

Executive Summary

This second edition of *Rich States, Poor States* by the American Legislative Exchange Council is yet another invaluable resource ALEC has provided for state lawmakers and citizens to evaluate their state's fiscal and economic policies, as well as the results and ramifications of those policies.

Authors Arthur Laffer, Stephen Moore and Jonathan Williams provide an in-depth analysis of policies, some of which foster economic growth and prosperity in states like Utah, Arizona and Texas, others of which cause economic malaise in states like California, New York and Michigan.

Our introduction focuses on some of the most critical issues facing lawmakers today, with more than 40 states struggling with budget deficits. As our elected officials think about beginning the annual task of budget writing, we remind lawmakers that levying tax increases is not a sustainable answer for budget problems. Especially during an economic downturn, states need to be doing everything they can to become more competitive, not less.

Chapter one presents our most recent state rankings with a number of brief commentaries. Prior to entering the depths of just how we calculate our state rankings, a quick demonstration of the power of these rankings is in order. In the following table, we compare the economic performances of the top 10 states – according to our 2009 Economic Outlook Rankings – with the bottom 10 states. The results are shocking. Look for yourself.

ECONOMIC OUTLOOK RANKINGS

The methodology for the 2009 Economic Outlook Rankings has changed from 2008.

Therefore, the 2008 Economic Outlook Rankings have been revised using the 2009 methodology and are listed in Appendix B. Please refer to the updated Rankings for an accurate comparison between the 2008 and 2009 Economic Outlook Rankings. All factors of the 2009 methodology are explained in detail in Appendix A.

This year's book on state competitiveness focuses on California. The Golden State is not only our nation's largest state in most every economic metric, it also has a highly volatile political climate. California can move from Karl Marx to Adam Smith and back again in what seems to be the blink of a political eye. California's experiences from its radical shifts in policy are the very essence of what we mean when we write "policy matters." Chapter two compares California's recent experiences with those of another populous state, Texas. The results may surprise you.

Chapter three compares California's present with the "Ghosts of California's Past." The history of California – centered on the tax revolt crystallized in Proposition 13 – shows a laboratory experiment in which the state went from

RELATIONSHIP BETWEEN POLICIES AND PERFORMANCE:

ALEC-Laffer State Economic Outlook Rank vs. 10-Year Economic Performance: 1997-2007

State	Rank	Gross State Product Growth	Personal Income Growth	Personal Income Per Capita Growth	Population Growth
Utah	1	86.7%	82.3%	45.6%	26.3%
Colorado	2	77.8%	84.9%	52.1%	20.0%
Arizona	3	93.9%	101.4%	47.9%	33.1%
Virginia	4	80.7%	78.4%	56.4%	12.6%
South Dakota	5	71.3%	73.8%	63.9%	7.8%
Wyoming	6	111.4%	114.6%	103.4%	8.5%
Nevada	7	112.3%	114.6%	48.4%	40.3%
Georgia	8	67.0%	74.4%	38.5%	23.2%
Tennessee	9	59.0%	64.8%	46.5%	11.6%
Texas	10	90.5%	89.8%	55.8%	20.7%
10 Highest Ranked States*	-	85.1%	87.9%	55.9%	20.4%
Florida	11	87.6%	87.9%	55.0%	18.3%
Arkansas	12	61.1%	67.5%	55.8%	8.7%
North Dakota	13	69.9%	71.1%	75.3%	-0.9%
Idaho	14	79.4%	87.4%	53.5%	21.7%
Oklahoma	15	78.6%	81.1%	69.3%	7.0%
Alabama	16	61.9%	64.0%	54.6%	5.8%
Indiana	17	46.6%	51.6%	40.9%	6.3%
Louisiana	18	90.8%	68.0%	74.4%	-0.7%
Mississippi	19	52.8%	61.6%	52.8%	4.8%
South Carolina	20	56.9%	68.9%	47.3%	14.3%
North Carolina	21	74.5%	69.3%	41.8%	18.1%
Washington	22	74.5%	76.9%	55.8%	13.5%
Missouri	23	45.0%	53.7%	43.1%	7.1%
Kansas	24	62.8%	59.9%	51.5%	5.3%
New Mexico	25	60.6%	72.4%	55.8%	10.6%
Massachusetts	26	58.5%	66.9%	61.4%	3.6%
Wisconsin	27	53.3%	57.3%	46.5%	6.2%
Maryland	28	74.3%	77.3%	61.1%	8.2%
Nebraska	29	58.5%	58.3%	51.6%	5.2%
Montana	30	78.9%	79.5%	66.1%	8.4%
Delaware	31	69.4%	74.1%	48.8%	14.4%
Connecticut	32	57.1%	67.3%	58.2%	4.0%
West Virginia	33	48.8%	51.6%	52.4%	-0.1%
Michigan	34	27.7%	39.0%	33.8%	1.6%
Iowa	35	57.5%	52.2%	47.5%	3.4%
Kentucky	36	45.8%	58.4%	46.8%	7.1%
New Hampshire	37	56.8%	68.2%	50.1%	9.1%
Alaska	38	77.9%	66.4%	49.5%	10.7%
Oregon	39	63.8%	62.3%	42.9%	13.1%
Minnesota	40	63.5%	65.9%	50.7%	8.5%
Hawaii	41	63.9%	61.7%	54.4%	6.0%
Pennsylvania	42	54.7%	54.6%	50.9%	1.7%
California	43	77.9%	76.6%	56.0%	11.4%
Illinois	44	50.9%	55.6%	47.1%	5.1%
Ohio	45	40.4%	42.3%	38.4%	1.5%
New Jersey	46	54.7%	62.4%	52.5%	4.8%
Maine	47	55.8%	60.7%	52.1%	4.6%
Rhode Island	48	64.5%	61.7%	55.4%	1.9%
Vermont	49	61.8%	69.3%	61.2%	3.5%
New York	50	68.5%	61.7%	55.3%	3.9%
10 Lowest Ranked States*	-	59.3%	60.7%	52.3%	4.4%
U.S. Average*	-	66.8%	69.5%	53.6%	9.9%

