performance Rank

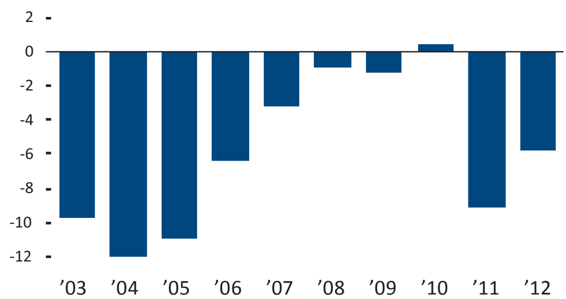
15 Economic Outlook Rank

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

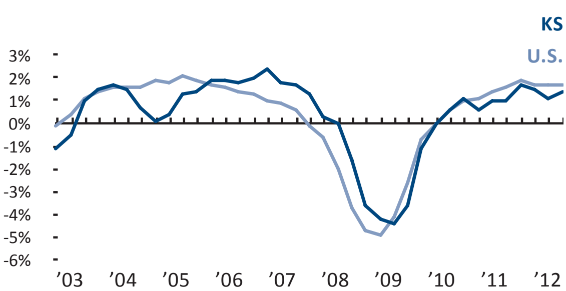
State Gross Domestic Product
Cumulative Growth 2002-2012 51.6% Rank: 20



Absolute Domestic Migration
Cumulative 2003-2012 -58,811 Rank: 38
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 2.7% Rank: 29



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	29	24	25	27	26	11

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.80%	15
Top Marginal Corporate Income Tax Rate	7.00%	26
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.56	25
Property Tax Burden (per $1,000 of personal income)	$33.76	29
Sales Tax Burden (per $1,000 of personal income)	$28.32	37
Remaining Tax Burden (per $1,000 of personal income)	$12.88	4
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$2.38	4
Debt Service as a Share of Tax Revenue	10.3%	38
Public Employees Per 10,000 of Population (full-time equivalent)	680.8	48
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.6	5
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.54	10
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Kentucky

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

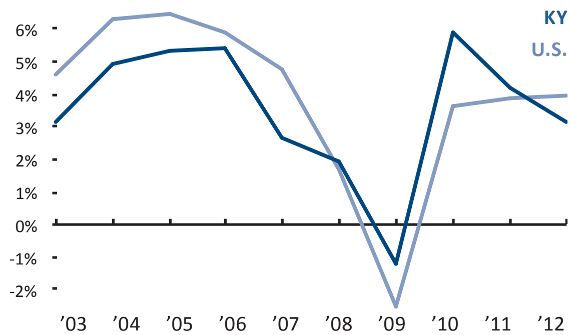
28 Economic Performance Rank

39 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

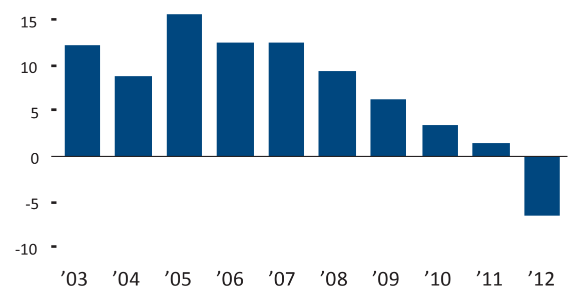
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 42.8% Rank: 35

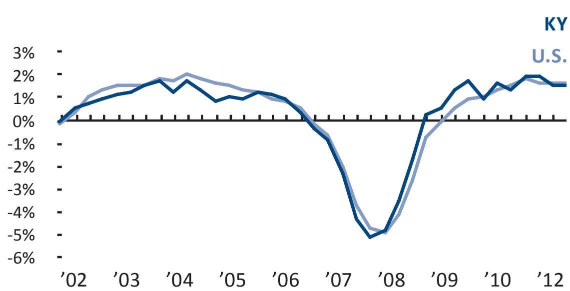


Absolute Domestic Migration
Cumulative 2003-2012 75,684 Rank: 16

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 2.5% Rank: 30



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	44	36	40	40	39	38

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.20%	42
Top Marginal Corporate Income Tax Rate	6.00%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.51	18
Property Tax Burden (per $1,000 of personal income)	$20.42	7
Sales Tax Burden (per $1,000 of personal income)	$19.69	17
Remaining Tax Burden (per $1,000 of personal income)	$21.67	37
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.36	37
Debt Service as a Share of Tax Revenue	13.5%	50
Public Employees Per 10,000 of Population (full-time equivalent)	564.4	32
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.8	38
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.96	29
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Louisiana

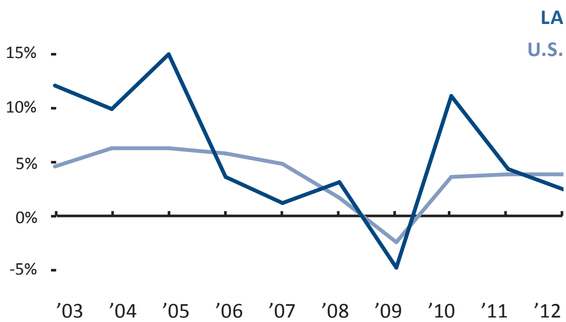
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

29 Economic Performance Rank

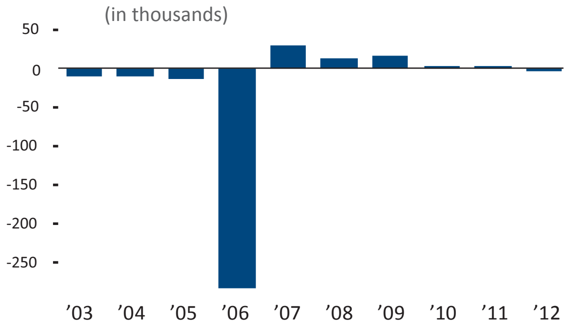
29 Economic Outlook Rank

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

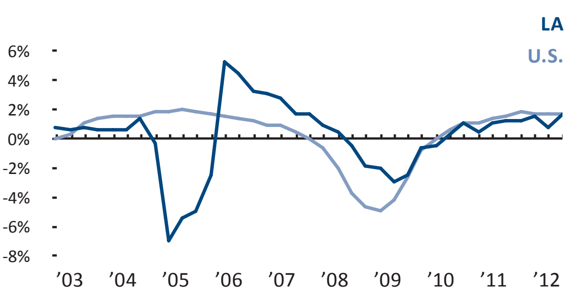
State Gross Domestic Product
Cumulative Growth 2002-2012 74.8% Rank: 6



Absolute Domestic Migration
Cumulative 2003-2012 -253,511 Rank: 44



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 2.4% Rank: 31



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	24	18	16	15	19	28

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.62%	11
Top Marginal Corporate Income Tax Rate	5.20%	12
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.19	29
Property Tax Burden (per $1,000 of personal income)	$20.42	6
Sales Tax Burden (per $1,000 of personal income)	$37.84	47
Remaining Tax Burden (per $1,000 of personal income)	$18.42	27
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.02	24
Debt Service as a Share of Tax Revenue	11.4%	44
Public Employees Per 10,000 of Population (full-time equivalent)	589.8	39
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	46.5	49
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.06	36
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Maine

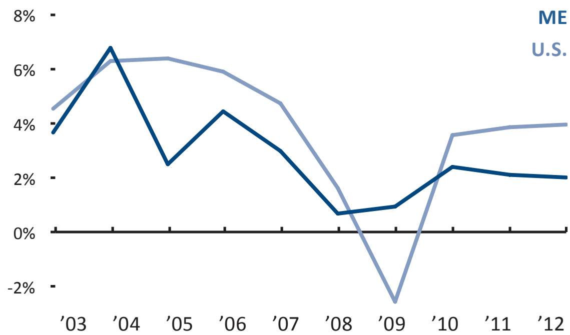
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

42 Economic Performance Rank

40 Economic Outlook Rank

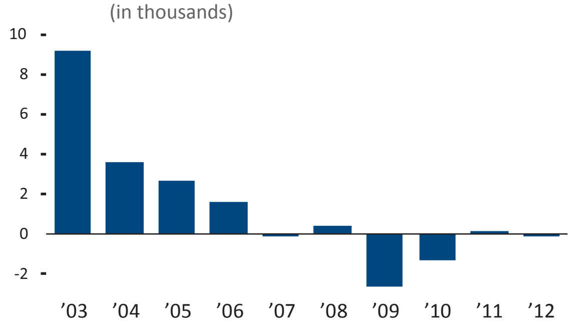
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 34.2% Rank: 47

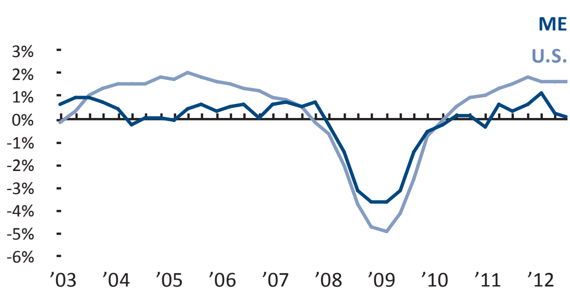


Absolute Domestic Migration
Cumulative 2003-2012 12,953 Rank: 25

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 -1.6% Rank: 46



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	46	47	44	48	47	41

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.95%	41
Top Marginal Corporate Income Tax Rate	8.93%	39
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$19.31	47
Property Tax Burden (per $1,000 of personal income)	$47.52	46
Sales Tax Burden (per $1,000 of personal income)	$19.99	19
Remaining Tax Burden (per $1,000 of personal income)	$20.05	31
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.75	8
Debt Service as a Share of Tax Revenue	6.2%	9
Public Employees Per 10,000 of Population (full-time equivalent)	583.2	38
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.2	12
State Minimum Wage (federal floor is $7.25)	$7.50	31
Average Workers' Compensation Costs (per $100 of payroll)	$2.24	41
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Maryland

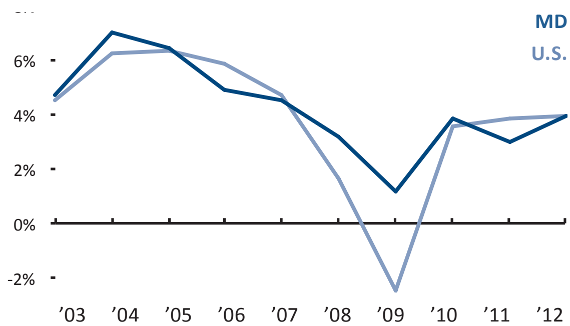
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

31 Economic Performance Rank

34 Economic Outlook Rank

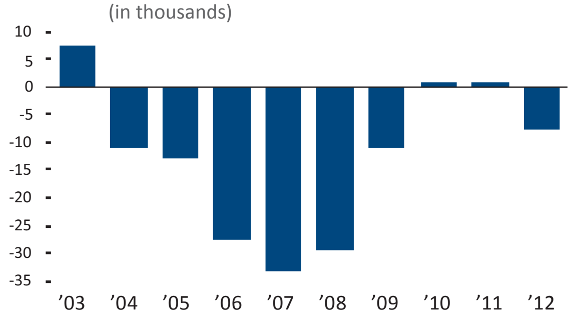
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 53.7% Rank: 18

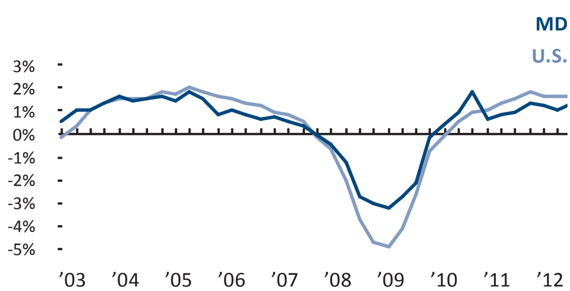


Absolute Domestic Migration
Cumulative 2003-2012 -123,674 Rank: 42

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 4.4% Rank: 22



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	28	28	29	21	20	35

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	43
Top Marginal Corporate Income Tax Rate	8.25%	35
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.95	23
Property Tax Burden (per $1,000 of personal income)	$28.27	19
Sales Tax Burden (per $1,000 of personal income)	$13.08	8
Remaining Tax Burden (per $1,000 of personal income)	$17.91	25
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$1.15	46
Debt Service as a Share of Tax Revenue	6.4%	11
Public Employees Per 10,000 of Population (full-time equivalent)	528.2	23
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	58.3	33
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.68	17
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Massachusetts

