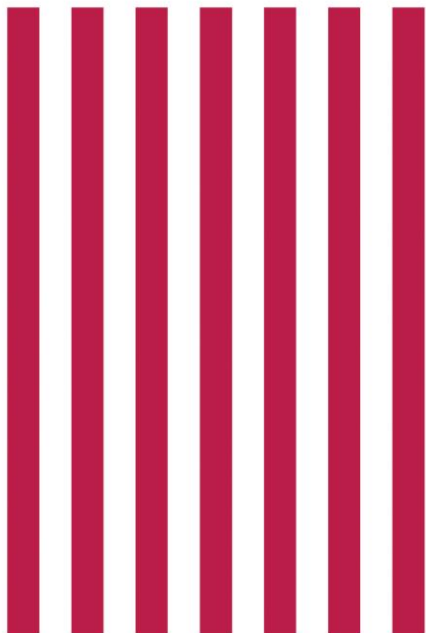


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STATE ★ ★ OF THE ★ ★ STATES

AN ANALYSIS OF THE 2019 GOVERNORS' ADDRESSES



ALEC American
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LIMITED GOVERNMENT • FREE MARKETS • FEDERALISM

State of the States

An Analysis of the 2019 Governors' Addresses

About the American Legislative Exchange Council

The *State of the States: An Analysis of the 2019 Governors' Addresses* was published by the American Legislative Exchange Council (ALEC) as part of its mission to discuss, develop and disseminate model public policies that expand free markets, promote economic growth, limit the size of government and preserve individual liberty. ALEC is the nation's largest non-partisan, voluntary membership organization of state legislators, with more than 2,000 members across the nation. ALEC is governed by a Board of Directors of state legislators. ALEC is classified by the Internal Revenue Service as a 501(c)(3) nonprofit, public policy and educational organization. Individuals, philanthropic foundations, businesses and associations are eligible to support the work of ALEC through tax-deductible gifts.

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The ALEC Center for State Fiscal Reform strives to educate policymakers and the general public on the principles of sound fiscal policy and the evidence that supports those principles. We also strive to educate policymakers by outlining the policies that provide the best results for the hardworking taxpayers of America. This is done by personalized research, policy briefings in the states and by releasing nonpartisan policy publications for distribution such as *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*.

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Introduction

Following the 2018 elections, 20 newly elected governors delivered their first public addresses pledging revamped policy priorities in their states, while established governors delivered remarks on what they hoped to accomplish during the remainder of their terms. Analyzing these speeches from all governors, new and established, the ALEC *State of the States* annual report provides insight into the direction of state policy and what legislators can expect from the executive branch.

In their 2019 state of the state addresses, all 50 governors delivered proposals that could affect economic competitiveness between states. Many focused on tax policy, pointing to recent growth their states have experienced from tax relief and regulatory reform. In total, 14 governors demonstrated a commitment to pro-growth tax policy by doubling down on tax cuts and announcing policy proposals designed to save taxpayers money and make their states more competitive. On the other hand, four governors shared a vision of bigger government and less individual liberty with plans for higher tax rates.

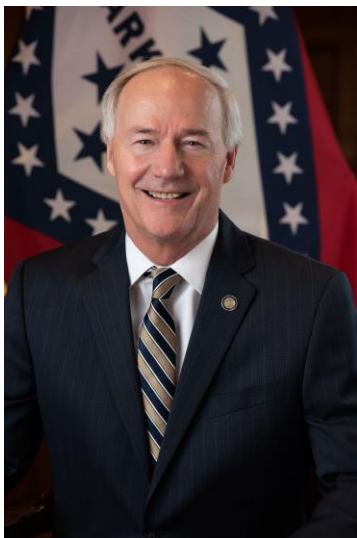
These competing economic policy strategies are further explored in the Center for State Fiscal Reform's annual publication, *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, in which more than 10 years of empirical economic data from each state are examined to determine how pro-growth economic policies lead to prosperity.ⁱ Generally, states with low tax rates, limited regulations and responsible spending habits experience the most economic growth.ⁱⁱ Based on the 2019 state of the state addresses, many governors are considering this approach to compete for residents, jobs and capital.

Many governors have noticed the harm income taxation can have on state economies. In 2018, 13 out of 18 tax cut proposals offered by governors were personal and corporate income tax cuts, and only two out of six proposed tax increases were income tax hikes.

Best State of the State Addresses, 2019

The following lists contain summaries of the best State of the State addresses of 2019, based on the economic policy proposals on such matters as taxation (including income, property, sales, and fuel), tort reform, right-to-work, pension reform, regulatory reform, and minimum wages. The “best” addresses featured proposals proven to enhance economic competitiveness and growth and are listed below in alphabetical order by state name. Each state’s economic outlook ranking in the 12th edition of *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* (2019) is also included.ⁱⁱⁱ

Best of the Best



Arkansas – Governor Asa Hutchinson

Rich States, Poor States 2019 Economic Outlook Rank: 23

In his address to Arkansas lawmakers, Governor Asa Hutchinson credited his recent tax reform legislation for the influx of jobs and opportunity into Arkansas.^{iv} When fully implemented, he explained, “the total tax reductions will be around \$158 million.” By flattening the tax code and consolidating personal income tax brackets, Arkansas will be able to attract even more new residents, entrepreneurs and businesses to the Natural State.

Arkansas’ relatively low tax burden has helped the state compete with other states on workforce development. As detailed in *Rich States Poor States*, Arkansas currently ranks 19th among all 50 states in absolute domestic migration. In fact, Arkansas has seen net in-migration every year since 2015.^v

In addition to tax reform, the governor highlighted how cutting red tape – 800 regulations’ worth – has made Arkansan entrepreneurs more successful. The governor also reduced the size of the Arkansas executive branch by eliminating 1,400 unnecessary positions, which according to the governor, had accounted for 5 percent of the state budget.

Amidst tax reform and cuts to executive branch bureaucracy, Gov. Hutchinson also announced a \$125 million budget surplus. If Governor Hutchinson and the legislature stick to free-market principles, Arkansans will continue to reap the benefits of sound tax and fiscal policy reforms.



Kentucky – Governor Matt Bevin

Rich States, Poor States 2019 Economic Outlook Ranking: 32

Governor Matt Bevin reflected on recent fiscal policy reforms and predicting more positive changes for Kentucky in the near future.^{vi} Gov. Bevin stressed the importance of modernizing Kentucky’s tax code by transforming Kentucky from a state reliant on production and income taxes to one funded by consumption taxes. Gov. Bevin discussed the need to pursue serious pension reform and begin the long road to a fully funded state pension system. According to the 2019 edition of the annual ALEC report, *Unaccountable and Unaffordable*, Kentucky has the second-largest funding gap of any state – with less than 25 percent of their pension obligations funded.^{vii}

Gov. Bevin also reiterated his commitment to “cutting more red tape” and fighting federal overreach. Regarding regulations, the governor was adamant about continuing to “[lead] the nation in regulation reform.”

In 2017, Kentucky saw net in-migration for the first time since 2011.^{viii} If Kentucky cuts taxes and continues to slash burdensome regulations, Kentucky’s economy will continue its path towards increased competitiveness and long-term growth.



Mississippi – Governor Phil Bryant

Rich States, Poor States 2019 Economic Outlook Ranking: 19

In his final address, Governor Phil Bryant underscored how conservative budgeting principles have turned Mississippi’s economy into one that has experienced rapid growth.^{ix} This included balanced budgets, tax cuts in 2016 and reductions in state employee positions. As a result, Mississippi has built a \$350 million rainy day fund as revenue collections have exceeded estimates by about \$90 million. Corporate income tax collections are also out-performing estimates by nearly 16 percent, primarily because of the extensive list of companies who have moved operations to the state. In the last decade, according to Gov. Bryant, Mississippi’s exports have increased by more than 259 percent. Since 2011, the median household income has risen by 8.4 percent and since 2012, the unemployment rate has fallen from 9.4 percent to 4.7 percent.

The governor also discussed the success of Mississippi’s educational reforms, such as reading proficiency requirements, which improved literacy rates and graduation rates across the state.

Gov. Bryant ended his speech with the following reflection: “Over these many years I have seen Mississippi make incredible progress. It may not have always been perfect, but the march of improvement and advancement in our people’s lives over the last 30 years is undeniable. None of us can accept credit for all of it, but we can claim the honor of toiling and striving to make our home a better place.”



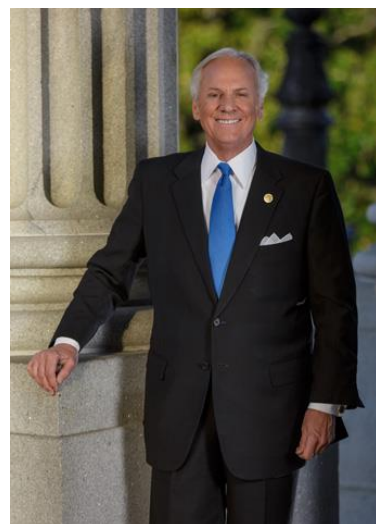
Nebraska – Governor Pete Ricketts

Rich States, Poor States 2019 Economic Outlook Ranking: 33

In his address, Governor Pete Ricketts shared his vision for strengthening Nebraska: “Over the past four years, we have strengthened Nebraska’s place in the world with our four pillars for growth, which include developing our people; cutting the regulatory red tape; controlling spending so we can deliver tax relief; and promoting Nebraska both nationally and internationally.”^x

Gov. Ricketts described in three ways how the legislature can help grow Nebraska through good fiscal policy. First, by orienting tax and fiscal policy around pro-growth economic principles, Nebraska can help keep unemployment low and labor force participation high. Second, the governor detailed his plan to make state government more efficient by combining the Department of Environmental Quality and the Energy Office, as well as moving key safety inspection programs from the Department of Labor to the State Fire Marshal’s office.

Finally, he proposed a \$51 million property tax relief plan through the Property Tax Credit Relief Fund that would also establish a 3 percent cap on property taxes levied by local governments. Ricketts also said he would be open to working with legislators on the Income Potential Valuation Bill, which would reform the property tax system itself.



South Carolina – Governor Henry McMaster

Rich States, Poor States 2019 Economic Outlook Ranking: 29

On the heels of a \$52 million cut to unemployment insurance taxes, Governor Henry McMaster doubled down on his commitment to taxpayers in his 2019 State of the State address.^{xi} The governor recognized that for South Carolina to continue to thrive it must “keep taxes low [and] reduce burdensome regulations.”

To fulfill his promises of tax reform, Gov. McMaster recommended a \$2.2 billion personal income tax cut (averaging a 15 percent overall

rate reduction) and a \$200 million rebate distributed amongst all South Carolina taxpayers.