Net Domestic in-Migration as % of Population	Non-Farm Payroll Employment Growth	2007 Unemployment Rate
0.3%	25.9%	2.7%
4.6%	17.7%	3.8%
12.2%	34.4%	3.8%
2.2%	16.4%	3.0%
0.2%	15.2%	3.0%
2.1%	28.3%	3.0%
17.2%	45.0%	4.8%
6.7%	14.7%	4.4%
4.4%	8.3%	4.7%
3.4%	20.3%	4.3%
5.3%	22.6%	3.8%
7.8%	25.5%	4.0%
2.6%	9.0%	5.4%
-5.4%	13.9%	3.2%
8.5%	29.7%	2.7%
0.4%	11.9%	4.3%
1.6%	7.5%	3.5%
-0.4%	4.6%	4.5%
-7.4%	3.9%	3.8%
-0.9%	4.0%	6.3%
6.9%	13.5%	5.9%
7.0%	13.7%	4.7%
3.5%	16.6%	4.5%
0.8%	6.0%	5.0%
-2.7%	8.6%	4.1%
0.6%	19.0%	3.5%
-5.6%	5.3%	4.5%
0.1%	8.5%	4.9%
-1.5%	15.0%	3.6%
-2.6%	12.4%	3.0%
3.9%	21.2%	3.1%
5.7%	12.7%	3.4%
-3.0%	5.6%	4.6%
0.5%	7.0%	4.6%
-4.8%	-4.0%	7.2%
-1.7%	7.8%	3.8%
2.0%	9.2%	5.5%
4.0%	13.8%	3.6%
-2.3%	18.1%	6.2%
4.8%	12.7%	5.2%
-0.3%	10.9%	4.6%
-4.0%	17.3%	2.6%
-0.9%	7.2%	4.4%
-4.0%	15.5%	5.4%
-5.4%	3.6%	5.0%
-3.5%	0.6%	5.6%
-5.3%	9.4%	4.2%
3.1%	11.5%	4.7%
-3.7%	9.6%	5.0%
0.1%	10.2%	3.9%
-9.5%	8.3%	4.5%
-3.3%	9.3%	4.5%
0.9%	13.3%	4.3%

fiscal malaise to fiscal health and then back to malaise again. By showing the current class of legislators the ghosts of California's past, we hope they can begin picturing the ghosts of California's future – identified by much lower taxes and much higher economic growth.

The 15 policy factors included in the 2009 ALEC-Laffer State Economic Outlook 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 Tax/Inheritance Tax (Yes or No)
- Recently Legislated Tax Policy Changes
- Debt Service as a Share of Tax Revenue
- Public Employees Per 1,000 Residents
- Quality of State Legal System
- State Minimum Wage
- Workers' Compensation Costs
- Right-to-Work State (Yes or No)
- Tax or Expenditure Limits

The final section of this book is a state-by-state detailed description of the key economic variables. The 2009 ALEC-Laffer State Economic Competitiveness Index offers two rankings. The first, the Economic Performance Rank, is a historical measure based on a state's performance on three important variables: Personal Income Per Capita, Absolute Domestic Migration, and Non-farm Payroll Employment – all of which are highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.

The second measure, the Economic Outlook Rank, is a forecast based on a state's current standing in 15 state-policy variables. Each of these factors is influenced directly by state

* Equally-weighted averages.

lawmakers through the legislative process. Generally speaking, states that spend less – especially on income-transfer programs – and states that tax less – particularly on productive activities such as working or investing – experience higher growth rates than states which tax and spend more. There are 50 fascinating stories here to read. Enjoy!