Utah Ranks First in Economic Outlook Index

In a time of broken state budgets throughout the country and proposed 2011-2012 budget gaps of over $117.2 billion, Utah has once again managed to keep its budget intact and rank as the country's economic outlook leader.

In the American Legislative Exchange Council's (ALEC) latest "Rich States, Poor States- Economic Competitive Index," Utah has ranked as the top state in terms of economic outlook compared to economic performance from 1998 to 2008. By evaluating fifteen state policy variables, including number of state employees per capita, state worker compensation costs, overall tax burden, unionization and tax progressivity, ALEC once again ranked Utah as having the more promising economic outlook for the third year in a row. In the fifteen categories, Utah ranked among the top ten states in nine categories.

Utah's fiscal management success stems from not falling into the trap of continuous state budget expansion. Between 1997 and 2007 most states significantly increased their budget and are now paying the price. California is one of the worst examples.

According to the ALEC 2010 report, from 1997-2007, California's total state budget and local spending increased 41.5%. The greatest growth occurred between 2003 and 2007 when the California budget grew from $75 billion to $99 billion, a 31 percent increase that was almost double the state's 17 percent population increase. And now that increased revenues have failed to continue, California is over $40 billion in debt and at greater risk of defaulting than Greece.

The Tax Foundation has reached similar conclusions about California and insists there is a lesson to be learned. "States should not assume that revenue surges in good times will continue indefinitely… Legislators should adopt wise spending and tax policies that recognize and prepare their states for these realities."

The ALEC report further defines "wise spending and tax policy" as setting reasonable spending limitations, creating spending priorities based budgeting and rejecting most tax increases.

According to a Reason Foundation study, if all state legislatures had set reasonable spending limitations and expanded their budget from 2002 to 2007 at the rate of population growth plus inflation, all states would currently be experiencing budget surpluses. Reports from the Beacon Hill Institute and Tax Foundation concur. Instead of expanding state budgets exponentially during prosperous times, legislators should expand budgets more reasonably by accommodating for population growth, inflation and allowing the extra dollars to return to taxpayers.

Colorado has modeled this solution. Following a Taxpayers Bill of Rights that mandates slower, more reasonable government expansion, Colorado has developed a competitive business climate, returned millions through tax refunds and become one of the most stable economies in the country.

Following the mindset of reasonable spending, the ALEC report encourages legislators to create priority based budget decisions. In the wake of the post-September 11th recession, Washington state used a series of questions to determine the programs and issues that merited continued or additional funding.

1. How much money does the state have?
2. What is the existing and forecasted revenue?
3. What does the state want to accomplish?
4. What are the essential services we must deliver to citizens?
5. How will the state measure its progress in meeting those goals?
6. What is the most effective way to accomplish the state's goals with the money available?

And while budget cuts and fiscal restraint are often unpopular among tax and spend advocates, residents in even the most liberal states prefer that their governments operate within their means. In California, 50% compared to 13% prefer decreased spending compared to tax increases. The same is true in New York where 58% to 30% prefer spending cuts to tax hikes.

Finally, avoiding tax increases and predatory tax policies is an essential element to fiscal responsibility. Of the ten states that raised their taxes most significantly in 2009, seven of the states are ranked among the 30 percent of states with the bleakest economic outlook. And while Utah avoided general tax increases in 2010, Utah's predatory tobacco tax is already taking its economic toll. Utah's oldest smoke shop is closing its doors as a direct result of the tobacco tax. No economic model has been able to show how the tobacco tax increase will fiscally benefit the state.

Fortunately, Utah's overall wise tax and spending policies have made it an economic outlook leader. Despite minor set backs, Utah's balanced 2010 budget, reasonable spending limitations, priority based budgeting and generally low tax burden make it one of the best fiscally managed states in the nation.