To combat government waste, Gov. McMaster proposed utilizing the State Ethics Commission to enforce accountability and transparency. This could help close the gap between taxpayer dollars spent and provision of public goods. The governor's call to review South Carolina's education funding formula for the sake of determining a "new, more efficient and modern funding model" was another strong example of this.

With his commitment to low tax rates and government reform, Gov. McMaster's leadership is grounding South Carolina in pro-growth fiscal policy principles.

Worst Policy Proposals, 2019

The following contains a list of the “worst” policy proposals based on their propensity to hinder economic competitiveness, growth, and prosperity.

Taxes

Illinois Governor J.B. Pritzker has made clear that a progressive, big-government agenda will be the hallmark of his administration. In his state of the state speech, Gov. Pritzker outlined his plan for a “fair tax.” Currently, Illinois has a flat personal income tax rate of 4.95 percent.^{xii} Illinois is currently ranked 48 in economic competitiveness, according to *Rich States, Poor States 2019*.^{xiii} Instituting a graduated income tax would be a net tax increase on job creators and punish wealth creation. Illinois business owners would likely relocate to nearby states with more competitive tax policy, such as Indiana, Missouri, Michigan and Wisconsin.

New York Governor Andrew Cuomo and New Jersey Governor Phil Murphy pledged to extend the millionaire’s tax in their states. These taxes are a massive disincentive for wealthy earners to stay in New York and New Jersey, and many residents have already fled to states with lower taxes.^{xiv, xv} New York and New Jersey have lost 1.3 million and 505,000 residents, respectively, to other states since 2007. An extension of the millionaire’s tax could cost New York and New Jersey more in lost revenue and growth over time.

Governor Kay Ivey of Alabama rounds out the list of tax increase advocates. Gov. Ivey, intending to increase transportation funding and fix Alabama roads, called for a \$0.10 per gallon increase in Alabama’s gas tax, which is already at \$0.21. This would give Alabama a higher gas tax than neighboring low-tax states of Tennessee and Mississippi.^{xvi} To fix state roads, Alabama should first pass transportation reforms to get the most value dollar-for-dollar from the transportation fund.

Minimum wage

Connecticut Governor Ned Lamont, Illinois Governor J.B. Pritzker, New Jersey Governor Phil Murphy and Rhode Island Governor Gina Raimondo all called for a \$15 minimum wage in their states. **New Mexico Governor Michelle Lujan Grisham** proposed a \$12 minimum wage with an immediate hike to \$10, and **Louisiana Governor John Bel Edwards** pushed for a \$9 minimum wage. **Nevada Governor Steve Sisolak** also called for a minimum wage increase but was not specific with how high the wage should be set.

Minimum wages increases are an ineffective poverty reduction tool and are notorious for costing low-skilled workers jobs.^{xvii} Without a job, it is unlikely that low-skilled workers will ever gain the experience

needed to move up in a modern workforce and develop useful skills. These governors should look instead to occupational licensing reform and business tax reductions to boost opportunity for low-skilled workers.

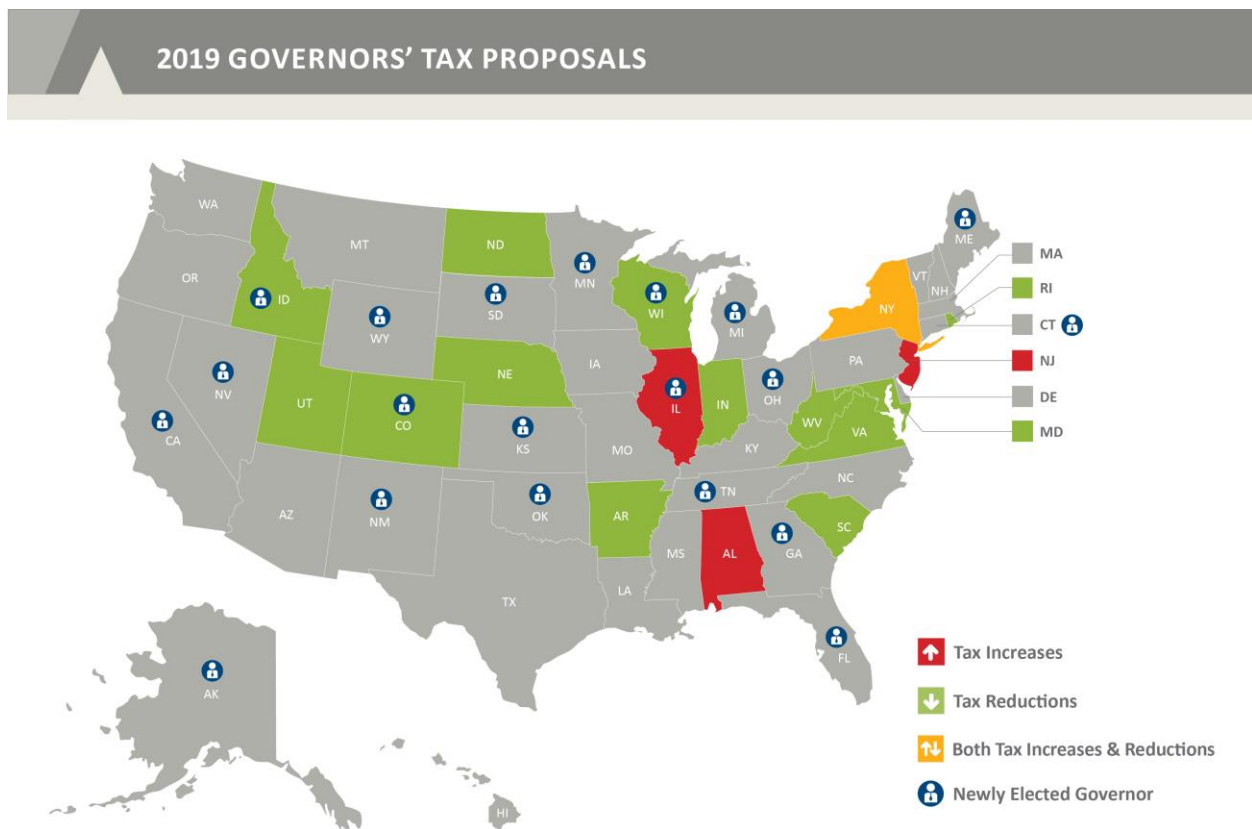
Medicaid Expansion

Kansas Governor Laura Kelly and **Maine Governor Janet Mills** made Medicaid expansion a focus of their first state of the state addresses. They argued their states have lost billions of dollars by not accepting federal matching funds in exchange for Medicaid expansion, as if that money comes out of the state general funds. This is a clever conflation. Medicaid expansion costs states more money as the federal matching funds percentage (FMAP) declines and enrollments increase.^{xviii} To pay for the additional 150,000 able-bodied Kansans and 70,000 capable Mainers on Medicaid, future tax hikes will likely be required.

Even governors in conservative states gave endorsements of Medicaid expansion. Following the 2018 Utah and Idaho referendums in support of Medicaid expansion, **Utah Governor Gary Herbert** and **Idaho Governor Brad Little** pledged this year to expand Medicaid, despite their previous opposition. While voter referendums can add public accountability, the job of an elected representative is to do what is best for the state and its constituents and Medicaid will lead to future tax increases as the FMAP declines.

Tax Policy Proposals in 2019

This year, 18 governors offered tax policy proposals, and record-breaking state revenues prompted many to call for significant tax cuts. In total, 13 governors proposed only tax reductions, while only four exclusively pushed for tax increases. Only **Governor Andrew Cuomo** proposed both tax increases and tax cuts. The following map shows which governors called for tax increases, tax reductions or both in their addresses this year.



While a few states are still struggling to balance their budgets, most have a budget surplus due to the strong economy as well as new sources of tax revenue. First, *Wayfair v. South Dakota* allowed states to begin collecting sales taxes on billions of dollars in previously uncollectible remote transactions.^{xix} *Murphy v. NCAA* gave states the authority to legalize and tax proceeds from casinos, sports books and virtual gaming.^{xx} Finally, many states either left federal tax conformity questions unanswered at the end of the last legislative session or pocketed the conformity tax windfall entirely.^{xxi} In many states, the conformity tax windfall amounted to hundreds of millions annually.^{xxii} With these surpluses sitting in state general funds, many governors proposed easing tax burdens on constituents.

Refreshingly, more governors called for tax relief than tax increases. **Governor Henry McMaster of South Carolina** proposed possibly the largest tax and fiscal reforms of any governor this year. He noted that South Carolina has the highest top marginal personal income tax rate in the Southeast – 7 percent – and called for nearly \$2.2 billion in cumulative tax relief by lowering each of the state’s income tax brackets by 15 percent. Following tax reform during the 2018 legislative session, South Carolina still ran a \$1 billion budget surplus.^{xxiii, xxiv} Rather than spending this surplus to grow government, Gov. McMaster advocated for returning \$200 million back to taxpayers in the form of one-time rebate checks. He also proposed freezing tuition at state universities.

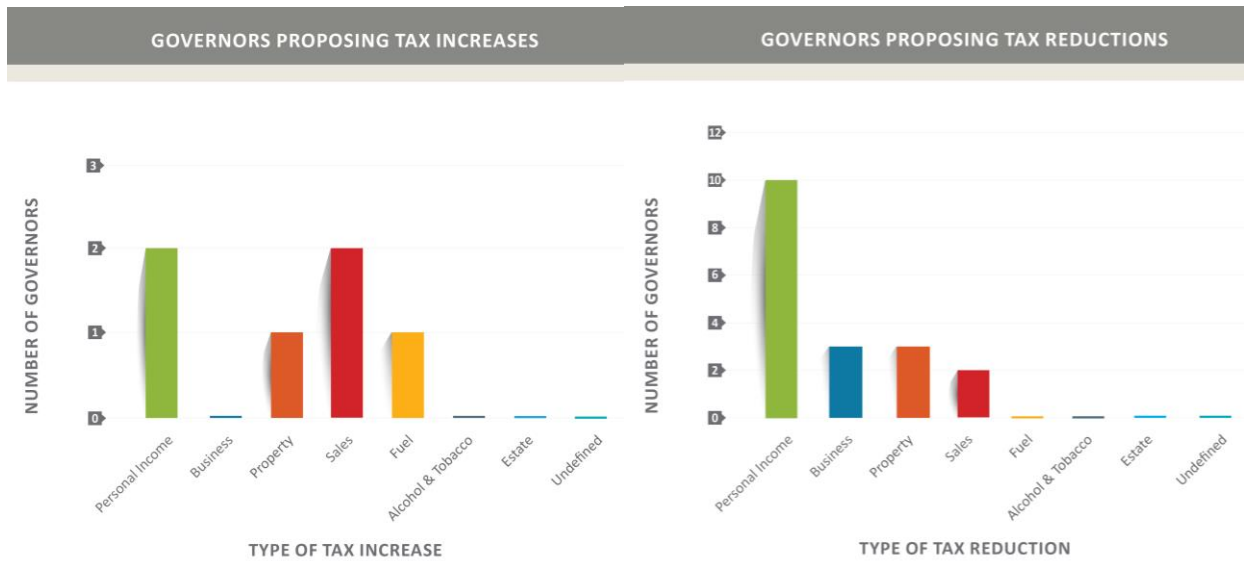
Governor Asa Hutchinson of Arkansas continued his work on fundamental tax reform by declaring his goal of flattening Arkansas’ notoriously segmented income tax rate structure over four years to one flat rate of 5.9 percent for all taxpayers. By simplifying the rate structure, Arkansas’ tax code will become simpler and save filers money every year in reduced tax compliance costs. A flat rate would also ensure Arkansas’ tax revenue is more reliable by broadening the tax base rather than relying on a handful of wealthy earners for tax revenue.