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

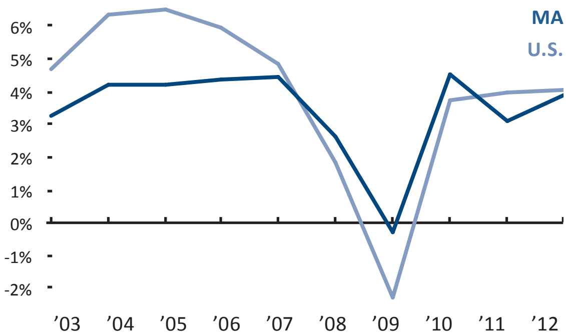
41 Economic Performance Rank

28 Economic Outlook Rank

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

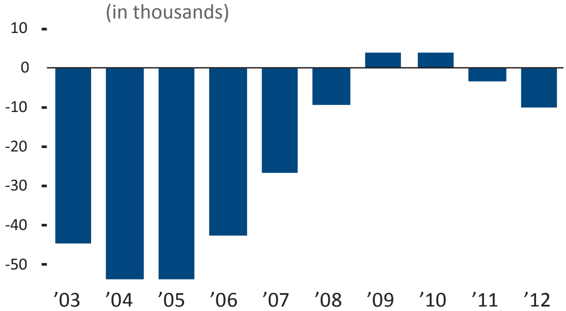
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

State Gross Domestic Product
Cumulative Growth 2002-2012 40% Rank: 38

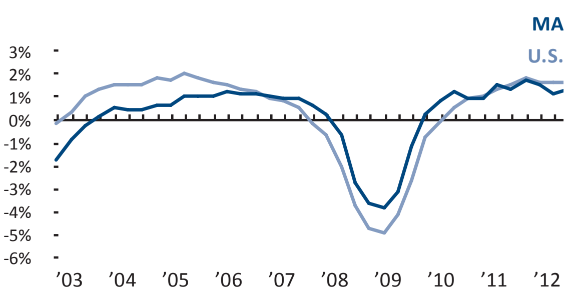


Absolute Domestic Migration
Cumulative 2003-2012 -239,960 Rank: 43

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 1.7% Rank: 36



Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	22	26	32	24	25	29

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.20%	21
Top Marginal Corporate Income Tax Rate	8.00%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$3.05	16
Property Tax Burden (per $1,000 of personal income)	$37.94	36
Sales Tax Burden (per $1,000 of personal income)	$14.05	9
Remaining Tax Burden (per $1,000 of personal income)	$11.72	2
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.64	41
Debt Service as a Share of Tax Revenue	10.8%	41
Public Employees Per 10,000 of Population (full-time equivalent)	486.9	8
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.3	19
State Minimum Wage (federal floor is $7.25)	$8.00	39
Average Workers' Compensation Costs (per $100 of payroll)	$1.37	7
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Michigan

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

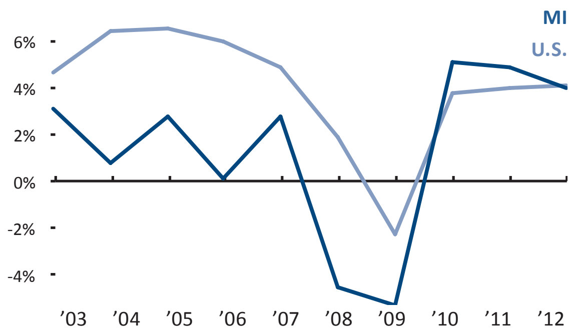
50 Economic Performance Rank

12 Economic Outlook Rank

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

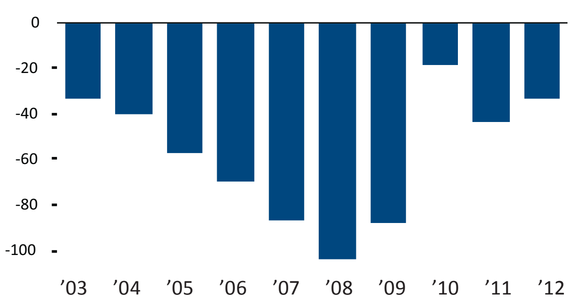
Economic Outlook Rank (1=best 50=worst)
A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.

State Gross Domestic Product
Cumulative Growth 2002-2012 13.8% Rank: 50

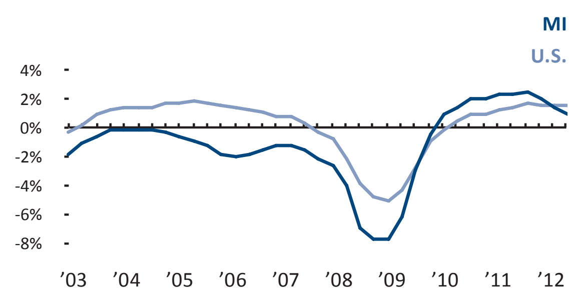


Absolute Domestic Migration
Cumulative 2003-2012 -573,817 Rank: 47

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 -10% Rank: 50



Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	17	34	26	25	17	20

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.65%	29
Top Marginal Corporate Income Tax Rate	8.00%	33
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$2.27	15
Property Tax Burden (per $1,000 of personal income)	$38.00	37
Sales Tax Burden (per $1,000 of personal income)	$26.54	34
Remaining Tax Burden (per $1,000 of personal income)	$15.31	10
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.72	10
Debt Service as a Share of Tax Revenue	8.9%	32
Public Employees Per 10,000 of Population (full-time equivalent)	461.0	3
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.0	27
State Minimum Wage (federal floor is $7.25)	$7.40	30
Average Workers' Compensation Costs (per $100 of payroll)	$1.73	19
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Minnesota

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

33 Economic Performance Rank

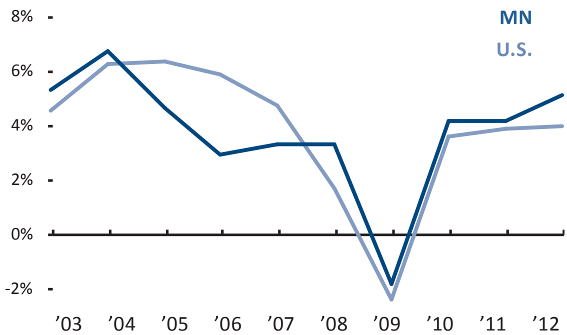
46 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

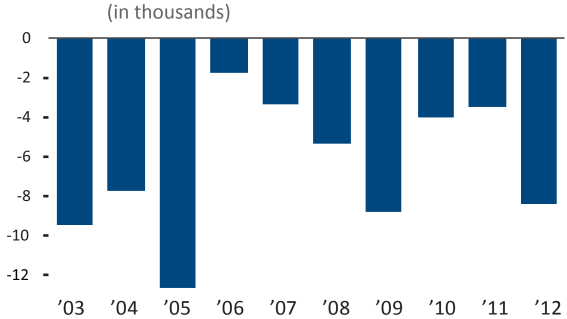
Cumulative Growth 2002-2012 46.2% Rank: 29



Absolute Domestic Migration

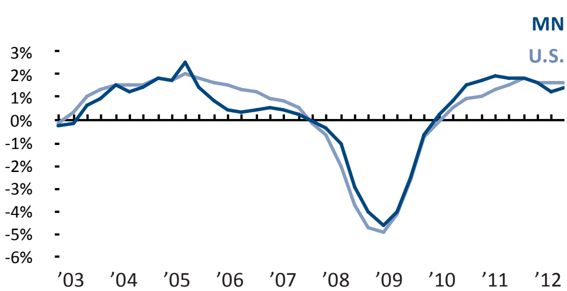
Cumulative 2003-2012 -64,954 Rank: 40

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 3.0% Rank: 27



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	39	40	38	37	41	46

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.85%	45
Top Marginal Corporate Income Tax Rate	9.80%	45
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$18.27	45
Property Tax Burden (per $1,000 of personal income)	$34.85	31
Sales Tax Burden (per $1,000 of personal income)	$20.29	21
Remaining Tax Burden (per $1,000 of personal income)	$22.86	41
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$5.65	50
Debt Service as a Share of Tax Revenue	7.1%	15
Public Employees Per 10,000 of Population (full-time equivalent)	519.1	19
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	71.4	4
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.03	34
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Mississippi

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

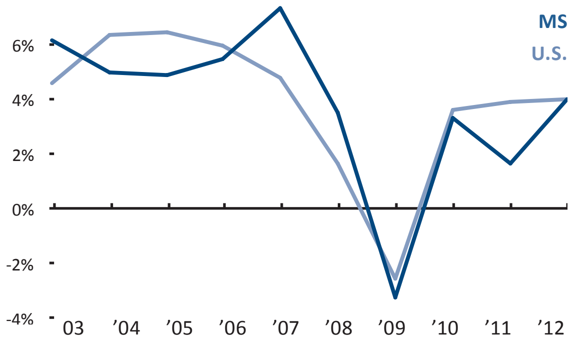
39 Economic Performance Rank

14 Economic Outlook Rank

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

State Gross Domestic Product

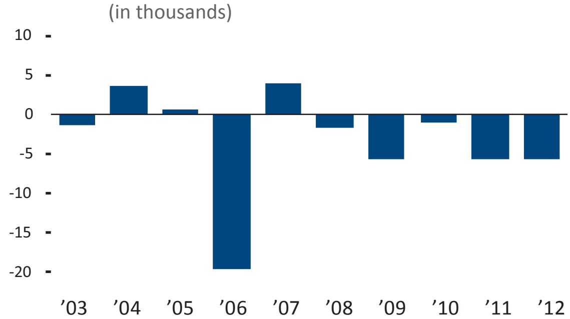
Cumulative Growth 2002-2012 46.0% Rank: 30



Absolute Domestic Migration

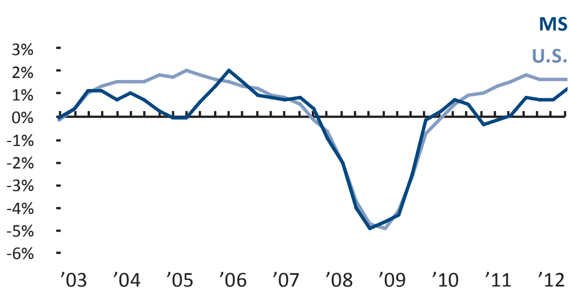
Cumulative 2003-2012 -32,013 Rank: 36

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 -1.1% Rank: 44



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	19	19	18	19	15	10

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	17
Top Marginal Corporate Income Tax Rate	5.00%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.53	24
Property Tax Burden (per $1,000 of personal income)	$27.25	15
Sales Tax Burden (per $1,000 of personal income)	$31.78	41
Remaining Tax Burden (per $1,000 of personal income)	$20.37	32
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.05	22
Debt Service as a Share of Tax Revenue	6.2%	10
Public Employees Per 10,000 of Population (full-time equivalent)	640.9	45
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	46.6	48
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.49	9
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Missouri

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

40 Economic Performance Rank

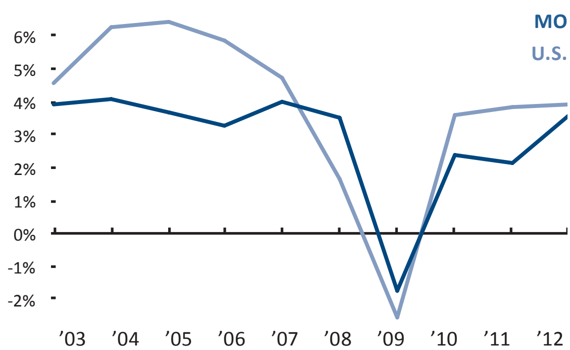
24 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

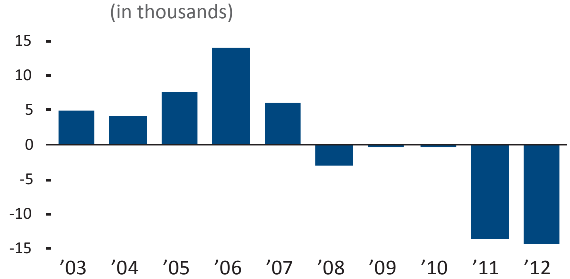
Cumulative Growth 2002-2012 34.7% Rank: 46



