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Prosperity Reigns in States With Low Taxes

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By: Richard Rahn Newsmax

“Fiscal crisis hits the states” has become this year’s most boring and repetitive headline. But what is largely overlooked is that some states are doing relatively well — such as my home state of Virginia — and are, in fact, balancing their budgets without draconian budget cuts or tax increases.

What are the well-managed states doing right and the others doing wrong? And what lessons could those running the federal government learn from the better-managed states?

The United States is a federal republic, wherein the Constitution gives most governing powers to the states, not Washington. The beauty of this system is that the states can experiment to determine which policies and governmental structures work and which don’t.

Nine states do not have a state income tax, while several others have maximum income tax rates of more than 10 percent. The nine states without an income tax had much higher economic and personal income growth than those nine states with the highest marginal income tax rates.

Likewise, the 10 states with the lowest tax burden as a percentage of personal income had personal income growth that was about 17 percent higher than the 10 states with the highest tax burden.

Government services often are worse in the high-tax states than in low-tax states. The evidence indicates that high taxes are the problem, not the solution.

The accompanying table shows the rankings of seven of the major states by various organizations. (I deliberately left out small-population states because they are sometimes accused of having specific advantages, e.g. Alaska’s oil wealth, that larger populated states often do not have. And, in fact, if I had included the small states, it would have further reinforced the points I am trying to make.)

Three of the highest-ranking states (Florida, Texas, and Tennessee) have no state income tax, while the three states at the bottom of the rankings (California, New Jersey, and New York) all have high income tax rates.

Furthermore, population growth was much higher in the states with good tax and business climates, because people migrated to those states.

State Economic Climate

	Economic Performance Ranking 2010	Business Tax Climate Ranking 2011	Small Business Survival Ranking 2011	Population Growth 2000-2010	Right to Work
Florida	5	5	6	17.6%	Yes
Virginia	8	12	14	13.0%	Yes
Tennessee	10	27	11	11.5%	Yes
Texas	19	13	3	20.6%	Yes
California	46	49	48	10.0%	No

New Jersey	48	48	50	4.5%	No
New York	50	50	49	2.1%	No

Sources: American Legislative Exchange Council, Tax Foundation, Small Business and Entrepreneurship Council, U.S. Census Bureau, National Right to Work Legal Defense Foundation.

Given the ongoing fight between public-employee unions and some state governors, it is interesting to observe that the “right to work” states (that is, those states where workers are not forced to join a union against their will in order to obtain a specific job) also had much better performances than in those states where workers are not protected from involuntary unionism.

The state of Virginia is usually ranked at the top or near the top of the “best managed” states. Virginia’s budget is balanced (as required by the state constitution), the tax burden is moderate, the service delivery tends to be well above average for a government service, and there is almost a total absence of corruption by government officials.

The Virginia state legislature meets only 45 days on odd-numbered years and 60 days on even-numbered years — so much for the myth that you need full-time state legislators as most states unnecessarily have in order to conduct the people’s business.

James LeMunyon (a physicist by training) is an elected member of the Virginia legislature. A couple of decades ago, he was a professional staff member for a well-known U.S. congressman. In between his government service, he ran a couple of high-tech firms.

This past week, I asked LeMunyon if he had learned any lessons from his business and Virginia state house experience that could be useful for the federal government.

LeMunyon suggested that the U.S. Congress adopt the Virginia legislature’s “one object rule,” whereby only one distinct issue can be put into any bill, which means that most bills do not exceed one page (unlike a couple of the 2,000-page disasters that Congress passed last year).

The Virginia legislature also requires three days of consideration before any bill can be voted on, and all of the details of the bill must be online for those three days so any citizen can look at it.

LeMunyon noted: “The Virginia House of Delegates has retained many of the good government procedures first set forth by Thomas Jefferson. As a result, Virginians benefit more from a government that is more open, honest, and limited than citizens of many other states.”

Finally, LeMunyon noted that in Virginia, fundraisers may not be held while the legislature is in session.

If Congress adopted the “no fundraisers while Congress is in session” rule, it would have two desirable results: The first is that our federal elections would probably not be as expensive, and the other, more important, result is that Congress would in all likelihood spend far less time in session, which would benefit our pocketbooks and our liberties.

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