These plans were in stark contrast to North Carolina. Rather than trimming government budgets, **Governor Roy Cooper** proposed billions in new state spending. In addition to \$8 billion dedicated to school construction and renovation, Gov. Cooper called for North Carolina to expand the state Medicaid program. Medicaid expansion is guaranteed to cost the state money in the long-term as the federal match declines and hundreds of thousands of able-bodied North Carolinians are added to the rolls.^{xxv}

California proposed hundreds of billions in new state spending. **California Governor Gavin Newsom** called for high-speed rail across the length of California after the Golden State “failed to make reasonable progress” on the state’s formerly-under-construction high-speed rail project.^{xxvi} Gov. Newsom also called for \$80 billion in total education spending – nearly 200 percent of what was spent seven years ago – and \$750 million in homelessness funding.

Governor Andrew Cuomo of New York called for \$150 billion in new infrastructure spending in addition to billions devoted to new education, housing, public safety and health care initiatives. Of course, hundreds of billions in new spending must be offset with tax increases.

The following graphs break down the types of tax increases and reductions governors called for in their addresses, including adjustment to tax rates, eliminating or enacting new taxes and any significant, broad-based tax credit changes. If the governor did not specify a particular type of tax, the proposal is labeled “undefined.”



An increasing number of states are beginning to recognize the consequences taxation has on economic growth, as evidenced by the proposed tax increases being vastly outweighed by proposed tax cuts by a factor of three-to-one.^{xxvii}

Conclusion

Strong national economic performance, new sources of tax revenue and federal tax reform have all contributed to record-breaking state tax revenues following the 2018 tax year. Some governors rightfully recognized that their budget surpluses reflected increased tax burdens on their hard-working residents. These governors worked hard with state legislators to return some of this money back to taxpayers and enact significant state tax reforms.

Other governors viewed their budget surpluses as fuel to grow government. Many governors called for increased state spending on healthcare, education, and broadband. In fact, many states that vehemently opposed Medicaid expansion in the past saw their governors propose aligning their state Medicaid programs with the Affordable Care Act. Kansas and Maine’s newly elected governors used their inaugural speeches to call for Medicaid expansion, while Utah and Idaho’s Republican governors pledged to honor the results of ballot initiatives that demonstrated public support for expanded state Medicaid programs.

With budget shortfalls less common in 2019, tax increases did not loom large in many governors’ speeches. However, huge proposed tax hikes Illinois and New Jersey deserve special mention. These states are in the bottom five of the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* and have some of the highest out-migration to more competitive states than any other state in the nation.

Summaries of Economic Policy Remarks by State

Below are summaries of the economic policy remarks the governors made during their respective 2019 State of the State addresses. Summaries are listed in alphabetical order by state. Included are the 2019 economic outlook rankings from *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* for reference. The *Rich States, Poor States* economic outlook ranking is a forward-looking measure based on a state's standing in the equally-weighted average of 15 important state policy variables. These variables include tax policy, regulatory policy and labor policy. (1=Best, 50=Worst)

Alabama – Governor Kay Ivey

Rich States, Poor States 2019 Economic Outlook Ranking: 21

Alabama Governor Kay Ivey praised Alabama's widespread economic growth and credited pro-growth reforms and shrinking the size of the state government.^{xxviii} By eliminating 6,000 state employees since 2010, Alabama freed up resources that can be more efficiently and effectively used by the private sector.

Unfortunately, Gov. Ivey also laid out plans to grow government. In addition to hiring more correctional officers and prison staff, Gov. Ivey supported expanding Alabama's universal pre-K program, a program with dubious effects at best.^{xxix} Expanding the program along the lines of what legislators proposed during the 2018 session would bring the total cost of universal pre-K to \$96 million annually.^{xxx} She also proposed raising the gas tax by \$0.10 per gallon – from \$0.21 per gallon – to pay for transportation spending increases and pay raises for state employees.

Absent any mention of tax cuts or pro-growth policy reforms, it is unlikely that the Yellowhammer State will realize its full economic potential. As residents and job creators relocate to states with lower tax rates, policymakers should be working to ensure Alabama remains competitive with other Southern states.

Alaska – Governor Mike Dunleavy

Rich States, Poor States 2019 Economic Outlook Ranking: 31

Following contentious budget battles in recent years, Governor Mike Dunleavy was clear about one thing – “we can no longer spend what we don't have.”^{xxxi} Gov. Dunleavy's fiscal plan included building a healthy rainy day fund and a cap and savings plan that would restrict expenditures to boundaries set by the budget. As global oil and gas prices fluctuate wildly and cause uncertainty in the state economy, Gov. Dunleavy insisted Alaska must not be so reliant on oil and government subsidies. At the same time, he vowed to protect every Alaskan's Permanent Fund Dividend by requiring a referendum to pass dividend cuts.

Gov. Dunleavy also proposed a constitutional amendment that would forbid the legislature to enact tax increases “without a vote of the People.” Gov. Dunleavy’s proposed amendment made its way to the Alaska Legislature as HJR 5, which requires any new or increased state tax to pass voter approval as a ballot initiative during a statewide election. At this writing, HJR 5 is awaiting action from the Alaska Legislature in the State Affairs committee.^{xxxii}

In the future, we will have to see what ideas Gov. Dunleavy has for implementation of free-market policy. Attracting companies to Alaska can be difficult, so Alaska must enact sound fiscal policies that will enhance economic growth.

Arizona – Governor Doug Ducey

Rich States, Poor States 2019 Economic Outlook Ranking: 10

Governor Doug Ducey conveyed a bright state of the state in his address.^{xxxiii} The governor trumpeted his administration’s hiring freeze and elimination of more than 1,000 onerous government regulations. In addition to cutting red tape, Gov. Ducey pledged to increase transparency on how tax dollars are spent.

Additionally, the governor boasted that “One hundred thousand people will move here this year. There’s a job available for every one of them.” To that end, Gov. Ducey recommended removing barriers to employment by recognizing all occupational licenses issued by other states.

Gov. Ducey also announced a \$1 billion budget surplus and credited spending reforms for Arizona’s fiscal stability. Despite the surplus, Gov. Ducey committed to keeping government spending to a minimum, even with the soaring revenue: “We’ve seen that movie before, and we know how it ends.”

Fortunately, pro-growth forces in the legislature prevailed with a budget that doubled the standard deduction, collapsed personal income tax brackets, reduced personal income tax rates and created a new child tax credit. With the governor’s signature, this budget gave the median taxpayer a 27 percent state income tax cut.^{xxxiv}

Arkansas – Governor Asa Hutchinson

Rich States, Poor States 2019 Economic Outlook Ranking: 23

As one of the best addresses of 2019, the summary appears at the front of this publication.

California – Governor Gavin Newsom

Rich States, Poor States 2019 Economic Outlook Ranking: 47

Governor Newsom used his state of the state address to deliver a feeble breath in support of high-speed rail connecting California cities. He admitted that high-speed rail is currently too costly, while also insisting that California does have the capacity to build a rail link between Merced and Bakersfield. Gov.

Newsom announced that California will spend over \$80 billion in 2019 on education, almost double the budget for education in California seven years ago.^{xxxv}

Spending continued as a major theme in Gov. Newsom’s State of the State with his proposed \$1 billion in additional Medicaid funding. In addition to more spending on healthcare, Gov. Newsom called for expanding government by creating more government agencies, such as the Commission of Homelessness & Supportive Housing. This agency would commit \$750 million in incentives for private contractors and consultants – and create the potential for more government-granted preferences in Californian housing policy.

California has lost more than 800,000 residents in the past 10 years to states that offer better opportunities.^{xxxvi} In his address, Gov. Newsom acknowledged that most young adults cannot afford to live in California. The high cost of living plays a large role in dissuading jobs creators and potential residents from relocating to California. High taxes mean high prices, and California policymakers should assume a more causal relationship between outmigration and high taxes than Gov. Newsom is willing to admit. Rather than throwing money and regulations at the problem, California should consider zoning reform to increase the housing supply and drive down costs to make the Golden State more affordable for middle-class Americans.

Colorado – Governor Jared Polis

Rich States, Poor States 2019 Economic Outlook Ranking: 17

Governor Jared Polis of Colorado delivered his first State of the State address, speaking about early education, health care, clean energy and “true tax reform that reduces taxes for hardworking Coloradans instead of giving breaks to special interests.”^{xxxvii}

Gov. Polis pledged \$175 million to fund “free” kindergarten in the Centennial State and justified the spending increase by citing the state’s strong economic growth. While Colorado is currently experiencing economic growth, providing taxpayer funded kindergarten could be problematic if tax revenues drop. He also offered student loan relief for to current Colorado teachers and paid parental leave for all state employees. These proposals could become fiscally unsustainable in the future.

The governor also mentioned capping the vendor fee, which provides relief to business owners by allowing them to keep a percentage of sales tax revenue to cover the costs of tax compliance and remittance.^{xxxviii} Rather than adding complexity to an already-complex tax provision, Colorado should look to reduce sales tax complexity and make the vendor fee unnecessary. Gov. Polis insisted that his proposed tax changes would “let people keep more of their hard-earned money rather than give it away to special interests.”