Absolute Domestic Migration

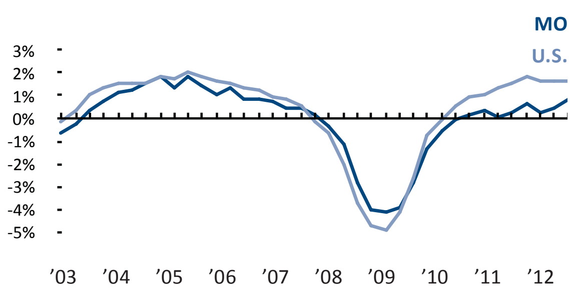
Cumulative 2003-2012 7,025 Rank: 28

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 -0.6% Rank: 42



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	25	23	15	9	7	23

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	34
Top Marginal Corporate Income Tax Rate	6.16%	18
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$13.92	39
Property Tax Burden (per $1,000 of personal income)	$26.31	13
Sales Tax Burden (per $1,000 of personal income)	$22.17	23
Remaining Tax Burden (per $1,000 of personal income)	$16.05	15
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.00	26
Debt Service as a Share of Tax Revenue	9.2%	35
Public Employees Per 10,000 of Population (full-time equivalent)	527.5	22
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.8	34
State Minimum Wage (federal floor is $7.25)	$7.50	31
Average Workers' Compensation Costs (per $100 of payroll)	$1.62	15
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	3	1

Montana

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

5 Economic Performance Rank

43 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

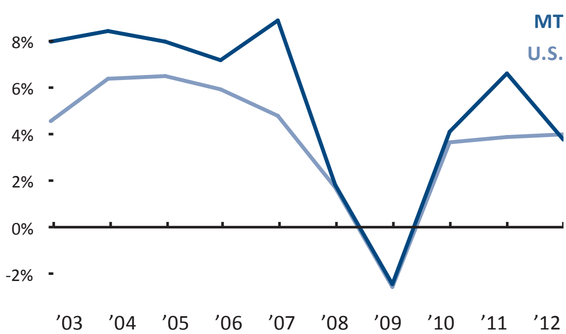
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

Economic Outlook Rank (1=best 50=worst)

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

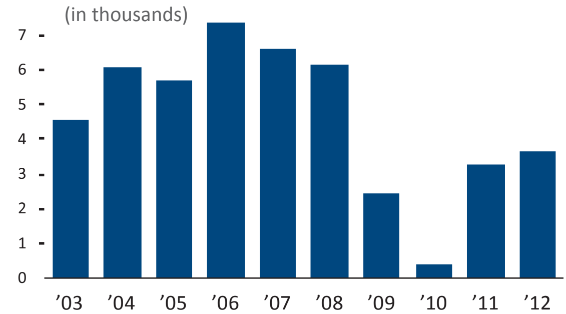
State Gross Domestic Product

Cumulative Growth 2002-2012 70.0% Rank: 7



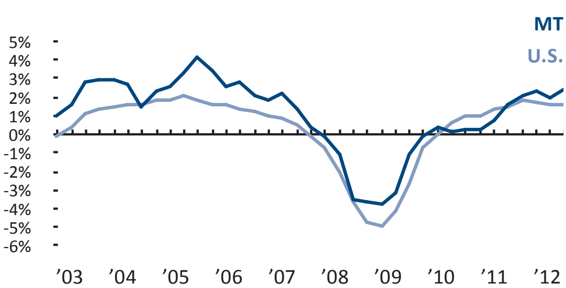
Absolute Domestic Migration

Cumulative 2003-2012 46,220 Rank: 19



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 11.7% Rank: 6



Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	**32**	**30**	**33**	**36**	**36**	**42**

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.90%	32
Top Marginal Corporate Income Tax Rate	6.75%	25
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$17.72	44
Property Tax Burden (per $1,000 of personal income)	$37.84	35
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$24.86	46
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.14	20
Debt Service as a Share of Tax Revenue	6.4%	12
Public Employees Per 10,000 of Population (full-time equivalent)	574.2	36
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	52.2	45
State Minimum Wage (federal floor is $7.25)	$7.90	35
Average Workers' Compensation Costs (per $100 of payroll)	$2.50	43
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Nebraska

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

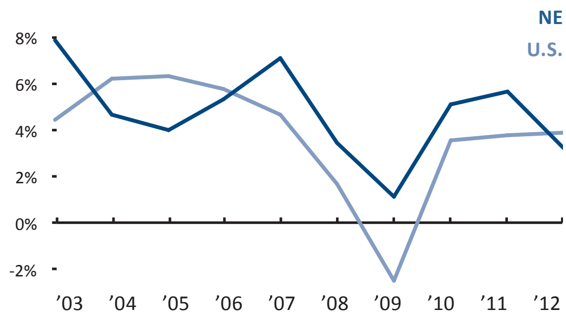
20 Economic Performance Rank

35 Economic Outlook Rank

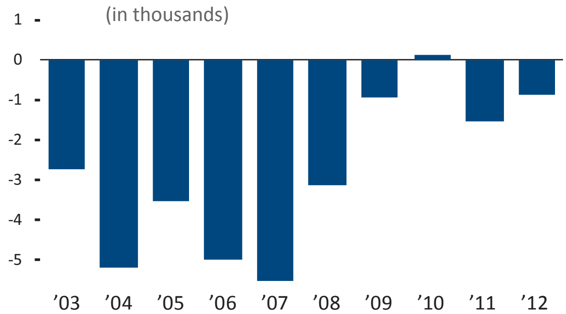
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

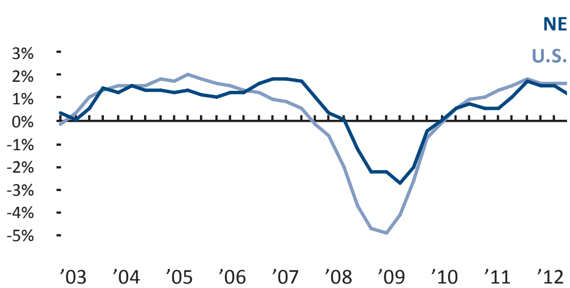
State Gross Domestic Product
Cumulative Growth 2002-2012 62.2% Rank: 10



Absolute Domestic Migration
Cumulative 2003-2012 -28,349 Rank: 35



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 6.1% Rank: 16



Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	34	29	34	32	31	37

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.84%	31
Top Marginal Corporate Income Tax Rate	7.81%	31
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$18.43	46
Property Tax Burden (per $1,000 of personal income)	$37.43	34
Sales Tax Burden (per $1,000 of personal income)	$22.02	22
Remaining Tax Burden (per $1,000 of personal income)	$17.64	22
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.20	36
Debt Service as a Share of Tax Revenue	8.0%	22
Public Employees Per 10,000 of Population (full-time equivalent)	652.0	47
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	74.1	2
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.71	18
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Nevada

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

7 Economic Performance Rank

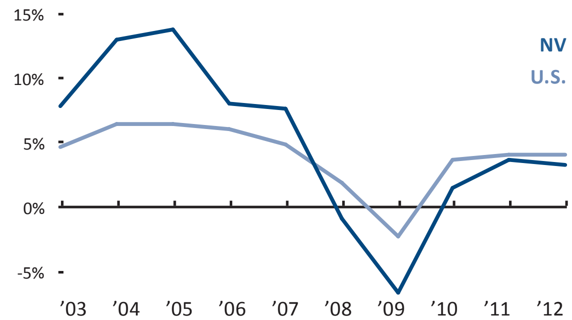
8 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

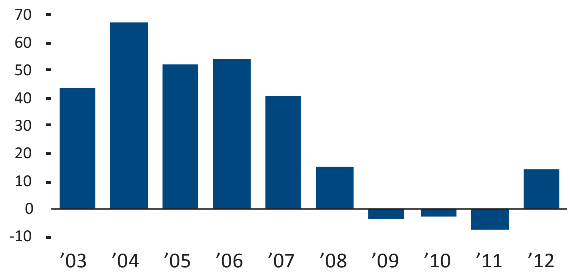
Cumulative Growth 2002-2012 61.4% Rank: 12



Absolute Domestic Migration

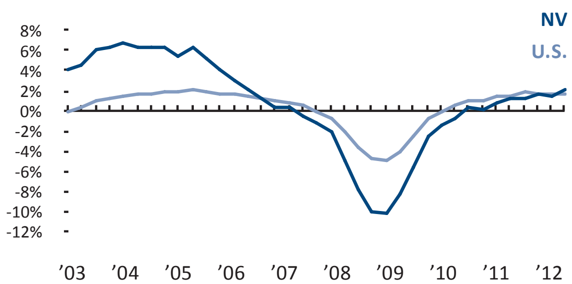
Cumulative 2003-2012 273,594 Rank: 8

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 8.3% Rank: 13



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	7	7	11	17	18	13

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)	$29.91	21
Sales Tax Burden (per $1,000 of personal income)	$32.17	42
Remaining Tax Burden (per $1,000 of personal income)	$36.70	49
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.00	27
Debt Service as a Share of Tax Revenue	10.6%	40
Public Employees Per 10,000 of Population (full-time equivalent)	418.8	1
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.0	37
State Minimum Wage (federal floor is $7.25)	$8.25	44
Average Workers' Compensation Costs (per $100 of payroll)	$1.33	5
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

New Hampshire

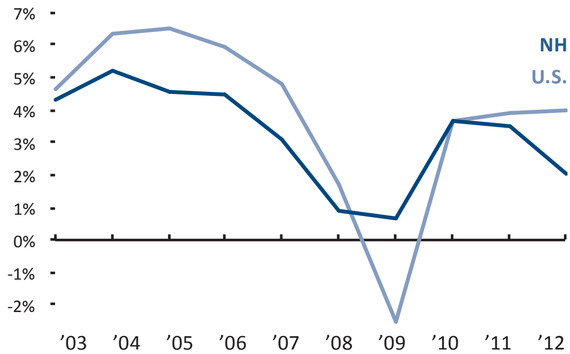
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

34 Economic Performance Rank

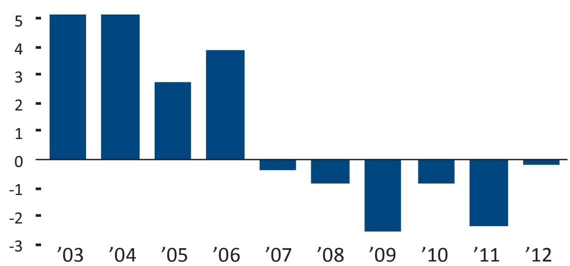
32 Economic Outlook Rank

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

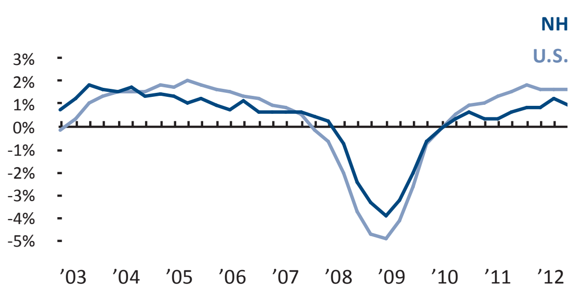
State Gross Domestic Product
Cumulative Growth 2002-2012 38.4% Rank: 41



Absolute Domestic Migration
Cumulative 2003-2012 10,282 Rank: 27
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 3.0% Rank: 28



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	26	37	30	28	28	27

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	8.50%	36
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)	$54.32	49
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$21.74	39
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.02	25
Debt Service as a Share of Tax Revenue	9.5%	37
Public Employees Per 10,000 of Population (full-time equivalent)	547.4	28
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.7	21
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.40	42
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

New Jersey

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

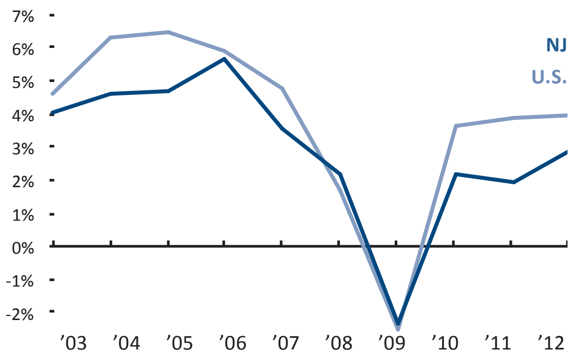
48 Economic Performance Rank

45 Economic Outlook Rank

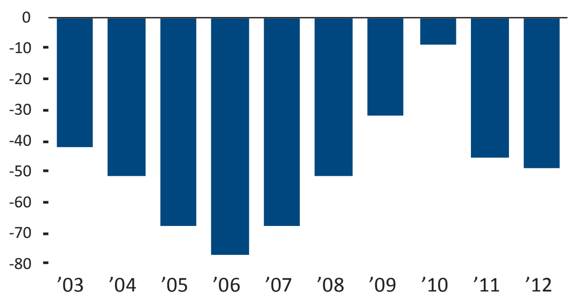
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

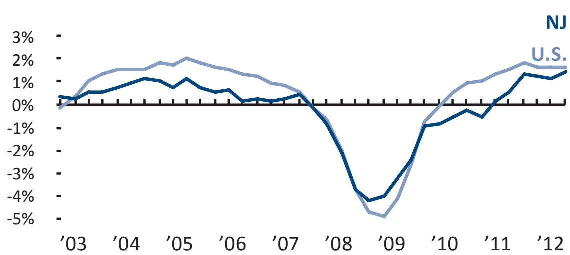
State Gross Domestic Product
Cumulative Growth 2002-2012 34.8% Rank: 45



