

California's Economic Competitiveness Deteriorates, Now Ranks 43rd

New Study Shows Path to Economic Recovery for States

Washington, D.C. — In the past year, [California's economic outlook](#) fell to 43rd nationally, according to a new report from the [American Legislative Exchange Council](#) (ALEC). The second edition of [Rich States, Poor States: ALEC-Laffer State Economic Competitiveness Index](#) offers a roadmap for economic recovery based on state policies that have a proven impact on growth.

Having one of the highest tax burdens of any state, poor labor policies, and a dysfunctional tort liability system all hurt California's economic outlook. Also of particular concern is the state's rapid accumulation of debt from years of borrowing. California's poor economic competitiveness ranking does not take into consideration the massive tax increases that were recently enacted. These tax increases are sure to make the state even less competitive in the future.

In the past ten years California has lost nearly 1.5 million residents in terms of net domestic migration – only New York has lost more during that period. Many of the tax refugees fleeing California headed to far more competitive and business-friendly bordering states like Nevada, which ranks 7th nationally and Arizona, which ranks 3rd. The *Rich States, Poor States* study devotes an entire chapter to explain the erosion of economic competitiveness in the Golden State, and another to compare California's public policies with those of Texas.

The report also shows how federal stimulus dollars may simply encourage out-of-control state spending, which is up 124 percent over the last 10 years, without requiring states to make the tough decisions needed to bring about financial stability. "States were quick to hike spending and add programs during the good times," said Senator Dennis Hollingsworth, ALEC's California State Chairman. "Now we need to make the hard choices and not spend more than government takes in. The best solution to our budget woes is to control state spending and promote policies that foster economic growth and job creation."

Co-author and renowned economist Dr. Arthur B. Laffer (a former California resident) summarized the report's findings when he said, "States cannot tax their way into prosperity." [Rich States, Poor States](#) presents rankings of the 50 states based on the relationship between policies and performance – revealing which states are best positioned to make a recovery, and which are not.

Laffer and his co-authors, Steve Moore, senior economics writer at *The Wall Street Journal*, and Jonathan Williams, director of the Tax and Fiscal Policy Task Force for ALEC, analyze how economic competitiveness drives income, population and job growth in the states. They found that, "states with a high and rising tax burden are more likely to suffer through economic decline, while those with lower and falling tax burdens are more likely to enjoy robust economic growth."

"The top performing states keep taxes, spending, and regulatory burdens low, while the biggest losers in the book tend to share similar policies of high tax rates, unsustainable spending and regulation," said co-author, Jonathan Williams. "State governments that believe they can bring about economic recovery by growing government and increasing taxes are sadly mistaken."

TOP FIVE STATES

1. Utah
2. Colorado
3. Arizona

BOTTOM FIVE STATES

46. New Jersey
47. Maine
48. Rhode Island

4. Virginia

49. Vermont

5. South Dakota

50. New York

To read more about the state-to-state comparisons, see the individual state analysis, and view the full report, download it for free at www.alec.org.

The American Legislative Exchange Council (ALEC) is the largest individual membership organization of state legislators and the private sector that brings them together as equal partners in the development of free-market model legislation for the states.