Connecticut – Governor Ned Lamont

Rich States, Poor States 2019 Economic Outlook Ranking: 41

Governor Ned Lamont eerily stated that Connecticut is “no longer a place that is viewed as hospitable or encouraging to new businesses.”^{xxxix} This is unsurprising, as the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* ranks Connecticut 41st in economic outlook and dead last in economic performance.^{xl}

According to the governor, infrastructure spending will unlock the full economic potential of the state. However, that economic potential will be limited, especially considering Lamont’s advocacy for a \$15 per hour minimum wage. Ultimately, the state House of Representatives in Connecticut voted to raise the minimum wage by \$15 an hour by 2023.^{xli} With Gov. Lamont’s policy proposals, economic growth will likely remain elusive.

Delaware – Governor John Carney

Rich States, Poor States 2019 Economic Outlook Ranking: 36

Governor John Carney stressed the importance of creating jobs to strengthen the economy of Delaware.^{xlii} The governor wants to spend more than \$3 billion on transportation projects through 2025 and create a Transportation Infrastructure Investment Fund worth \$10 million. Gov. Carney must keep in mind that government spending does not create wealth. While quality infrastructure can facilitate commerce and economic growth, the state must pair infrastructure with pro-growth policies to attract job-creating, long-term private investment.

Gov. Carney also called for increased funding to the High Needs Educator Student Loan Payment Program, a program to help teachers pay back their student loans. Although well intended, this initiative helps only 700 teachers – less than 10 percent of the teachers in Delaware – pay back their student loans.^{xliii, xliiv} This policy is selective and discriminatory toward all the other teachers in Delaware who are not getting their student loans repaid using taxpayer money.

While the governor did advocate for making “responsible budget decisions” and growing the state economy, his State of the State address did not inspire confidence that free market reforms are on the way.

Florida – Governor Ron DeSantis

Rich States, Poor States 2019 Economic Outlook Ranking: 8

Governor DeSantis of Florida declared that Florida’s economic success and sound fiscal policy has led to a “migration of wealth from states that tax heavily, spend profligately and regulate excessively to states, like Florida, that tax lightly, spend conservatively and regulate reasonably.”^{xlv} According to the 2019 *Rich*

States Poor States: ALEC-Laffer State Economic Competitiveness Index, Florida ranks 2nd in domestic immigration among all 50 states with over 990,000 new residents since 2008.^{xlvi} The governor is right, people are voting with their feet – and voting strongly in favor of states that value economic freedom.

Gov. DeSantis then emphasized his commitment to keeping Florida income tax free. He proposed \$330 million in tax relief, specifically for property taxes. Regarding regulation, Gov. DeSantis endorsed the “need to reform [Florida’s] occupational licensing regime.”

Georgia – Governor Brian Kemp

Rich States, Poor States 2019 Economic Outlook Ranking: 18

In his first State of the State address, Governor Brian Kemp insisted that “the State of the State is rock solid.”^{xlvii} The 2019 *Rich States Poor States: ALEC-Laffer State Economic Competitiveness* report ranks Georgia 10th in economic performance, 8th in net domestic migration and 18th in economic outlook.^{xlviii}

Gov. Kemp mentioned wanting to lower taxes but did not outline a specific plan. Notably, Georgia has a budget surplus of \$2.5 billion while maintaining a AAA bond rating, but the Peach State can still improve. Georgia’s top marginal personal income tax rate – 5.75 percent – is the 25th-highest and their top marginal corporate income tax rate is 19th-highest of any state.^{xlix}

Like many governors, Gov. Kemp proposed increasing spending on education. In addition to \$69 million for school security and \$8.4 million to focus on mental health in Georgia high schools, Gov. Kemp proposed increasing teacher pay by \$5,000 and giving state employees a 2 percent pay increase.

Hawaii – Governor David Ige

Rich States, Poor States 2019 Economic Outlook Ranking: 45

Governor David Ige cited Hawaii’s unemployment rate as one of the lowest in the country.ⁱ However, he failed to mention that the state has lost approximately 52,000 residents on net since 2008.ⁱⁱ

Gov. Ige did mention the state’s bond rating, which will allow them to borrow money in the future at lower cost. However, revenue should not be a problem for Hawaii. The 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* ranks Hawaii 47th in top personal income tax rate – 11 percent – and 50th in sales tax burden.ⁱⁱⁱ

Gov. Ige mentioned his plan to contribute \$35 million towards homeless programs and allotted \$315 million for housing over the next few years. The budget also allots \$3.9 million to support biosecurity in Hawaii, a policy that would most likely lead to higher regulations. To reverse the drain of residents and businesses back to the mainland, Hawaii would need a swift change-in-course, not more of the same anti-growth policies.

Idaho – Governor Brad Little

Rich States, Poor States 2019 Economic Outlook Ranking: 2

Gov. Brad Little focused on cutting regulations and easing the tax burden for Idahoans.^{liii} The governor declared that “Idaho is the fastest growing state in the country.” The *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index* has showcased Idaho’s incredible growth for many years now. In the 2019 *Rich States, Poor States* rankings, Idaho places 11th in economic performance and 2nd in economic outlook.^{liv}

Gov. Little mentioned the tax cuts from last year – the largest in state history – and pledged to continue Idaho’s tradition of fiscal responsibility.

Unfortunately, his full-throated endorsement of Medicaid expansion runs counter to this pledge. With a massive increase in Medicaid enrollment following state expansion, Idaho will likely have to pay more annually into the state Medicaid program despite an increase in federal funding.^{lv}

A free market climate has made Idaho one of the fastest-growing states in the country, and those policies need to be defended.^{lvi} Enhancing government spending and growing Medicaid liabilities for the state will only serve to undermine Idaho’s recent prosperity.

Illinois – Governor J.B. Pritzker

Rich States, Poor States 2019 Economic Outlook Ranking: 48

Newly-elected Governor J.B. Pritzker insisted Illinois was enduring another crisis due to “themes recycling with each new decade.”^{lvii} This year alone, Illinois had a \$3.2 billion budget deficit and \$15 billion in unpaid bills. There is no end in sight for Illinois’ debt problems, as policymakers refuse to cut Illinois’ outrageous public spending.

The governor mentioned income tax changes and property tax breaks for workers across the Land of Lincoln, but his proposal will have an outsized negative impact by moving away from a flat tax towards a progressive income tax. Gov. Pritzker’s “fair tax” proposal during the 2019 legislative session would tax individuals earning between \$10,000 and \$100,000 at 4.9 percent – down merely .05 percentage points. Individuals earning over \$250,000 would see a tax hike of at least 3 percentage points, with even greater increases for those earning over \$750,000.^{lviii} By shifting the tax burden onto job creators, Gov. Pritzker could drive businesses and high-income earners to states with lower tax rates, such as Indiana, Michigan, Missouri and Wisconsin – to say nothing of low-tax states in the South and West.

Following his full-throated endorsement of using the Illinois tax code to target wealthy earners, Pritzker did not commit to any spending cuts and instead insisted that Illinois only needed “re-prioritized and controlled” spending to fix state finances. Given Illinois’ dire financial straits, the state must look at cutting spending, and addressing unfunded pension obligations. According to Gov. Pritzker, it was

predicted 25 years ago that Illinois’s fiscal year 2020 would include \$4.9 billion in spending on pension obligations. Today, it is over \$9 billion.^{lix}

Gov. Pritzker also wants to enact a tax on insurance companies to cover the cost of the state Medicaid program. This policy will lead to more expensive prescriptions, premiums, and copays.

Additionally, the governor wants to increase the Early Childhood Block Grant by \$100 million. The governor hopes that this will be a step closer towards universal preschool, a policy that has yet to be proven effective.^{lx} For higher education, the governor wants to increase the Monetary Award Program by \$50 million and \$35 million for the AIM HIGH merit scholarships.

Lastly, the governor proposed raising the minimum wage to \$15 an hour. This will be costly if Illinois wants to remain economically competitive among other states, especially since all neighboring states have a lower minimum wage.^{lxi} Unfortunately, the governor signed a law raising the Illinois’ minimum wage to \$15 an hour by 2025 in February.^{lxii} Proponents often couch support for raising the minimum wage as a poverty reduction tool – however, minimum wages cost jobs and prevent low-skilled workers from gaining experience necessary to improve their earning potential.^{lxiii} According to the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness* report, Illinois ranked 46th in economic performance and 48th in economic outlook.^{lxiv} Illinois needs fiscal reform now, or they could cement their standing as the state with the most unsound fiscal policy.

Indiana – Governor Eric Holcomb

Rich States, Poor States 2019 Economic Outlook Ranking: 5

In his State of the State address, Governor Eric Holcomb proudly touted the increase in direct foreign investment over the last three years.^{lxv} Indiana has a strong economy bolstered by their competitive state tax and fiscal policies and will likely improve during the next few years

Indiana protected its AAA credit rating while balancing the budget over most recent fiscal year and maintained a budget surplus of nearly \$2 billion for Fiscal Year 2019. Gov. Holcomb wants to exempt military pensions from state income taxes to retain and attract military veteran as state residents.

With the budget surplus in mind, the governor turned his attention to increased spending on transportation and infrastructure projects. Gov. Holcomb also proposed increasing K-12 education funding by \$432 million over two years and funding a pay increase for teachers by contributing \$140 million of state surplus funds to teacher paychecks.

Merely increasing spending will likely disappoint policymakers looking for a better return-on-investment from the state education system, because it assumes a dollar-for-dollar relationship between spending and student outcomes. No such relationship exists, and this will likely not result in significant school improvement.^{lxvi}

Despite likely ineffective education spending increases and potential pension mismanagement, Indiana has highly competitive tax and fiscal policies.^{lxvii}

Iowa – Governor Kim Reynolds

Rich States, Poor States 2019 Economic Outlook Ranking: 25

Governor Kim Reynolds used her State of the State address to commemorate the largest tax cut passed in Iowa history during the last legislative session.^{lxviii} By consolidated income tax brackets, lowering both personal and corporate income tax rates and eliminating the alternative minimum tax by 2023, Iowa saved taxpayers \$100.1 million in FY 2019 tax burden alone. Once fully enacted, Iowa’s 2018 tax reform will save taxpayers \$642.2 million annually.^{lxix}

However, Gov. Reynolds continued her speech with calls for substantial increases in state spending.^{lxx} Proposals included \$20 million for a workforce development program, and \$3.4 billion in education spending and \$20 million on public broadband infrastructure.

Increased spending on education alone does not improve school quality, because there is no dollar-for-dollar relationship between funding and student performance.^{lxxi} Increasing broadband infrastructure using taxpayer dollars is not the best route to take, as private broadband is much more effective at connecting individuals to the internet and at lower cost.^{lxxii}

Fortunately, the legislature passed property tax reforms that Gov. Reynolds signed into law. For property tax levies exceeding a two percent increase relative to the prior year, public hearings and a supermajority vote from local boards are required. With more stringent controls and opportunities for public involvement, Iowans can begin to take more control over their property tax bills.^{lxxiii, lxxiv}

Kansas – Governor Laura Kelly

Rich States, Poor States 2019 Economic Outlook Ranking: 27

Governor Laura Kelly’s address called for increased funding for education and Medicaid expansion.^{lxxv} Given that Kansas’ public spending has outpaced inflation and population growth over recent years, the state should be looking for ways to improve efficiency and effectiveness before making more substantial increases to public spending.