Absolute Domestic Migration
Cumulative 2003-2012 -491,479 Rank: 46
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 -1.4% Rank: 45

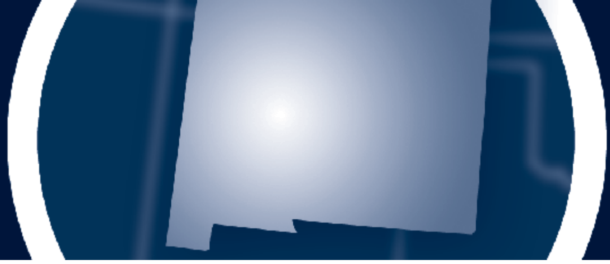


Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	48	46	48	45	42	39

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	9.97%	46
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$24.81	48
Property Tax Burden (per $1,000 of personal income)	$55.54	50
Sales Tax Burden (per $1,000 of personal income)	$17.73	13
Remaining Tax Burden (per $1,000 of personal income)	$14.49	6
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$1.05	7
Debt Service as a Share of Tax Revenue	6.6%	13
Public Employees Per 10,000 of Population (full-time equivalent)	551.6	29
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.1	32
State Minimum Wage (federal floor is $7.25)	$8.25	44
Average Workers' Compensation Costs (per $100 of payroll)	$2.74	44
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

New Mexico

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX



23 Economic Performance Rank

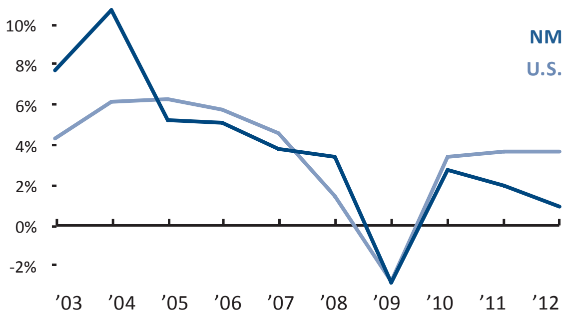
37 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

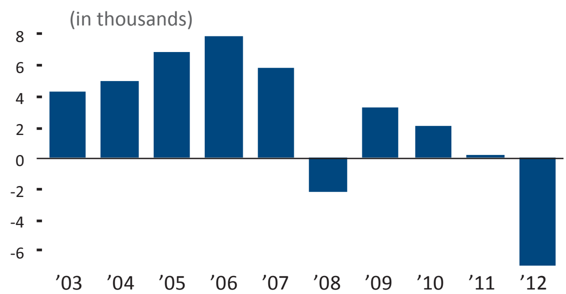
State Gross Domestic Product

Cumulative Growth 2002-2012 50.2% Rank: 24



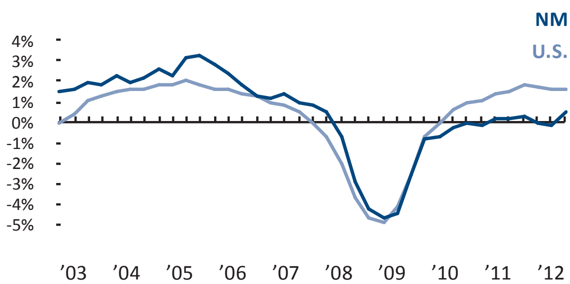
Absolute Domestic Migration

Cumulative 2003-2012 26,159 Rank: 23



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 4.9% Rank: 20



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	27	25	35	39	35	33

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	4.90%	16
Top Marginal Corporate Income Tax Rate	7.30%	27
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$10.36	30
Property Tax Burden (per $1,000 of personal income)	$19.38	5
Sales Tax Burden (per $1,000 of personal income)	$39.70	49
Remaining Tax Burden (per $1,000 of personal income)	$15.51	12
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.18	34
Debt Service as a Share of Tax Revenue	8.0%	21
Public Employees Per 10,000 of Population (full-time equivalent)	604.4	43
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	52.7	44
State Minimum Wage (federal floor is $7.25)	$7.50	31
Average Workers' Compensation Costs (per $100 of payroll)	$1.88	24
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

New York

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

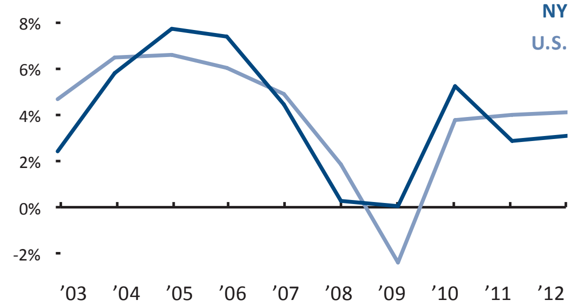
35 Economic Performance Rank

50 Economic Outlook Rank

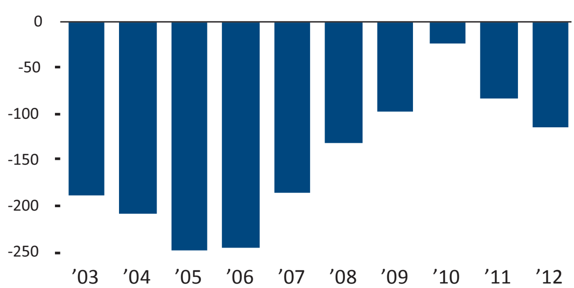
Economic Performance Rank (1=best 50=worst)

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

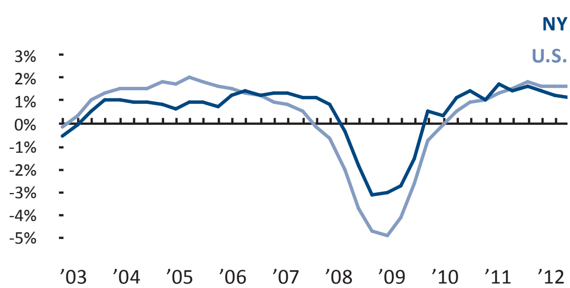
State Gross Domestic Product
Cumulative Growth 2002-2012 46.6% Rank: 28



Absolute Domestic Migration
Cumulative 2003-2012 -1,527,359 Rank: 50
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 4.4% Rank: 21



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	49	50	50	50	50	49

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	12.70%	49
Top Marginal Corporate Income Tax Rate	17.16%	50
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.53	34
Property Tax Burden (per $1,000 of personal income)	$45.92	44
Sales Tax Burden (per $1,000 of personal income)	$24.27	30
Remaining Tax Burden (per $1,000 of personal income)	$20.84	34
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.01	30
Debt Service as a Share of Tax Revenue	9.4%	36
Public Employees Per 10,000 of Population (full-time equivalent)	603.8	42
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	66.4	18
State Minimum Wage (federal floor is $7.25)	$8.00	39
Average Workers' Compensation Costs (per $100 of payroll)	$2.82	46
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

North Carolina

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

12 Economic Performance Rank

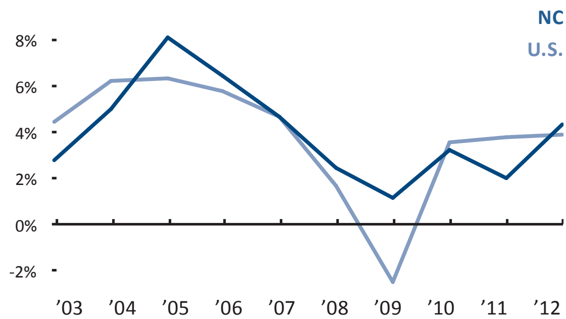
6 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

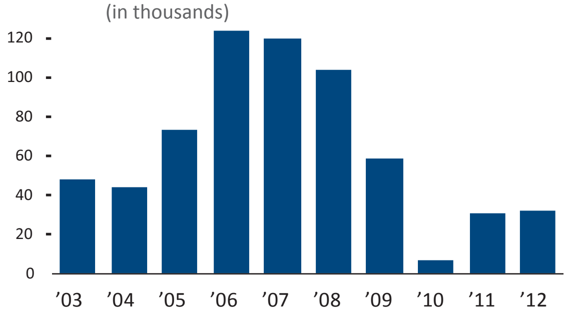
Cumulative Growth 2002-2012 50.9% Rank: 22



Absolute Domestic Migration

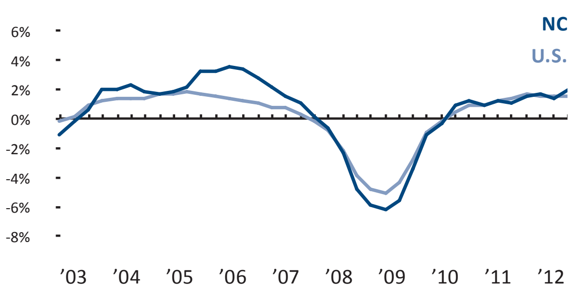
Cumulative 2003-2012 642,378 Rank: 3

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 5.2% Rank: 17



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	21	21	21	26	23	22

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.80%	25
Top Marginal Corporate Income Tax Rate	6.00%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$5.80	19
Property Tax Burden (per $1,000 of personal income)	$25.02	12
Sales Tax Burden (per $1,000 of personal income)	$23.97	28
Remaining Tax Burden (per $1,000 of personal income)	$16.88	18
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.46	15
Debt Service as a Share of Tax Revenue	7.2%	16
Public Employees Per 10,000 of Population (full-time equivalent)	575.7	37
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.8	20
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.90	26
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

North Dakota

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

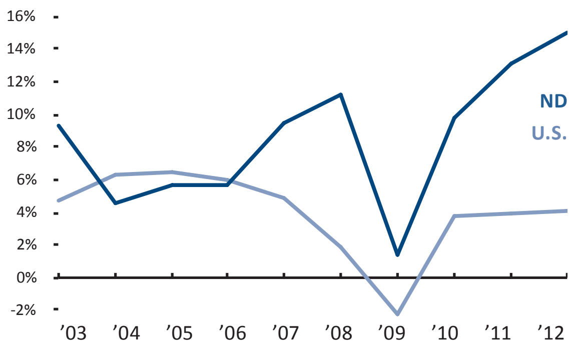
4 Economic Performance Rank

4 Economic Outlook Rank

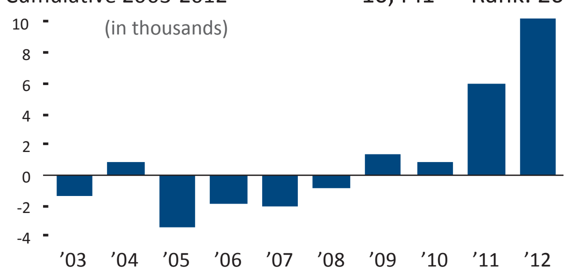
Economic Performance Rank (1=best 50=worst)

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

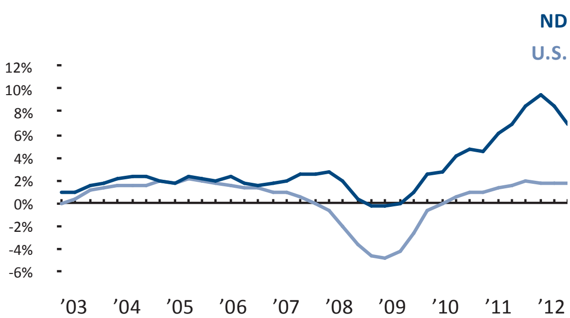
State Gross Domestic Product
Cumulative Growth 2002-2012 125.1% Rank: 1



Absolute Domestic Migration
Cumulative 2003-2012 10,441 Rank: 26



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 32.2% Rank: 1



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	18	13	12	7	5	2

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	3.22%	10
Top Marginal Corporate Income Tax Rate	4.53%	7
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$9.01	28
Property Tax Burden (per $1,000 of personal income)	$23.83	11
Sales Tax Burden (per $1,000 of personal income)	$29.47	39
Remaining Tax Burden (per $1,000 of personal income)	$19.53	29
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$3.78	2
Debt Service as a Share of Tax Revenue	3.9%	2
Public Employees Per 10,000 of Population (full-time equivalent)	650.7	46
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.8	8
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.01	1
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Ohio

