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Rich States, Poor States

By Jonathan Williams

For decades, policymakers have asked the age old question: Why are some states prosperous, when others are struggling? A new book, *Rich States, Poor States: The ALEC-Laffer State Economic Competitiveness Index* sets out to answer why. In conjunction with legendary economist Arthur Laffer and Steve Moore from the Wall St. Journal, the American Legislative Exchange Council (ALEC) published this book to serve as a guide for lawmakers to help improve the competitiveness of their state's economy.

The book ranks the states based on 16 policy variables with a proven impact on the migration of human and investment capital throughout the states. Unfortunately, Kansas fails to make a stellar showing in the index, ranking only 29th. Above average property taxes, relatively high marginal tax rates on corporate and individual income and excessive government bureaucracy all contribute to Kansas' sub par ranking. Among bordering states, Kansas ranks as the most uncompetitive, with the sole exception of Nebraska, which ranks 34th. Missouri and Oklahoma rank 17th and 14th respectively, while Colorado ranks 7th best in the nation.

With competitors like these sitting just across the boarder, it should make every policymaker in Topeka very aware that changes to policy are not created in a vacuum. Every time a state changes their tax and fiscal policies, it directly and immediately influences that state's competitive position for personal and business investment.

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

The historical evidence is clear: States that keep spending and taxes low exhibit the best economic results, while states that follow the tax-and-spend path lag far behind. Colorado, for example, was able to restrain government spending and tax burdens through the Taxpayers' Bill of Rights in the early 90s, creating one of the strongest economies in the nation.

Some suggest that Colorado enjoys economic growth simply because of the beautiful terrain, tourism and abundant natural resources. However, let's take a look at that theory. Colorado decided to earnestly pursue free-market policies of tax relief and spending restraint in the early 1990s and Colorado's economic boom didn't occur until those pro-growth reforms had been implemented. Colorado's economy had not experienced nearly that level of growth in the preceding decades, and the ski slopes were full of tourists and natural resources were just as

abundant in the 1980's as they are today.

On the other hand, some states show little concern for spending restraint, whether during times of prosperity or poverty—in some cases spending their way into financial ruin. The case of recalled governor Gray Davis of California serves as an important example. By coupling high taxes with rampant government spending, California suffered through a budget crisis of historic proportions and a corresponding slow down in the state's economy. Today, California still has some of the highest taxes in America and along with a massive state bureaucracy, Californians now find their state government \$14 billion in the hole this coming year.

For the first time in history, more Americans are now leaving the Golden State than are moving in. Government really has to interfere with the market to make the sunny beaches of California unattractive for people and businesses to locate there – but a majority of the current crop of lawmakers in Sacramento seems to be up to the task.

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

States could choose the path of California, with high taxes, bloated state government and crippling regulation. However, Rich States, Poor States adds to a growing body of evidence, which clearly supports the roadmap to state prosperity – if you keep taxes and regulation low and restrain the growth of government, economic growth and prosperity isn't far behind. Just ask your neighbors in Colorado.

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