Somehow, despite proposing massive spending increases on education and Medicaid, Gov. Kelly promised a balanced budget without raising taxes and stated that “[Kansas] must be cautious, conservative and fiscally responsible.” Of course, increasing spending on an inefficient education system and filling Kansas’ Medicaid program with able-bodied enrollees is the opposite of being “conservative and fiscally responsible.”

According to the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*, Kansas is ranked 40th in economic performance and 27th in economic outlook.^{lxxvi} Gov. Kelly mentioned Kansas’ stark out-migration – another indicator of poor economic competitiveness – saying “the majority of our 105 counties lost population last year and for many years prior to that.” In fact, over the past decade, the state had the 11th-highest out-migration of residents of any state over the past decade, according to *Rich States, Poor States*.^{lxxvii}

Kansas desperately needs pro-growth tax reform paired with prudent spending reforms to compete with its lower tax neighbors.^{lxxviii} More public spending will not help Kansas retain and attract residents and job creators.

Kentucky – Governor Matt Bevin

Rich States, Poor States 2019 Economic Outlook Ranking: 32

As one of the best addresses of 2019, the summary appears at the front of this publication.

Louisiana – Governor John Bel Edwards

Rich States, Poor States 2019 Economic Outlook Ranking: 26

Governor John Bel Edwards was eager to claim that Louisiana had finally overcome its budget crisis that held the state hostage for years.^{lxxix} Louisiana is now experiencing a budget surplus after suffering from a \$2 billion deficit in 2015. The governor tried to credit the role of an improving economy and an attractive business climate in overcoming the persistent budget shortfall. However, Louisiana’s business climate is not balmy as the governor described given Louisiana’s mediocre outlook and performance rankings in the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*. Gov. Edwards also failed to mention the impact of an effective sales tax increase on state finances. Rather than allowing his 1 percentage-point sales tax increase from 2016 expire, Gov. Edwards signed legislation to allow the state sales tax rate to permanently rest at 4.45 percent instead of the 4 percent specified in law.^{lxxx} This change in policy was estimated to create an effective tax increase of \$466 million for tax year 2018 rising to over \$500 million annually by tax year 2019.^{lxxxi} A good economy and tax increases are the true cause behind Louisiana’s budget surplus, not budget hawks or fiscal heroes. .

Gov. Edwards proposed a \$1,000 teacher pay raise in addition to a 1.375 percentage point increase in education funding. Altogether, Gov. Edwards proposals amount to nearly \$116 million in additional education spending.^{lxxxii, lxxxiii} He also insisted on additional funding to repair Louisiana’s deteriorating rural water infrastructure. Finally, Gov. Edwards proposed an increase in the minimum wage to \$9 an hour from the federal \$7.25 an hour minimum by July 1st, 2020, a policy that would move the state backwards.

Of course, a budget surplus can lead to bad incentives in state governments. Budget surpluses can lead legislators to thinking about growing government, rather than returning money back to taxpayers. Louisiana has a great opportunity to pass pro-growth tax reform, and it remains to be seen if Gov. Edwards would support such a proposal.

Maine – Governor Janet Mills

Rich States, Poor States 2019 Economic Outlook Ranking: 43

Governor Janet Mills described her budget proposal with the acronym ‘HOPE’ – health, opportunity, prosperity, and education.^{lxxxiv} She explained the budget would run a surplus and contain no tax increases or reductions. Gov. Mills also proposed an expansion of MaineCare – Maine’s Medicaid program – which would bring \$500 million in taxpayers’ federal funds to Maine. To support the expansion, Maine would spend an additional \$147 million from its own state budget over the next two years and budget \$29 million for a Medicaid Reserve Account.

Regarding education, Gov. Mills’ budget would guarantee that no teacher makes below \$40,000 a year (Maine teachers already make more than \$50,000 on average) and that 4-year-olds would have universal pre-k made available to them.^{lxxxv} This universal Pre-K program would cost about \$70 million per year.^{lxxxvi, lxxxvii} The budget would also provide an additional \$126 million over the biennium to K-12 public schools, not including the additional funding required to fund Gov. Mills’ spending proposals for additional state scholarships, the University of Maine System, community colleges and the Maine Maritime Academy.

Finally, what appears to be the biggest state budget cost is Gov. Mills’ infrastructure plan. Over two years, according to Gov. Mills’ proposal, Maine would pave 2,000 miles of roadway, fix or replace 135 bridges and invest in rail, public transit and seaports. The costs would be covered using \$531 million of dedicated state Highway Fund revenue, leveraged federal revenues and \$200 million of state bonds. Though Gov. Mills says the budget will run a surplus, the state-bonded debt accumulated from paying for this infrastructure plan (\$200 million plus interest costs) may erode any surplus available in future years. By growing government and setting up the scene for future tax increases, Gov. Mills’ budget offers little ‘HOPE’ to the people of Maine.

Maryland – Governor Larry Hogan

Rich States, Poor States 2019 Economic Outlook Ranking: 34

Governor Larry Hogan spent much of his speech championing the economic growth Maryland has experienced over the past few years.^{lxxxviii} He explained that this growth has been a result of Maryland clearing away the “tangle of regulatory undergrowth” and cutting nearly \$1.2 billion in taxes, tolls and fees. This year, Hogan announced that, because of Maryland’s success, he would introduce eight different legislative proposals to provide more than \$500 million in tax relief over the next five years. He calls these proposals “targeted tax relief.” In other words, the tax relief is only accessible to specified

businesses and groups of people. To name a few of these proposals: a tax credit to small businesses that provide paid parental leave, a 10-year tax credit for each new job created by business that locates or expands within a Maryland Opportunity Zone (More Opportunities For Marylanders Act of 2019) and legislation that exempts retired law enforcement, fire, rescue, correctional officer or emergency response personnel from state tax on all retirement income.^{lxxxix}

Unfortunately, these proposed tax cuts are not the broad-based tax reforms Maryland needs to compete in the increasingly competitive Mid-Atlantic. Broad-based tax reform, like lowering the corporate and personal income tax rates and getting high local income taxes under control would expand economic opportunity and provide greater tax relief for Marylanders.

Massachusetts – Governor Charlie Baker

Rich States, Poor States 2019 Economic Outlook: 28

Governor Charlie Baker proudly proclaimed that Massachusetts no longer has a structural budget deficit.^{xc} Last year, Massachusetts had a major budget surplus and deposited over \$650 million into its stabilization fund. This year, the state expects to make yet another major deposit into the fund. Gov. Baker described this success by emphasizing a key point: they did it without raising taxes. When he took office, the Medicaid spending annual growth rate was in the double digits; today, he says it is growing at a rate conducive to overall state spending. In fact, total health spending in Massachusetts only grew by 1.6 percent – the slowest spending growth in five years.^{xcii}

The governor did not make clear any plans to further reform spending or provide tax relief, but he did lay out plans to budget for underperforming schools and student acceleration programs. In addition, Gov. Baker proposed an infrastructure spending plan that includes an \$8 billion public transit project.

Michigan – Governor Gretchen Whitmer

Rich States, Poor States 2019 Economic Outlook Ranking: 12

In her speech, Governor Gretchen Whitmer identified two major crises – failing infrastructure and education – and insisted that legislators pass a budget substantially increasing spending to alleviate these problems.^{xciii} Regarding education, Gov. Whitmer insisted Michigan should increase K-12 funding and create two new programs. First, ‘Michigan Reconnect’ would train adults seeking an industry certification or associate’s degree for occupations in high demand. Next, the Michigan Opportunity Scholarship would guarantee two years of debt-free community college for Michigan high school graduates with at least a B average. While she did not mention any specific costs, her budget proposal included an increase of \$526 million, bringing education spending to \$15.4 billion —the biggest increase in spending for school operations in a generation of students.^{xciii, xciv} Altogether, Gov. Whitmer’s budget

increases state spending to \$60 billion for the 2020 fiscal year – an increase of nearly \$4 billion in spending since the last budget.

Minnesota – Governor Tim Walz

Rich States, Poor States 2019 Economic Outlook Ranking: 40

Governor Tim Walz spent most of his speech highlighting members of the audience and telling their stories. For this reason, there was little policy discussion in his speech, though he did highlight some general priorities. He explained that he believed that the Health Care Access Fund – costing taxpayers \$244 million per biennium – is foundational to the health care of Minnesota. Gov. Walz also proposed increasing transportation funding and making housing and childcare more affordable.^{xcv} What Gov. Walz failed to mention was how each new dollar in state spending must be countered with an additional dollar in tax burden. With one of the most burdensome tax codes in the region, Minnesota cannot afford new taxes if the state hopes to compete with its neighbors for residents and job creators.

Mississippi – Governor Phil Bryant

Rich States, Poor States 2019 Economic Outlook Ranking: 19

As one of the best addresses of 2019, the summary appears at the front of this publication.

Missouri – Governor Mike Parson

Rich States, Poor States 2019 Economic Outlook Ranking: 22

Governor Mike Parson presented a “business smart budget” that would save nearly \$120 million annually and help the state weather a future economic downturn.^{xcvi} It would also eliminate nearly 430 government positions while “maintaining a conservative approach to managing and streamlining government services.” In the upcoming budget, Gov. Parson explained that there would have to be intense planning to curb Medicaid costs, which total more than \$10 billion – one-third of the state budget.

Gov. Parson also described his administration’s successes, including the state’s commitment to eliminating of one out of every five state regulations. They were also able to implement the largest tax cut in Missouri’s history, which cut the top individual income tax rate from 6 percent to 5.5 percent, with a final rate of 5.1 percent contingent on revenue triggers over three years. Missouri’s income tax reform also lowered the corporate income tax rate from 6.25 percent to 4 percent by 2020.

Regarding infrastructure, the governor proposed spending \$5 million to expand access to high-speed broadband internet, \$350 million on bridge construction and repair and \$50 million for a transportation cost share program designed to help cities and counties with their infrastructure projects. As Missouri looks to increase spending on infrastructure, the legislature must be careful to keep spending in check.

Montana – Governor Steve Bullock

Rich States, Poor States 2019 Economic Outlook Ranking: 38

Governor Steve Bullock began his address by highlighting a decade-low unemployment rate, rising real wages and economic mobility in Montana.^{xcvii} Bullock declared that “business is booming, and it’s no surprise. Since 2013, we’ve repealed and revised hundreds of regulations and removed red tape. We cut the business equipment tax for every Montana business, and eliminated it for two-thirds of the businesses operating in the state.”