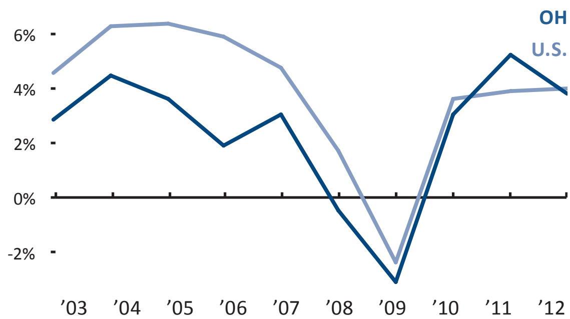
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

49 Economic Performance Rank

23 Economic Outlook Rank

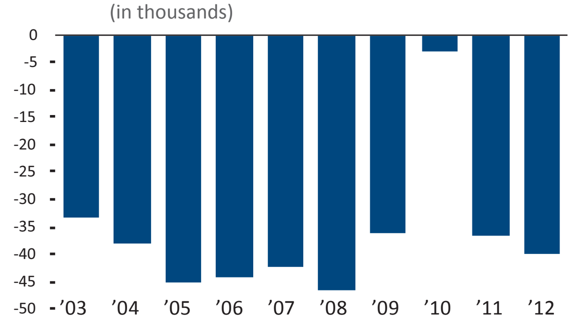
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 28% Rank: 49

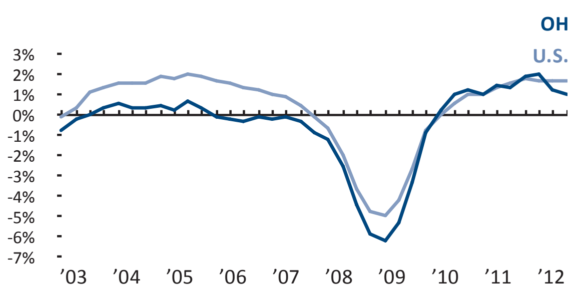


Absolute Domestic Migration
Cumulative 2003-2012 -365,002 Rank: 45

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 -4.7% Rank: 49



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	47	45	42	38	37	26

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.89%	40
Top Marginal Corporate Income Tax Rate	3.62%	5
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$12.88	35
Property Tax Burden (per $1,000 of personal income)	$30.40	24
Sales Tax Burden (per $1,000 of personal income)	$18.66	15
Remaining Tax Burden (per $1,000 of personal income)	$20.83	33
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$1.97	5
Debt Service as a Share of Tax Revenue	7.2%	17
Public Employees Per 10,000 of Population (full-time equivalent)	514.3	17
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.1	30
State Minimum Wage (federal floor is $7.25)	$7.95	38
Average Workers' Compensation Costs (per $100 of payroll)	$1.84	23
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Oklahoma

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

9 Economic Performance Rank

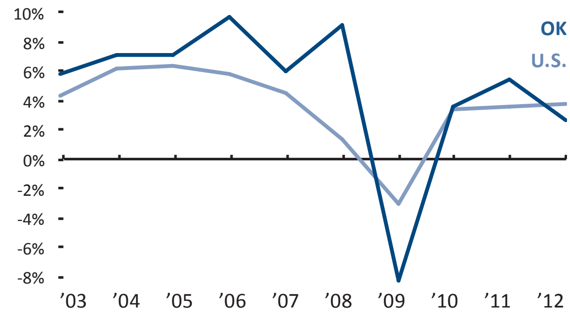
21 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

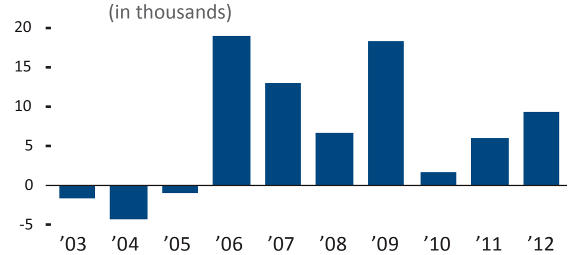
Cumulative Growth 2002-2012 62.9% Rank: 9



Absolute Domestic Migration

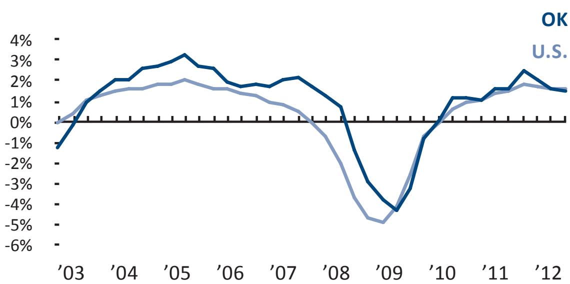
Cumulative 2003-2012 67,198 Rank: 17

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 8.5% Rank: 12



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	14	15	14	14	14	19

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.25%	22
Top Marginal Corporate Income Tax Rate	6.00%	14
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$7.84	27
Property Tax Burden (per $1,000 of personal income)	$15.74	2
Sales Tax Burden (per $1,000 of personal income)	$27.74	36
Remaining Tax Burden (per $1,000 of personal income)	$16.26	16
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.00	29
Debt Service as a Share of Tax Revenue	6.9%	14
Public Employees Per 10,000 of Population (full-time equivalent)	566.3	35
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	55.0	42
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.77	45
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Oregon

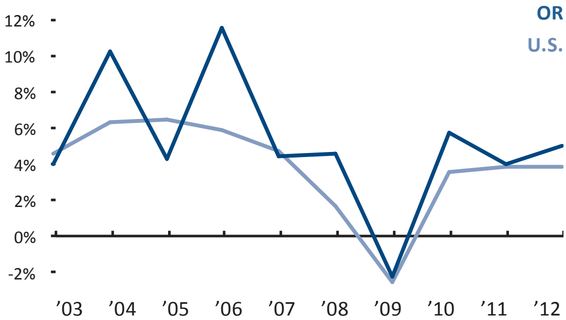
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

13 Economic Performance Rank

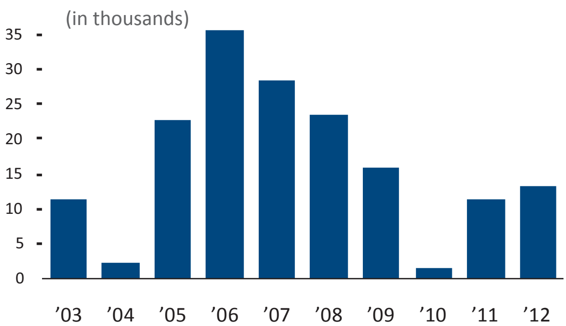
42 Economic Outlook Rank

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

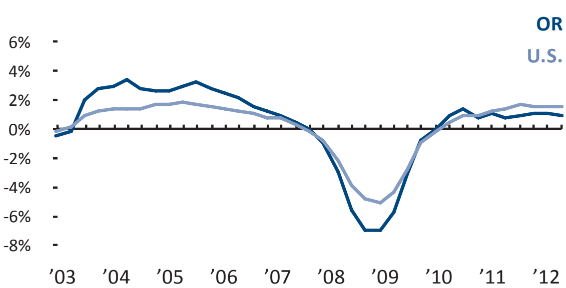
State Gross Domestic Product
Cumulative Growth 2002-2012 66.2% Rank: 8



Absolute Domestic Migration
Cumulative 2003-2012 166,474 Rank: 11



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 3.7% Rank: 23



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	35	39	41	43	45	44

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	10.62%	47
Top Marginal Corporate Income Tax Rate	11.25%	48
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.41	41
Property Tax Burden (per $1,000 of personal income)	$35.64	33
Sales Tax Burden (per $1,000 of personal income)	$0.00	1
Remaining Tax Burden (per $1,000 of personal income)	$21.38	36
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.88	42
Debt Service as a Share of Tax Revenue	8.9%	31
Public Employees Per 10,000 of Population (full-time equivalent)	509.6	14
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	62.6	28
State Minimum Wage (federal floor is $7.25)	$9.10	49
Average Workers' Compensation Costs (per $100 of payroll)	$1.58	12
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Pennsylvania

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

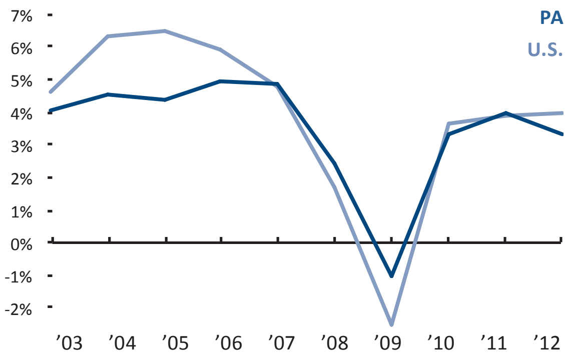
37 Economic Performance Rank

33 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

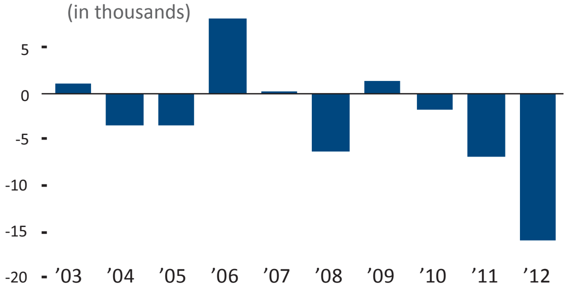
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

State Gross Domestic Product
Cumulative Growth 2002-2012 41.7% Rank: 36

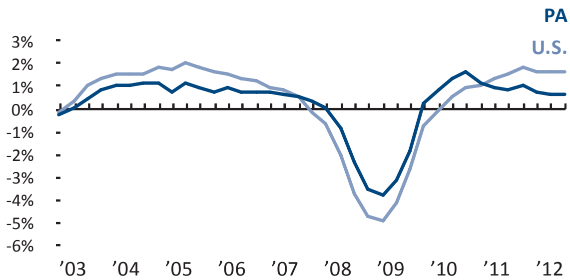


Absolute Domestic Migration
Cumulative 2003-2012 -26,848 Rank: 32

(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 1.9% Rank: 35



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	36	42	43	41	40	34

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	33
Top Marginal Corporate Income Tax Rate	17.05%	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)	$30.40	25
Sales Tax Burden (per $1,000 of personal income)	$17.55	12
Remaining Tax Burden (per $1,000 of personal income)	$24.46	44
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$2.66	3
Debt Service as a Share of Tax Revenue	8.6%	28
Public Employees Per 10,000 of Population (full-time equivalent)	467.7	6
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.3	39
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.15	39
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Rhode Island

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

47 Economic Performance Rank

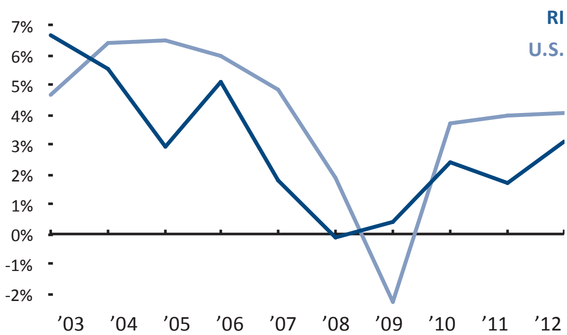
41 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

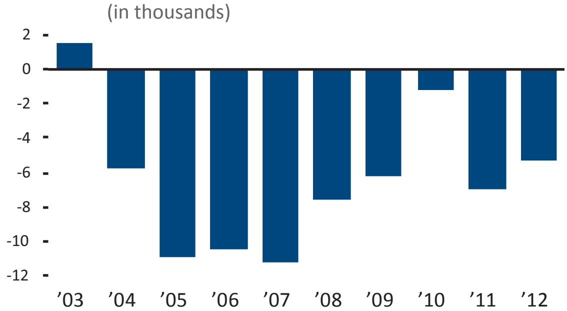
Cumulative Growth 2002-2012 33.6% Rank: 48



Absolute Domestic Migration

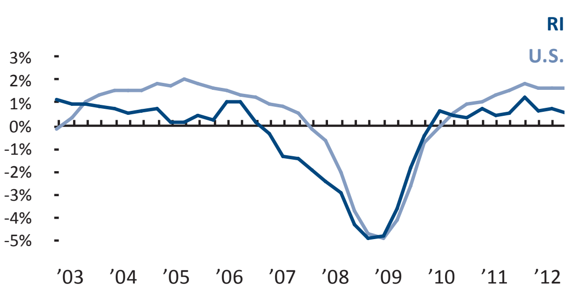
Cumulative 2003-2012 -63,806 Rank: 39

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 -3.3% Rank: 48



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	45	48	45	42	43	45

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.99%	26
Top Marginal Corporate Income Tax Rate	9.00%	40
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$11.40	32
Property Tax Burden (per $1,000 of personal income)	$49.18	47
Sales Tax Burden (per $1,000 of personal income)	$17.84	14
Remaining Tax Burden (per $1,000 of personal income)	$17.70	23
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.15	33
Debt Service as a Share of Tax Revenue	11.0%	42
Public Employees Per 10,000 of Population (full-time equivalent)	471.0	7
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	60.9	31
State Minimum Wage (federal floor is $7.25)	$8.00	39
Average Workers' Compensation Costs (per $100 of payroll)	$1.99	31
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