Though Gov. Bullock mentioned Montana’s repeal and revision of regulations, there is more work to do. The Mercatus Center at George Mason University found that Montana has one of the most oppressive regulatory codes in the United States. Montana’s regulatory code contains 60,086 restrictions – 4.7 million words – and would take someone 7 weeks to read.^{xcviii} However, the reduction of the business equipment tax exempted nearly 17,000 small businesses from the tax – a policy that proved quite popular.^{xcix}

Gov. Bullock went on to praise Medicaid expansion, advocate for spending an additional \$30 million on preschool and other educational programs and \$290 million on infrastructure projects. In his budget, Gov. Bullock also pushed for a \$300 million reserve for unforeseen circumstances.

All these high cost programs translate into high taxes for Montanans. In fact, Montana’s uncompetitive tax code compared to neighboring states is one of the driving factors behind Montana’s ranking 38th in Economic Outlook Rank in the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*.^c

Nebraska – Governor Pete Ricketts

Rich States, Poor States 2019 Economic Outlook Ranking: 33

As one of the best addresses of 2019, the summary appears at the front of this publication.

Nevada – Governor Steve Sisolak

Rich States, Poor States 2019 Economic Outlook Ranking: 4

In his first State of the State, Governor Steve Sisolak proudly announced a balanced budget that contained no new taxes.^{ci} Rather than spending every cent collected from state taxes, Gov. Sisolak’s budget would make a small contribution of \$45 million to the Rainy Day Fund to prepare the Silver State for a future economic downturn. Gov. Sisolak promised in his address that he would work to make it easier for small businesses to thrive by eliminating red tape and needless regulation, though progress in this area has yet to be realized.

Unfortunately, Gov. Sisolak also advocated for an increase in the minimum wage and ultimately signed a law raising the state minimum wage to \$12 per hour from \$8.25 per hour.^{cii} This policy will only put a

burden on small businesses and undo any pro-growth regulatory reforms made during his administration. The governor also mentioned a 3 percent raise for all state employees and teachers, and a substantial (but unspecified) spending increase for the Nevada Department of Health and Human Services.

New Hampshire – Governor Chris Sununu

Rich States, Poor States 2019 Economic Outlook Ranking: 16

Governor Chris Sununu spoke highly of the great impacts tax relief, elimination of regulations and responsible spending have had on New Hampshire.^{ciii} Since 2015, New Hampshire has stuck to the rate reduction schedule on the business profits tax (BPT) and business enterprise tax (BET). In 2015, the BPT was 8.5 percent and the BET was 0.75 percent. By 2021, the BPT is scheduled to be at 7.5 percent and the BET is scheduled to be at 0.5 percent.^{civ} It is precisely because of pro-growth policies that Gov. Sununu can call New Hampshire “the destination of success in the Northeast.” Currently, New Hampshire is experiencing significant wage growth, the lowest unemployment rate ever and some of the highest household income figures in the country.

The governor described his plan to pass another balanced budget while also providing consistent tax reforms. Gov. Sununu explained, “I implore the legislature to learn from the mistakes of the past. The last thing we should be doing is raising taxes or pushing a budget that does not live within our means. And it should go without saying – there will be no sales or income tax of any kind on my watch.”

New Hampshire ranks 16th in the 2019 *Rich States Poor States: ALEC-Laffer State Economic Competitiveness Index’s* economic outlook ranking precisely because of the pro-growth, low-tax, low-regulation policies.^{cv} As New Hampshire’s economy continues to improve, it is comforting to see that Gov. Sununu is dedicated to standing by the policies that have helped the state prosper.

New Jersey – Governor Phil Murphy

Rich States, Poor States 2019 Economic Outlook Ranking: 46

Governor Phil Murphy began his address by touting a new tax incentives program that would directly subsidize specific businesses at the expense of New Jersey taxpayers.^{cvi}

He then announced increased spending for Planned Parenthood, NJ Transit, free pre-K and community college, the opioid crisis and clean energy. The governor also urged legislators to push the minimum wage toward \$15 per hour, ignoring the unseen impact lost jobs and fewer hours will have on thousands of low-skilled and young workers.^{cvi}

The governor’s budget proposal also included a millionaire’s tax that would harm job creators critical to New Jersey’s long-term economic success. Finally, Murphy expressed his support of the federal state and local (SALT) deduction – a tax tool that overwhelmingly favors high-tax states.^{cviii} For a time, the SALT deduction allowed lawmakers in states like New Jersey avoid the political costs of fiscal bloat, while making fiscally responsible states subsidize the cost.. If Gov. Murphy does not want to see the middle-class pay more in taxes, he should limit spending increases and pursue lower tax rates for all New Jerseyans – instead of policies targeting certain groups.

New Mexico – Governor Michelle Lujan Grisham

Rich States, Poor States 2019 Economic Outlook Ranking: 30

Governor Michelle Lujan Grisham announced massive spending increases during her inaugural State of the State address, including \$500 million for New Mexico’s education fund, educator salary increases, a \$12 minimum wage for anyone working in school buildings, universal pre-k and a constitutional amendment to allow the state to spend additional money from the Permanent School Fund.^{cix}

New Mexico’s K-12 public education system has been ranked one of the worst in the country based on proficiency standards and notably low graduation rates. The most recent US News ranking placed New Mexico at 49th in education despite more than a dozen states spending less per pupil than the state.^{cx, cxi} It’s clear that New Mexico’s education problem would be best solved through reforming the education system – instead of irresponsible spending increases.

The governor also insisted that the state’s minimum wage should be immediately raised from \$7.50 to \$10 per hour – and eventually to \$12 an hour, indexed to inflation. This move would limit economic opportunity and mobility for thousands of low-skilled workers. As the minimum wage increases, automation becomes relatively more affordable and employers decrease the number of employees and hours worked in response to increased labor costs.^{cxii}

Along with these proposals, Gov. Grisham also advocated for increased spending on infrastructure projects, clean energy, health care, and public-private partnership programs.

Despite signaling no plans to raise taxes in her state of the state, Gov. Grisham promptly signed the largest tax increase in New Mexico history, according to Representative Jason Harper. By creating several new tax brackets and raising the top personal income tax rate from 4.9 to 6.5 percent, New Mexico will collect roughly \$580 million more in taxes annually.^{cxiii} According to 2019 *Rich States, Poor States* data, the increase in top marginal personal income tax rate alone will cause New Mexico to drop four places to 34th in economic outlook. For a state that has lost citizens to other states every year since 2012 and with some of the slowest GDP and employment growth of any state, New Mexico’s economy cannot continue to weather a tax-and-spend fiscal policy.^{cxiv}

Fiscal conservatives in the legislature commented it does not make sense that the governor would sign such a massive tax increase while the state has a \$1.1 billion budget surplus.^{cxv} Gov. Grisham may expect

to use the nearly \$1.1 billion surplus for FY 2020 to cover her new spending programs, giving them the illusion of being paid-for. In reality, the \$1.1 billion surplus is the result of oil and gas royalties that are not a reliable source of revenue over the long term.^{cxvi} The unpredictability of these royalties could set the state up for failure in future fiscal years.

New York – Governor Andrew Cuomo

Rich States, Poor States 2019 Economic Outlook Ranking: 50

Governor Andrew Cuomo unveiled a budget proposal that kept spending growth in state operating funds to below two percent – a key goal of his administration.^{cxvii, cxviii} He also announced that New York currently has the state’s lowest middle class tax rate since 1947, the lowest manufacturers’ tax rate since 1917 and the lowest corporate tax rate since 1968. Gov. Cuomo’s budget proposal would continue New York’s middle-class tax cuts by lowering the \$40,000-\$150,000 tax bracket rate from 6.21 percent to 5.5 percent and the \$150,000-\$300,000 tax bracket rate from 6.49 percent to 6 percent. In addition to these much-needed personal income tax cuts, Gov. Cuomo’s budget would also make the two percent cap on property taxes permanent, which has saved taxpayers nearly \$25 billion since it was implemented temporarily in 2012.^{cxix}

Although the budget included these pro-taxpayer measures, it also contained tax and spending increases. Notably, the governor’s proposed budget extended the millionaire’s tax to 2024 and raised the top tax rate to 8.82 percent. When New York City’s municipal income tax is included, New York’s top marginal tax rate rises to 12.7 percent – the second highest of any state, according to 2019 *Rich States, Poor States* data.^{cxx} The tax was implemented in 2009 and was meant to last just three years; however, this year, Gov. Cuomo plans on extending the policy. Also, Gov. Cuomo called for a \$150 billion in infrastructure spending over the four years of his third term, as well as increased spending on education, affordable housing, public safety and health care. New York is facing a \$2.3 billion budget deficit, and without a concrete funding plan, it is unclear where Gov. Cuomo expects to find money for more than \$150 billion in new spending proposals.

North Carolina – Governor Roy Cooper

Rich States, Poor States 2019 Economic Outlook Ranking: 6

Governor Roy Cooper did not mention many policy specifics for the Tar Heel State’s FY 2020 budget, though he did identify a handful of spending increases.^{cxxi}

Gov. Cooper’s primary priority was an increase in education spending, including universal Pre-K, teacher pay raises, paying off teachers’ student loans, “free” community college and \$8 billion for school renovations. Currently, the K-12 education expenditure in the North Carolina state budget stands at \$9 billion.^{cxxii} An additional \$8 billion authorization is a radical increase in spending that would bring total K-12 education spending in North Carolina to \$17 billion in total.

Along with education, Gov. Cooper called for infrastructure and healthcare spending, including Medicaid expansion. Not only is Medicaid expansion an invitation for federal intervention in state decisions and a substantial financial burden, but it is unclear that Medicaid expansion is effective in improving health outcomes.^{cxxiii} In North Carolina, the estimated cost of Medicaid expansion would be \$335 million to \$430 million per year, however Medicaid expansion costs have exceeded estimates in nearly every state that has expanded under the Affordable Care Act.^{cxxiv}

North Carolina's free-market policies earned the state the ranking of 6th in economic outlook and 9th in economic performance in the 2019 *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*.^{cxxv} Gov. Cooper seemed to turn his back on the fiscal policies that helped create a prosperous, vibrant North Carolina. In this address, Gov. Cooper did not acknowledge fiscal responsibility as a priority, which should be a concern for all North Carolinians.

North Dakota – Governor Doug Burgum

Rich States, Poor States 2019 Economic Outlook Ranking: 3

Governor Doug Burgum used his State of the State address to celebrate North Dakota's economic growth.^{cxxvi} As one of the top five fastest growing states in the country as a percentage of population, North Dakota's population has grown by 13 percent since 2010, according to the governor. Gov. Burgum credited the energy boom and pro-growth policy for this success. He also announced his intention to increase budget transparency to keep elected officials accountable, particularly with respect to how oil and gas tax revenues are used.

While North Dakota certainly has a lot to celebrate, economic success can be fleeting if not paired with sensible spending. In a departure from his low-tax, low-spending message in previous addresses, Gov. Burgum called for \$1.5 billion in new infrastructure and transportation spending, as well as increased spending on healthcare and other programs. . For North Dakota to prosper in the long-term, policymakers must remember that prudent tax and fiscal policy – and a blessing of natural resources – made their economic growth possible in the first place.

Ohio – Governor Mike DeWine

Rich States, Poor States 2019 Economic Outlook Ranking: 24

In his State of the State address, Governor Mike DeWine insisted that spending increases are needed for Ohio to prosper.^{cxxvii} His spending proposals included a \$1.2 billion to maintain current roads and start new projects, and he pledged that this surge in transportation spending will be offset by necessary cuts and reforms to the Ohio Department of Transportation (ODOT). While he offered no specific proposal, Gov. DeWine lamented the eroding gas tax base, hinting that persistent underfunding of ODOT was the cause of Ohio's infrastructure quality woes. Contrary to Gov. DeWine's assertion, Ohio's \$0.28 per gallon gas tax is near the \$0.30 median state gas tax.^{cxxviii} Michigan, Pennsylvania and West Virginia all have higher gas tax rates while also having worse road quality, demonstrating that a higher gas tax rate has

little to do with infrastructure quality.^{cxxix} Additionally, the governor proposed new healthcare spending and an additional \$900 million for water treatment.^{cxxx}

Considering the Buckeye State already has a top marginal personal income tax rate of 7.5 percent when factoring in the municipal income tax of Columbus – the 11th highest of any state– it is troubling that Ohio’s governor recommends increased spending. This could necessitate tax hikes and create a higher cost of living in Ohio. Ultimately, these factors could lead more residents to leave Ohio for nearby southern states with more friendly tax codes.

Oklahoma – Governor Kevin Stitt

Rich States, Poor States 2019 Economic Outlook Ranking: 13

Governor Stitt dedicated most of his State of the State address to improving government accountability and transparency while eliminating waste.^{cxxxii} He also stressed the importance of prioritizing state spending to prepare Oklahoma’s budget for shocks in the oil market and stabilize its tax base.

Rather than spend surplus revenue, Gov. Stitt expressed his commitment to saving the funds so that Oklahoma could better weather a future economic downturn. He also continued to reject Medicaid expansion for able-bodied adults. Expanding Medicaid would increase mandatory state spending for Oklahoma and lead to future tax increases as federal matching funds begin to drop off.

The governor’s reiterated messages of transparency and efficiency will result in long term economic stability for Oklahoma. Gov. Stitt’s proposals ensure that Oklahoma taxpayers can feel secure in the event of an economic downturn thanks to the current actions of a responsible government.

Oregon – Governor Kate Brown

Rich States, Poor States 2019 Economic Outlook Ranking: 44

Governor Brown used her State of the State address as an opportunity to propose massive spending increases that Oregon simply cannot afford.^{cxxxii} Given the state’s current surplus and required “kicker” refund to taxpayers, Oregon is left with only \$800 million in extra funds to split between rainy day fund contributions and paying down nearly \$120 billion in unfunded pension and other post-employment benefit liabilities – to say nothing of Gov. Brown’s spending proposals.^{cxxxiii, cxxxiv, cxxxv} She recommended \$400 million in new housing spending as well as additional funds dedicated to the education system. This call for education spending provoked House Bill 3427, which prescribes a staggering \$2 billion in new education spending over the next two years.^{cxxxvi} Gov. Brown justified her massive spending proposals by asserting that health care, housing, environmental protection, democracy and education are “fundamentals.” Every increase in spending must be offset with an increase in taxes and increasing taxes on the already over-burdened Oregon taxpayer will push the cost-of-living even higher.

While the bulk of the governor’s address focused on harmful spending increases, one bright spot was her support for hiring of internal auditors. If implemented, their audit reports could help address waste in government.

Pennsylvania – Governor Tom Wolf

Rich States, Poor States 2019 Economic Outlook Ranking: 37

Governor Wolf started his State of the Commonwealth address on a high note, claiming that his budget called for “not one penny” in new taxes.^{cxxxvii} However, given the numerous spending increases also present in his speech, it is unlikely that Pennsylvania will be able to accomplish his policy recommendations without massive new costs borne by taxpayers.

His spending proposals included increasing the teacher pay floor to \$45,000 and increasing spending on education beyond the \$1 billion increase authorized last fiscal year. However, before increasing spending levels, the governor should first look for efficiency increases in the Pennsylvania public education system to improve student outcomes.

Rhode Island – Governor Gina Raimondo

Rich States, Poor States 2019 Economic Outlook Ranking: 42

In her address, Governor Raimondo promised her constituents a car tax cut that would extend her streak of tax cuts to “every single year for the past four years.”^{cxxxviii} This promised tax cut is somewhat misleading, considering the car tax is already being phased out as a result of House Bill 7200aaa passed last year.^{cxxxix, cxl} In reality, the governor’s proposed budget would slow the increase of the car value tax exemption and erode potential car tax savings compared to current law.^{cxli}

The remainder of Gov. Raimondo’s address focused increased spending and doubling down on some policies that hurt businesses and employees alike. Perhaps the largest of these is a promised minimum wage increase to \$11.10 – and eventually \$15 per hour. On top of this, the governor proposed increased school funding, two years of tuition-free education at Rhode Island College and spending on healthcare initiatives that all must be paid for by tax increases on hard-working Rhode Islanders. These proposals represent a substantial spending increase that will be paid for by Rhode Islanders. Unfortunately for the Ocean State, large spending increases are not what the state needs to become economically competitive.

South Carolina – Governor Henry McMaster

Rich States, Poor States 2019 Economic Outlook Ranking: 29

As one of the best addresses of 2019, the summary appears at the front of this publication.

South Dakota – Governor Kristi Noem

Rich States, Poor States 2019 Economic Outlook Ranking: 9

With South Dakota’s current low-tax policies already in place, Governor Kristi Noem used her address to focus on government reforms. This included her call for increased transparency by broadcasting debates and government meetings on social media. Additionally, she called for a full review of occupational licensing requirements to eliminate unnecessary barriers that prevent many from joining the workforce.^{cxlii}

Not long after her speech, Gov. Noem signed House Bill 1111, which mandated that licensing bodies issue licenses to military personal and spouses within 30 days of having received completed applications.^{cxliii} Based on her speech, Gov. Noem seemed content letting South Dakota rest on its laurels in the coming year.

While sound fiscal policy has left South Dakota with one of the smallest state debt obligations of any state, there is still room for improvement. The ALEC *Unaccountable and Unaffordable* state pension debt report, using a risk-free discount rate for liabilities, finds South Dakota still has an unfunded pension liability exceeding \$11.5 billion.^{cxliv}

Tennessee – Governor Bill Lee

Rich States, Poor States 2019 Economic Outlook Ranking: 7

Governor Bill Lee proposed criminal justice reforms in his State of the State speech to further improve the Volunteer State’s efficient use of government resources.^{cxlv} By allowing community supervision and electronic monitoring of low-risk, non-violent individuals, Tennessee’s justice system will save money by having fewer incarcerated individuals while still maintaining law and order. In fiscal year 2017, Tennessee spent \$102 million on individuals in community supervision. Comparatively, the incarcerated population was 62 percent smaller than the population in community supervision yet cost 7.5 times more.^{cxlvi} Although it remains to be seen exactly how much will be saved by increasing the proportion of community supervision to incarceration, the benefit to taxpayers is undeniable.

Unfortunately, the potential budget savings from criminal justice reforms may be lost to increased spending on education, public broadband, mental health and child services. Together, these initiatives are projected to cost Tennessee roughly \$92 million and potentially offset any savings from criminal justice reform. It is also important to note that increased spending on public goods does not always translate into quality. Private sector broadband development delivers better internet connection at lower cost than public initiatives. Tennesseans would be better served with a lower tax burden that would enable rural residents to purchase private options for internet access.

Texas – Governor Greg Abbott

Rich States, Poor States 2019 Economic Outlook Ranking: 15

Texas ranked 2nd in economic performance in the *2019 Rich States Poor States: ALEC-Laffer State Economic Competitiveness Index* as a result of record economic growth and in-migration.^{cxlvii} Given Texas' incredible economic performance and avoidance of a personal income tax, Governor Abbott's State of the State address did not propose radical changes to an already winning formula of low taxes and limited government.^{cxlviii}

Understanding Texas' competitive tax code advantage compared to other states, the governor vowed to continue to "limit the ability of taxing authorities to raise taxes" by giving taxpayers the power to fire their property tax appraisers and elect new ones. By giving property owners more control over their assessments, Texas would ensure more transparency and consent in the property tax assessment process. Gov. Abbott also recommended increased spending on schools, teacher salaries, mental health and border security. While the prospect of government taking on additional responsibilities may be cause for concern, the overall scope of spending increases is minimal compared to other expenditures. The Lone Star State is strong, and Gov. Abbott's proposals are likely to keep it that way.

Utah – Governor Gary Herbert

Rich States, Poor States 2019 Economic Outlook Ranking: 1

For 12 consecutive years, Utah has ranked 1st in economic competitiveness according to the *Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index*.^{cxlix} In his address, Governor Herbert announced plans to keep Utah's economy among the strongest in the country by cutting the sales tax rate from 4.85 percent to 1.75 percent. Gov. Herbert's sales tax proposal would also broaden the tax base.^{cl} Additionally, Gov. Herbert and the Utah Legislature must be careful to exclude business-to-business transactions from the expanded sales tax base. Including sales between businesses can lead to tax pyramiding that causes the tax burden on consumers to balloon. While cutting the sales tax rate is good tax policy, reducing the income tax rate is even better. Many years of economic research demonstrates that taxes on income hurt long-term economic growth the most.^{cli} To get the most return from cutting taxes, Utah should consider relying less on income taxation and instead switch their tax code to focus on consumption taxes.