South Carolina

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

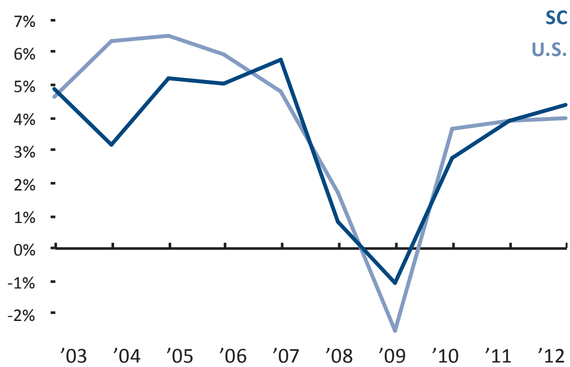
22 Economic Performance Rank

31 Economic Outlook Rank

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

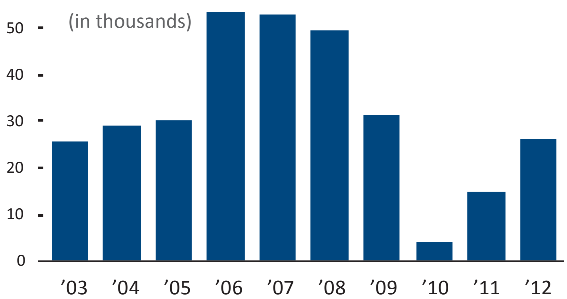
State Gross Domestic Product

Cumulative Growth 2002-2012 41.7% Rank: 37



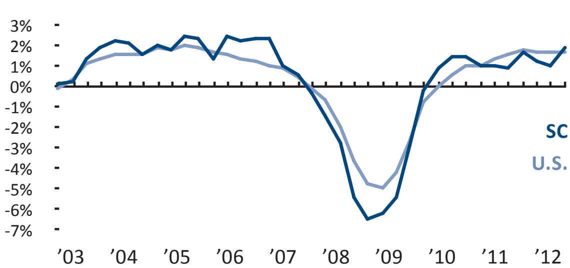
Absolute Domestic Migration

Cumulative 2003-2012 318,593 Rank: 6



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 3.5% Rank: 24



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	20	20	31	22	27	31

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.00%	35
Top Marginal Corporate Income Tax Rate	5.00%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$16.00	43
Property Tax Burden (per $1,000 of personal income)	$30.82	26
Sales Tax Burden (per $1,000 of personal income)	$20.21	20
Remaining Tax Burden (per $1,000 of personal income)	$17.10	20
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.04	23
Debt Service as a Share of Tax Revenue	13.3%	49
Public Employees Per 10,000 of Population (full-time equivalent)	540.8	25
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	56.3	39
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.04	35
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

South Dakota

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

15 Economic Performance Rank

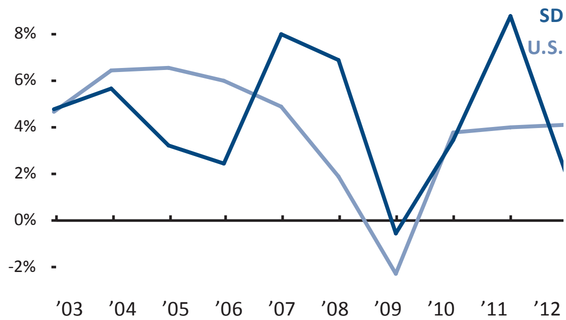
2 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

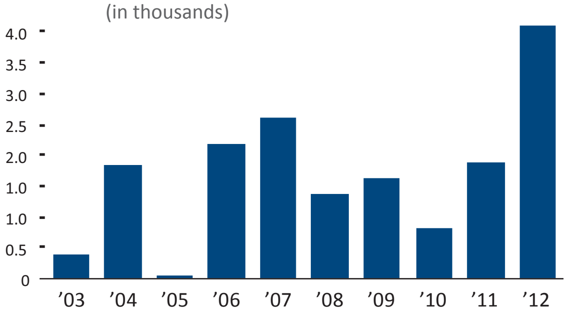
Cumulative Growth 2002-2012 53.8% Rank: 17



Absolute Domestic Migration

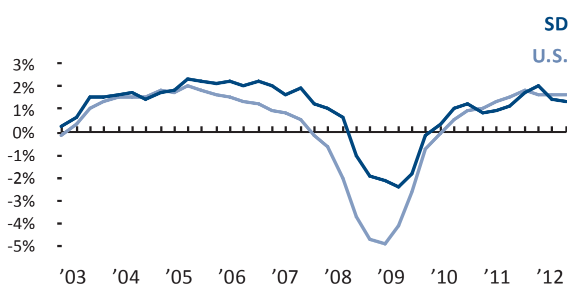
Cumulative 2003-2012 16,932 Rank: 24

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 9.8% Rank: 7

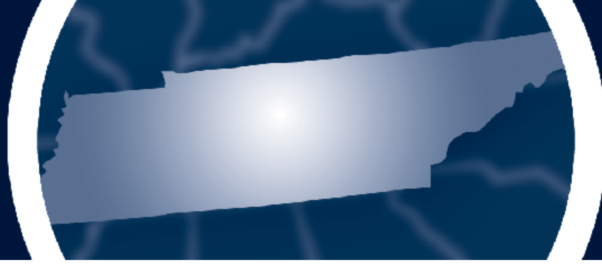


Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	2	5	4	2	2	3

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)	$27.95	18
Sales Tax Burden (per $1,000 of personal income)	$31.26	40
Remaining Tax Burden (per $1,000 of personal income)	$16.95	19
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.00	28
Debt Service as a Share of Tax Revenue	8.2%	24
Public Employees Per 10,000 of Population (full-time equivalent)	552.0	30
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.5	10
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.91	28
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14



Tennessee

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

25 Economic Performance Rank

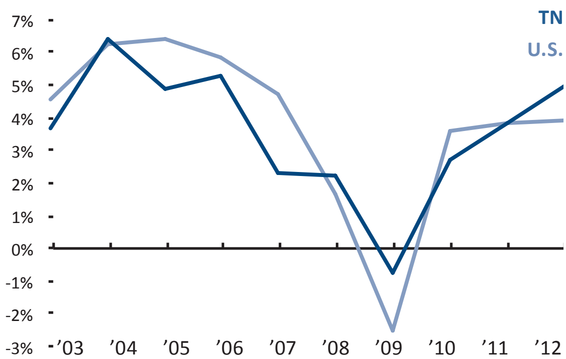
19 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

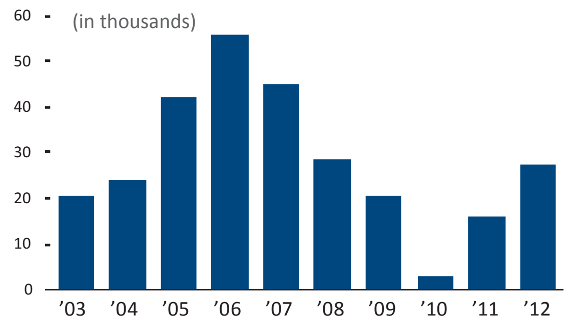
State Gross Domestic Product

Cumulative Growth 2002-2012 43.5% Rank: 33



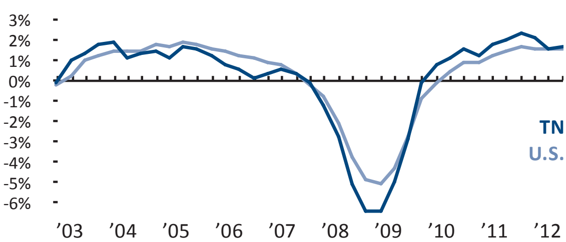
Absolute Domestic Migration

Cumulative 2003-2012 282,763 Rank: 7



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 2.3% Rank: 33



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	3	9	10	8	12	18

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.50%	21
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)	$22.06	8
Sales Tax Burden (per $1,000 of personal income)	$35.21	44
Remaining Tax Burden (per $1,000 of personal income)	$19.75	30
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.09	32
Debt Service as a Share of Tax Revenue	8.7%	30
Public Employees Per 10,000 of Population (full-time equivalent)	512.0	15
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	63.7	26
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.02	32
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Texas

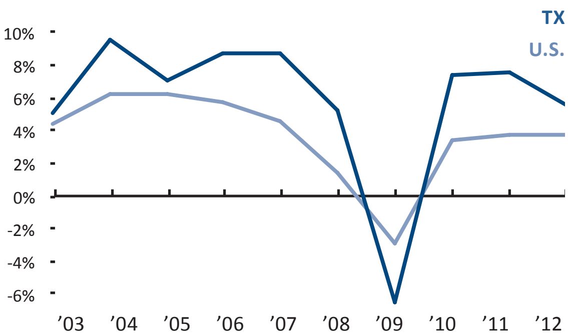
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

1 Economic Performance Rank

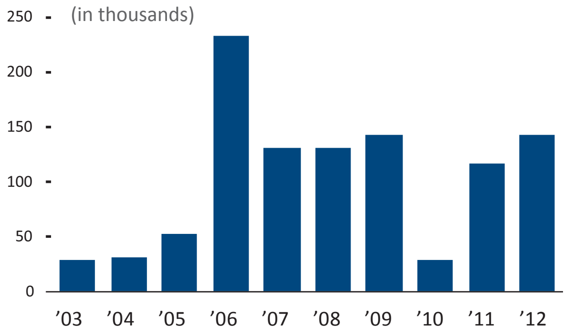
13 Economic Outlook Rank

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

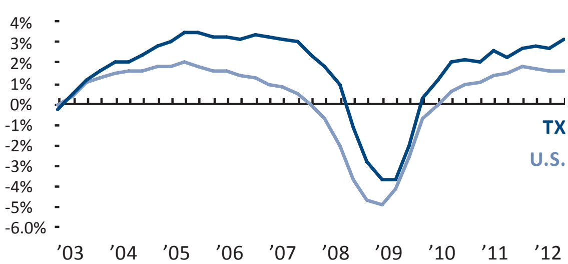
State Gross Domestic Product
Cumulative Growth 2002-2012 78.5% Rank: 4



Absolute Domestic Migration
Cumulative 2003-2012 1,041,977 Rank: 1



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 16.9% Rank: 3



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	13	10	19	18	16	12

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	2.65%	4
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$39.22	39
Sales Tax Burden (per $1,000 of personal income)	$23.10	25
Remaining Tax Burden (per $1,000 of personal income)	$21.05	35
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.39	17
Debt Service as a Share of Tax Revenue	12.1%	48
Public Employees Per 10,000 of Population (full-time equivalent)	565.2	34
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	57.2	35
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.60	13
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Utah

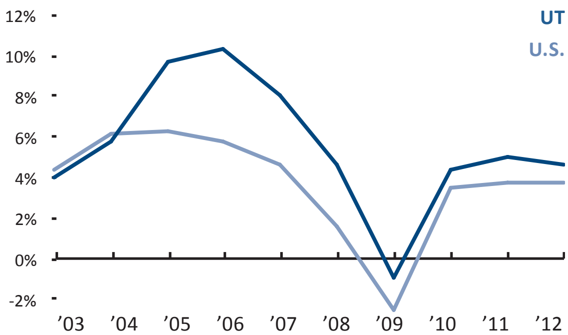
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

2 Economic Performance Rank

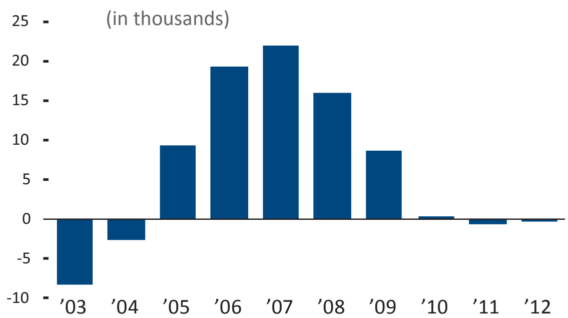
1 Economic Outlook Rank

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

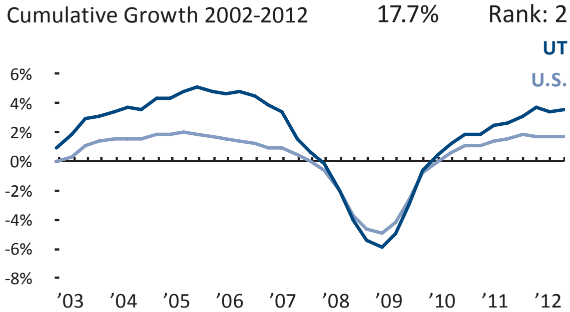
State Gross Domestic Product
Cumulative Growth 2002-2012 74.9% Rank: 5



Absolute Domestic Migration
Cumulative 2003-2012 63,532 Rank: 18



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 17.7% Rank: 2



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	1	1	1	1	1	1

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.00%	17
Top Marginal Corporate Income Tax Rate	5.00%	9
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$27.37	16
Sales Tax Burden (per $1,000 of personal income)	$26.19	33
Remaining Tax Burden (per $1,000 of personal income)	$15.20	9
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.19	35
Debt Service as a Share of Tax Revenue	7.7%	20
Public Employees Per 10,000 of Population (full-time equivalent)	523.1	20
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	69.7	9
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.35	6
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

Vermont

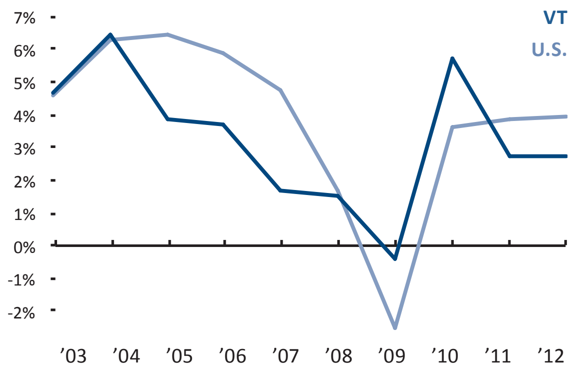
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

36 Economic Performance Rank

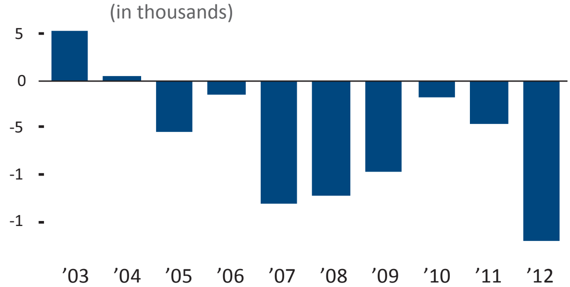
49 Economic Outlook Rank

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

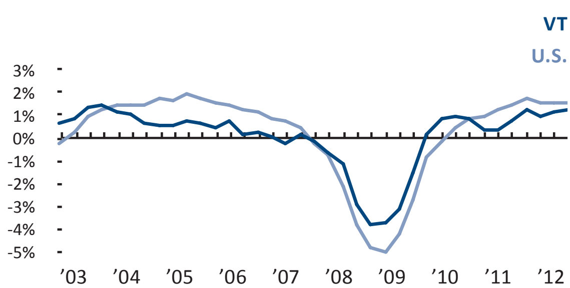
State Gross Domestic Product
Cumulative Growth 2002-2012 39.3% Rank: 40



Absolute Domestic Migration
Cumulative 2003-2012 -5,973 Rank: 29
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 2.4% Rank: 32



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	50	49	49	49	49	50

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	8.95%	43
Top Marginal Corporate Income Tax Rate	8.50%	36
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$28.56	49
Property Tax Burden (per $1,000 of personal income)	$52.97	48
Sales Tax Burden (per $1,000 of personal income)	$12.90	7
Remaining Tax Burden (per $1,000 of personal income)	$29.57	48
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$1.12	45
Debt Service as a Share of Tax Revenue	5.5%	6
Public Employees Per 10,000 of Population (full-time equivalent)	632.6	44
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	67.1	16
State Minimum Wage (federal floor is $7.25)	$8.73	48
Average Workers' Compensation Costs (per $100 of payroll)	$2.07	37
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Virginia

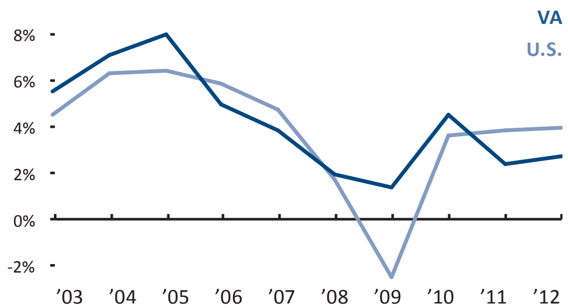
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

14 Economic Performance Rank

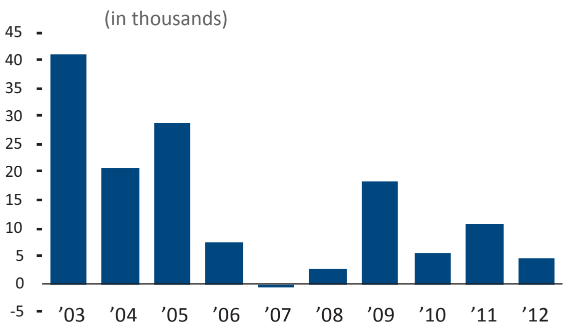
11 Economic Outlook Rank

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

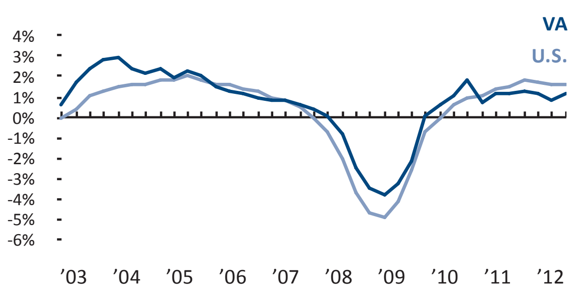
State Gross Domestic Product
Cumulative Growth 2002-2012 53.3% Rank: 19



Absolute Domestic Migration
Cumulative 2003-2012 139,202 Rank: 12



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 7.1% Rank: 15



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	5	4	8	3	3	5

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	5.75%	24
Top Marginal Corporate Income Tax Rate	7.55%	30
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$6.45	21
Property Tax Burden (per $1,000 of personal income)	$29.92	22
Sales Tax Burden (per $1,000 of personal income)	$12.06	6
Remaining Tax Burden (per $1,000 of personal income)	$16.51	17
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$1.01	44
Debt Service as a Share of Tax Revenue	8.3%	25
Public Employees Per 10,000 of Population (full-time equivalent)	542.7	26
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	70.2	7
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.20	4
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Washington

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

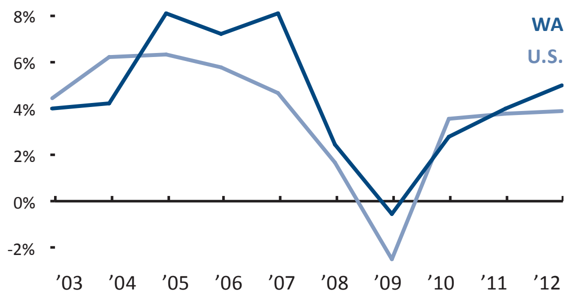
6 Economic Performance Rank

38 Economic Outlook Rank

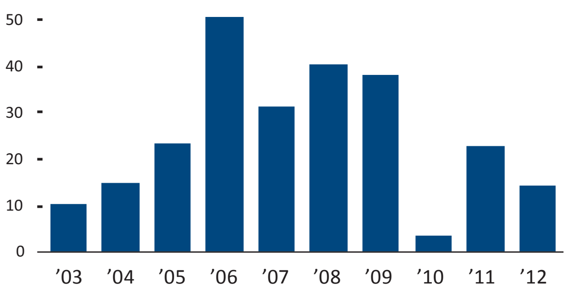
Economic Performance Rank (1=best 50=worst)
A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.

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

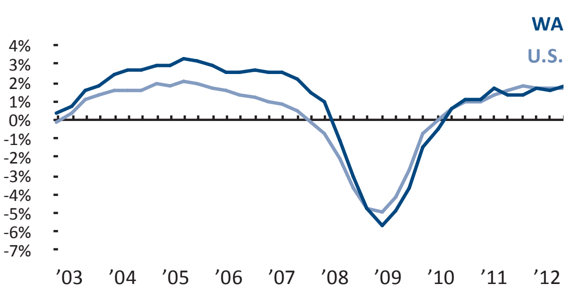
State Gross Domestic Product
Cumulative Growth 2002-2012 58.5% Rank: 13



Absolute Domestic Migration
Cumulative 2003-2012 249,650 Rank: 9
(in thousands)



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 8.6% Rank: 11



Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	30	22	24	33	33	36

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	6.45%	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)	$29.42	20
Sales Tax Burden (per $1,000 of personal income)	$33.57	43
Remaining Tax Burden (per $1,000 of personal income)	$23.02	42
Estate/Inheritance Tax Levied?	Yes	50
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$0.41	38
Debt Service as a Share of Tax Revenue	11.5%	45
Public Employees Per 10,000 of Population (full-time equivalent)	500.0	12
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	65.4	22
State Minimum Wage (federal floor is $7.25)	$9.32	50
Average Workers' Compensation Costs (per $100 of payroll)	$2.11	38
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	1	14

West Virginia

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

18 Economic Performance Rank

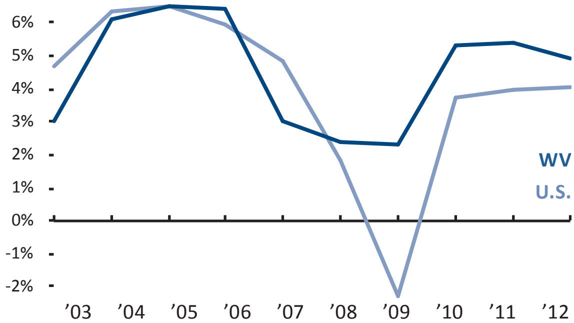
30 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

State Gross Domestic Product

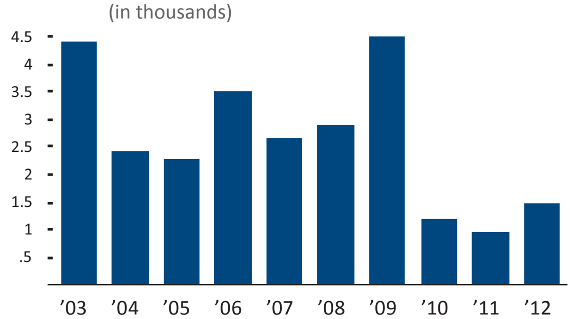
Cumulative Growth 2002-2012 55.8% Rank: 14



Absolute Domestic Migration

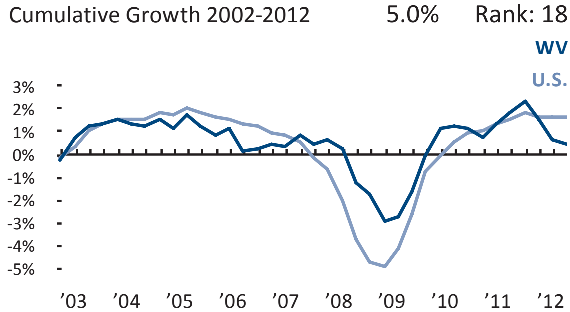
Cumulative 2003-2012 26,328 Rank: 22

(in thousands)



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 5.0% Rank: 18



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	38	33	27	31	30	32

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	6.50%	28
Top Marginal Corporate Income Tax Rate	6.50%	21
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$15.53	42
Property Tax Burden (per $1,000 of personal income)	$23.48	10
Sales Tax Burden (per $1,000 of personal income)	$19.89	18
Remaining Tax Burden (per $1,000 of personal income)	$29.19	47
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$0.41	16
Debt Service as a Share of Tax Revenue	5.2%	4
Public Employees Per 10,000 of Population (full-time equivalent)	555.9	31
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	44.8	50
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.55	11
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Wisconsin

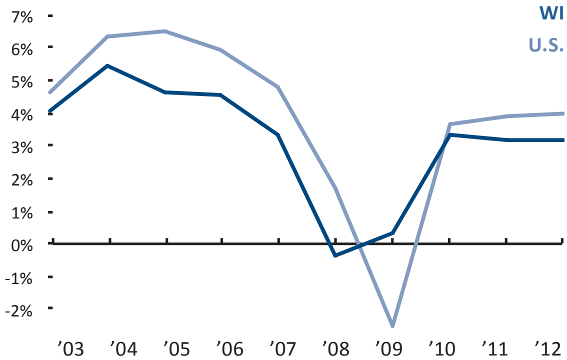
2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