Unfortunately, Utah's expansion of Medicaid represents a spike in government spending that will eventually increase the tax burden on hard-working Utahns. Utah voters passed the expansion by referendum, and Gov. Herbert recognized the need to implement it in a "fiscally responsible way." To combat government growth and rising Medicaid costs, Gov. Herbert signed House Bill 472 to limit the impact Medicaid expansion would have on state finances, reducing the program cost from \$44 million to \$30 million annually.^{cliii} More importantly, House Bill 472 protects the state from runaway costs and ballooning enrollment as a result of increased dependence on federal funds. Despite the negative effect passing Medicaid expansion will have on Utah's state finances, Gov. Herbert's demand for more fiscal responsibility and restraint will help limit the damage done by Medicaid expansion to state finances.

Vermont – Governor Phil Scott

Rich States, Poor States 2019 Economic Outlook Ranking: 49

Governor Phil Scott spent the majority of his State of the State address on Vermont’s most pressing issue – its large scale out-migration of residents to other states.^{cliii} Gov. Scott recognized the impact tax policy has on the ability of Vermont to attract residents and stressed the need to expand the tax base rather than the tax rate. Of course, without simultaneous rate reductions, expanding the tax base means Vermont will collect even more in taxes, despite already being high-tax state.. Gov. Scott must be careful to not stumble into an effective tax burden increase when expanding the tax base, otherwise Vermont may become even less economically competitive.

In this speech, Gov. Scott relied on spending proposals as a method of attracting residents to the Green Mountain State. Gov. Scott expects that by increasing spending on housing, education, broadband and urban redevelopment, Vermont will be able to overcome its comparatively high tax burden when competing with other states for residents. Vermont would be better served by making government more efficient with the end goal of cutting taxes and giving Vermont a real advantage when competing for residents against high-tax states in the Northeast.

Virginia – Governor Ralph Northam

Rich States, Poor States 2019 Economic Outlook Ranking: 14

Governor Ralph Northam began his State of the Commonwealth address by joking about a run at the Presidency.^{cliv} Perhaps the bigger bombshell was his announcement of more than \$1.25 billion in new state spending on teacher salaries, student aid, infrastructure, water quality and environmental protection. The additional spending is unlikely to stop there. In 2018, the Virginia General Assembly voted to expand Medicaid coverage to 200,000 able-bodied adults, starting in 2019. If Virginia fails to contain the ever-expanding costs of Medicaid and approves Gov. Northam’s spending agenda, the costs and overreach of government will continue to pile up, and Virginia may have to look at increasing taxes, assuming no cuts to other spending. Tax increases should be a non-starter for a state with personal income tax, corporate income tax and property tax burdens higher than average. North Carolina and Tennessee lie directly to Virginia’s south and have populations and economies that continue to grow as Virginia’s falters. The lack of tax and fiscal policy competitiveness are central causes behind Virginia’s lagging growth compared to its neighbors. The more Gov. Northam asks from Virginia’s tax base, the less likely residents and job creators are to stick around.

Gov. Northam also proposed making the Earned Income Tax Credit (EITC) refundable in order to reduce the tax burden on low-income households. This pseudo-tax cut relies on correct filing and tax compliance from low-income families that often do not have the time or expertise in tax filings to take advantage of a refundable EITC. In fact, common criticisms of relying on the EITC to reduce low-income tax burden are filing complexity and high error rates.^{clv} Rather, Gov. Northam should look at personal income tax reform across all tax brackets to pass broad tax reform for all Virginians.

With this address, Gov. Northam has decided to take on the responsibility of providing goods and services that could otherwise be more efficiently supplied by the private sector. In addition to massive new spending increases, Gov. Northam’s tax proposal fails to promise tax reform for all Virginians and will do little to encourage new residents and job creators. Until this changes, the Old Dominion will continue to lose out to more competitive states to the south.

Washington – Governor Jay Inslee

Rich States, Poor States 2019 Economic Outlook Ranking: 39

Governor Jay Inslee’s State of the State address made many bold statements while leaving one glaring question unanswered – how will Washington pay for the Gov. extravagant spending increases?^{clvi} In the span of a single speech, Gov. Inslee promised to transition to 100 percent clean energy, dedicate \$400 million to the chronically homeless, fund preschool from “birth to 3” and offer tuition-free college. Each of these proposals constitutes an explosion of government spending that Washington’s already uncompetitive state tax code is not built to fund. Despite following the highly competitive policy of no personal income tax, Washington has the 7th highest sales tax burden, 7th highest miscellaneous tax burden, and also levies an anti-growth estate tax. Put together, Washington’s tax and fiscal policy gives the state an economic outlook ranking of 39, according to 2019 *Rich States, Poor States* data.^{clvii}

Unfortunately for Washington taxpayers, these massive spending increases are likely to be accompanied by similarly massive tax increases. Although the \$400 million dedicated to the chronically homeless is substantial, the governor’s other proposed initiatives are just as – if not more – costly.

The cost of moving fully to renewable energy is equally exorbitant. To give context, for the US – as a whole – to transition completely to renewable sources it would require spending at least a \$5.7 trillion.^{clviii} This serves to illustrate just how burdensome this proposal would be to taxpayers.

West Virginia – Governor Jim Justice

Rich States, Poor States 2019 Economic Outlook Ranking: 35

Governor Justice’s State of the State address presented policy proposals that West Virginians on any side of the political spectrum may find attractive.^{clix} On one hand he promised both “no new taxes” and “significant tax cuts.” These cuts included eliminating the income tax on social security benefits and business inventory machinery tax. The phasing out of West Virginia’s business inventory machinery tax will be a boon for West Virginia business owners, saving them \$209 million annually based on 2016 figures.^{clx}

Yet, the governor’s promise not to make any spending cuts hinted at business-as-usual spending and smaller-than-promised tax cuts. He recommended increased spending on tourism, drug addiction treatment, foster care, employee health plans and job training centers. Altogether, this amounts to \$214 million in new government spending – an increase of nearly 5 percent from FY 2019.^{clxi} Simultaneous tax cuts and budget increases are likely to erode West Virginia’s operating budget surplus and will yield substandard results compared to a dedicated policy of low taxes and low spending.

Wisconsin – Governor Tony Evers

Rich States, Poor States 2019 Economic Outlook Ranking: 20

Although Governor Tony Evers dedicated a portion of his State of the State address to much-needed tax cuts, the positive outlook of Wisconsin’s future is dampened by major increases in government spending.^{clxii} In terms of tax cuts, the governor promised a 10 percent tax cut for all individuals earning up to \$100,000 and families earning \$150,000 dollars. While these tax cuts would certainly help middle-income earners in Wisconsin, it would be even better to pass tax cuts across the board. With a top marginal personal income tax rate of 7.65 percent levied on countless job creators, Gov. Evers could generate much more long-term growth with tax cuts for every bracket.^{clxiii} Unfortunately, any pro-growth gains from Gov. Evers’ tax cuts would be more than undone by devoting \$600 million to education and expanding Medicaid.^{clxiv} Given that Medicaid costs are recurring, it is likely that the governor’s proposal will lead to \$600 million in new mandatory spending every year..

Wyoming – Governor Mark Gordon

Rich States, Poor States 2019 Economic Outlook Ranking: 11

The policy proposals in Governor Gordon’s State of the State address were plentiful but will have little impact on the economic outlook of Wyoming.^{clxv} The governor’s efficiency study and proposed reforms to Wyoming’s Rainy-Day Account are great steps toward a cost-effective government that spends taxpayer dollars efficiently and strategically. Without current tax changes, it is unclear how the governor hopes to fund his proposal for a universal state employee pay raise and funding for statewide public broadband access. Without broader tax or regulatory reform, Wyoming is unlikely to see any major changes in economic outlook as a result of governor Gordon’s policy priorities.

Appendix

ALEC PRINCIPLES OF TAXATION

The proper function of taxation is to raise money for core functions of government, not to direct the behavior of citizens or close budget gaps created by overspending. This is true regardless of whether government is big or small, and this is true for lawmakers at all levels of government. Taxation will always impose some level of burden on an economy’s performance, but that harm can be minimized if policymakers resist the temptation to use the tax code for social engineering, class warfare and other extraneous purposes. A principled tax system is an ideal way for advancing a state’s economic interests and promoting prosperity for its residents. The goal of American tax policy should be to raise revenue for functions of government in a way that minimizes distortions, so as to grow the overall economy and facilitate commerce.

Guiding principles of taxation

The fundamental principles presented here provide guidance for a neutral and effective tax system; one that raises needed revenue for core functions of government, while minimizing the burden on citizens.

- **Simplicity** – The tax code should be easy for the average citizen to understand, and it should minimize the cost of complying with the tax laws. Tax complexity adds cost to the taxpayer, but does not increase public revenue. For governments, the tax system should be easy to administer, and should help promote efficient, low-cost administration.
- **Transparency** – Tax systems should be accountable to citizens. Taxes and tax policy should be visible and not hidden from taxpayers. Changes in tax policy should be highly publicized and open to public debate.
- **Economic Neutrality** – The purpose of the tax system is to raise needed revenue for core functions of government, not control the lives of citizens or micromanage the economy. The tax system should exert minimal impact on the spending and decisions of individuals and businesses. An effective tax system should be broad-based, utilize a low overall tax rate with few loopholes, and avoid multiple layers of taxation through tax pyramiding.
- **Equity and Fairness** – The government should not use the tax system to pick winners and losers in society, or unfairly shift the tax burden onto one class of citizens. The tax system should not be used to punish success or to “soak the rich,” engage in discriminatory or multiple taxation, nor should it be used to bestow special favors on any particular group of taxpayers.

- Complementary – The tax code should help maintain a healthy relationship between the state and local governments. The state should always be mindful of how its tax decisions affect local governments so they are not working against each other – with the taxpayer caught in the middle.
- Competitiveness – A low tax burden can be a tool for a state’s private sector economic development by retaining and attracting productive business activity. A high-quality revenue system will be responsive to competition from other states. Effective competitiveness is best achieved through economically neutral tax policies.
- Reliability – A high-quality tax system should be stable, providing certainty in taxation and in revenue flows. It should provide certainty of financial planning for individuals and businesses.

Benefits of a principled tax burden

Since taxes lower the economic welfare of citizens, policymakers should try to minimize the economic and social problems that taxation imposes. Citizens then directly gain the benefits of a low tax burden. These benefits are summarized below:

- Greater economic growth – A tax system that allows citizens to keep more of what they earn spurs increased work, saving and investment. A low state tax burden would mean a competitive advantage over states with high-rate, overly progressive tax systems.
- Greater wealth creation – Low taxes significantly boost the value of all income-producing assets and help citizens maximize their fullest economic potential, thereby broadening the tax base.
- Minimize micromanagement and political favoritism – A complex, high-rate tax system favors interests that are able to exert influence in the state capitol, and who can negotiate narrow exemptions and tax benefits that help only limited taxpayers and not the general economy. “A fair field and no favors” is a good motto for a strong tax system.

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