44 Economic Performance Rank

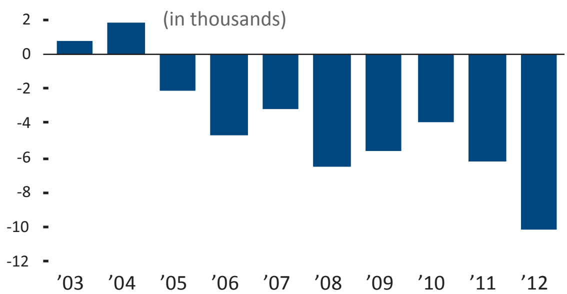
17 Economic Outlook Rank

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

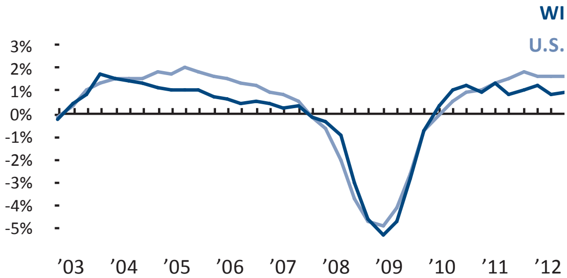
State Gross Domestic Product
Cumulative Growth 2002-2012 37.5% Rank: 43



Absolute Domestic Migration
Cumulative 2003-2012 -39,812 Rank: 37



Non-Farm Payroll Employment
Cumulative Growth 2002-2012 0.2% Rank: 40



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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	33	27	23	30	32	15

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	7.65%	38
Top Marginal Corporate Income Tax Rate	7.90%	32
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$3.93	17
Property Tax Burden (per $1,000 of personal income)	$43.29	40
Sales Tax Burden (per $1,000 of personal income)	$19.55	16
Remaining Tax Burden (per $1,000 of personal income)	$17.86	24
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	-$1.37	6
Debt Service as a Share of Tax Revenue	7.3%	18
Public Employees Per 10,000 of Population (full-time equivalent)	489.5	9
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	68.4	15
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$2.15	39
Right-to-Work State? (option to join or support a union)	No	50
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	2	3

Wyoming

2014 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX

3 Economic Performance Rank

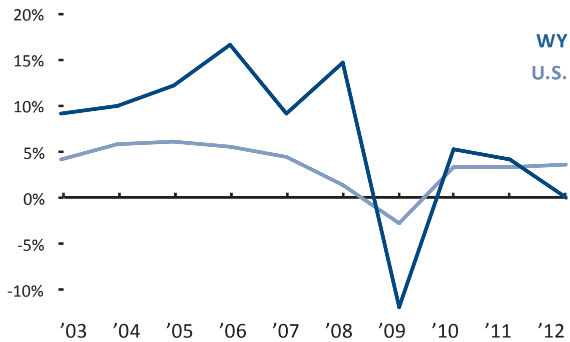
10 Economic Outlook Rank

Economic Performance Rank (1=best 50=worst)

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

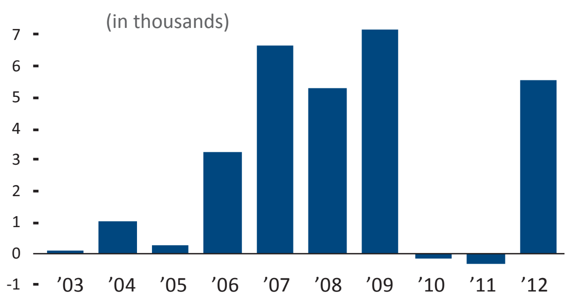
State Gross Domestic Product

Cumulative Growth 2002-2012 99.5% Rank: 2



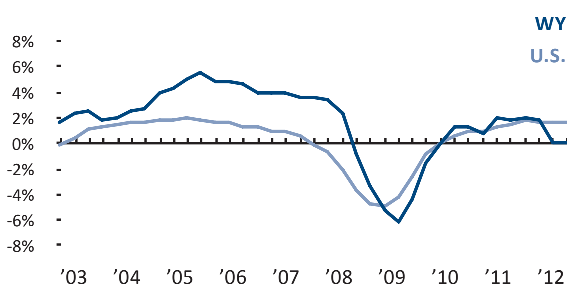
Absolute Domestic Migration

Cumulative 2003-2012 29,112 Rank: 21



Non-Farm Payroll Employment

Cumulative Growth 2002-2012 16.6% Rank: 4



Economic Outlook Rank (1=best 50=worst)

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

Historical Ranking Comparison	2008	2009	2010	2011	2012	2013
ECONOMIC OUTLOOK RANK	4	6	6	4	4	4

Variable	Data	Rank
Top Marginal Personal Income Tax Rate	0.00%	1
Top Marginal Corporate Income Tax Rate	0.00%	1
Personal Income Tax Progressivity (change in tax liability per $1,000 of income)	$0.00	2
Property Tax Burden (per $1,000 of personal income)	$46.01	45
Sales Tax Burden (per $1,000 of personal income)	$39.17	48
Remaining Tax Burden (per $1,000 of personal income)	$13.13	5
Estate/Inheritance Tax Levied?	No	1
Recently Legislated Tax Changes (2012 & 2013, per $1,000 of personal income)	$2.47	48
Debt Service as a Share of Tax Revenue	3.0%	1
Public Employees Per 10,000 of Population (full-time equivalent)	918.2	50
State Liability System Survey (tort litigation treatment, judicial impartiality, etc.)	72.6	3
State Minimum Wage (federal floor is $7.25)	$7.25	1
Average Workers' Compensation Costs (per $100 of payroll)	$1.74	20
Right-to-Work State? (option to join or support a union)	Yes	1
Number of Tax Expenditure Limits (0= least/worst 3=most/best)	0	34

Appendix

2014 ALEC-Laffer State Economic Competitiveness Index: Economic Outlook Methodology

In previous editions of this report 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 equal-weighted combination of these variables is the 2014 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 were drawn from: *Tax Analysts*, Federation of Tax Administrators, and individual state tax return forms. Tax rates are as of January 1, 2014.

HIGHEST MARGINAL CORPORATE INCOME TAX RATE

This variable includes local taxes, if any, and includes the effect of federal deductibility, if allowed. A state's largest city was used as a proxy for local tax rates. In the case of gross receipts or business franchise taxes, an effective tax rate was approximated using NIPA profits, rental and proprietor's income, and gross domestic product data. The Texas franchise tax is not a traditional gross receipts tax, but is instead a "margin" tax with more than one rate. A margin tax creates less distortion than does a gross receipts tax. Therefore, what we believe is the best measurement for an effective corporate tax rate for Texas is to average the 4.3 percent measure we would use if the tax was a gross receipts tax and the 1 percent highest rate on its margin tax, leading to our measure of 2.65 percent. Data were drawn from: *Tax Analysts*, Federation of Tax Administrators, individual state tax return forms, and the Bureau of Economic Analysis. Tax rates are as of January 1, 2014.

PERSONAL INCOME TAX PROGRESSIVITY

This variable was measured as the difference between the average tax liability per $1,000 at incomes of $50,000 and $150,000. 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 2011. These data were released in July 2013.

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 2011. Where appropriate, gross receipts or business franchise taxes, counted as sales taxes in the Census data, were subtracted from a state's total sales taxes in order to avoid double-counting tax burden in a state. These data were released in July 2013.

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 2011. These data were released in July 2013.

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 were drawn from: McGuire Woods LLP, "State Death Tax Chart: Revised January 1, 2014," and indicate the presence of an estate or inheritance tax as of January 1, 2014.

RECENTLY LEGISLATED TAX CHANGES
This variable calculates each state's relative change in tax burden over a two-year period (in this case, the 2012 and 2013 legislative session) for the immediate next fiscal year, using revenue estimates of legislated tax changes per $1,000 of personal income. This timeframe ensures that tax changes will impact a state's ranking immediately enough to overcome any lags in the tax revenue data. Laffer Associates calculations used raw data from *Tax Analysts*, state legislative fiscal notes, state budget offices, state revenue offices, 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 2011 U.S. Census Bureau data. These data were released in July 2013.

PUBLIC EMPLOYEES PER 10,000 RESIDENTS
This variable shows the full-time equivalent public employees per 10,000 of population. This information comes from 2012 U.S. Census Bureau data.

QUALITY OF STATE LEGAL SYSTEM
This variable ranks tort systems by state. Information comes from the 2012 U.S. Chamber of Commerce State Liability Systems Ranking.

STATE MINIMUM WAGE
Minimum wage enforced on a state-by-state basis. If a state does not have a minimum wage, we use the federal minimum wage floor. This information comes from the U.S. Department of Labor, as of January 1, 2014.

WORKERS' COMPENSATION COSTS
This variable highlights the 2012 Workers' Compensation Index Rate (cost per $100 of payroll). This survey is conducted biennially by the Oregon Department of Consumer & Business Services, Information Management Division.

RIGHT-TO-WORK STATE (YES OR NO)
This variable assesses whether or not a state requires union membership for 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. Right-to-work status is as of January 1, 2014.

TAX OR EXPENDITURE LIMIT
States were ranked only by the number of state tax or expenditure limits in place. We measure this by i) a state expenditure limit, ii) mandatory voter approval of tax increases, and iii) a supermajority requirement for tax increases. One point is awarded for each type of tax or expenditure limitation a state has. All tax or expenditure limitations measured apply directly to state government. This information comes from the Cato Institute and other sources.

About the American Legislative Exchange Council

The American Legislative Exchange Council is America's largest nonpartisan, voluntary membership organization of state legislators. Made up of nearly one-third of America's state elected officials, the Council provides a unique opportunity for state lawmakers, business leaders and citizen organizations from around the country to share experiences and develop state-based, pro-growth models based on academic research, existing state policy and proven business practices. The ultimate goal of the Exchange Council is to help state lawmakers make government work more efficiently and move government closer to the communities they serve, thereby creating opportunity for all Americans.

In state legislatures around the country, citizen groups foster ideas, participate in discussions and provide their points of view to lawmakers. This process is an important part of American Democracy.

The Exchange Council and its nine task forces closely imitate the state legislative process: resolutions are introduced and assigned to an appropriate task force based on subject and scope; meetings are conducted where experts present facts and opinion for discussion, just as they would in committee hearings; these discussions are followed by a vote.

Council task forces serve as testing grounds to judge whether resolutions can achieve consensus and enough support to survive the legislative process in a state capitol. All adopted model policies are published at www.alec.org to promote increased education and the open exchange of ideas across America.

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TASK FORCE ON CIVIL JUSTICE
- Civil Liability Predictability
- Fairness in Damages
- Discouraging Lawsuit Abuse

TASK FORCE ON COMMERCE, INSURANCE AND ECONOMIC DEVELOPMENT
- Limiting Government Mandates on Business
- Transportation and Infrastructure
- Employee Rights and Freedoms

TASK FORCE ON ENERGY, ENVIRONMENT AND AGRICULTURE
- Energy Affordability and Reliability
- Regulatory Reform
- Agriculture and Land Use

TASK FORCE ON EDUCATION
- Education Reform
- Parental Choice
- Efficiency, Accountability and Transparency

TASK FORCE ON HEALTH AND HUMAN SERVICES
- Pro-Patient, Free Market Health Policy
- Private and Public Health Insurance
- Federal Health Reform

TASK FORCE ON INTERNATIONAL RELATIONS
- International Trade
- Intellectual Property Rights Protection
- Federalism

TASK FORCE ON TAX AND FISCAL POLICY
- Pro-Growth Tax Reform
- Priority-Based Budgeting
- Pension Reform

TASK FORCE ON COMMUNICATIONS AND TECHNOLOGY
- Broadband Deployment
- Consumer Privacy
- E-Commerce

JUSTICE PERFORMANCE PROJECT
- Recidivism Reduction
- Overcriminalization
- Data-Driven Criminal Justice Reform

"For years now, policymakers across our nation have looked to *Rich States, Poor States* as an essential guide to evaluate how their state ranks in economic competitiveness and job creation. We have taken this message to heart by significantly reducing taxes and working to ensure that hard working Iowans keep more of what they earn. This publication is a fantastic resource for state policymakers interested in creating more economic opportunity and enhancing the level of well-being for the citizens of their state."

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"Over the past few years, Kansas has taken up the task of fundamentally improving our tax code. As reflected in the most recent edition of *Rich States, Poor States, the ALEC-Laffer State Economic Competitiveness Index,* the results of this overhaul have been excellent, with record new business startups and falling unemployment, Kansas is more economically competitive than ever. In my view, the high-quality research undertaken throughout the seven editions of *Rich States, Poor States* has done more to promote state economic growth and competitiveness than any other publication of its kind."

Speaker Ray Merrick, Kansas

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