The Taxpayers Network is a non-profit social welfare organization founded in 1992 with the mission of educating its members and the general public about American government and public policy. The Taxpayers Network conducts and publishes research with the goal of generating policy discussions in the areas of government programs and expenditures, taxation, economic prosperity, Social Security and retirement programs, education and other matters.

The Taxpayers Network
W67 N222 Evergreen Boulevard Suite 202
Cedarburg, WI 53012-2645
Phone: (262) 752-0137
Fax: (262) 752-0132

For more information about The Taxpayers Network, or to access and online version of this document, please visit our website at: www.taxpayersnetwork.org

For questions about this report or other research by The Taxpayers Network, please contact:

Marc C. Duff, Senior Research & Policy Director
Phone: (262) 782-0763
email: mduff@taxpayersnetwork.org

Amy McGee Polasky, Executive Director
Phone: (262) 252-0137

About the Author

Richard Vedder is a Distinguished Professor of Economics at Ohio University. After completing his studies at Northwestern University, he received his Ph.D. in economics from the University of Illinois. Dr. Vedder has served as an economist with the Joint Economic Committee of Congress, and has taught at several other universities, most recently as the John M. Olin Visiting Professor of Economics and Public Policy at the Center for the Study of American Business at Washington University in St. Louis. The author of over 200 scholarly papers and articles and six books or monographs, Professor Vedder writes and speaks frequently on tax and other public policy issues. His commentary has appeared in such leading newspapers as the *Wall Street Journal, Christian Science Monitor, Washington Post, Investor's Business Daily, USA Today,* and the *Chicago Tribune.* He has also advised political leaders in over 20 states and several other nations on fiscal policy issues. His most recent books include: Can Teachers Own Their Own Schools (Oakland, CA: Independent Institute, 2000), and, with Lowell Gallaway, *Out of Work: Unemployment and Government in Twentieth Century America* (New York: New York University Press, 1997).

TAXATION AND MIGRATION

By Richard Vedder
Distinguished Professor of Economics
Ohio University

Introduction

The ultimate expression of a person's feelings about a locality comes from moving into or out of that community. A move away from a location is a sign of ultimate unhappiness – an indication that the migrant believes life will be better somewhere else. Similarly, a move into a community is a vote of confidence in that place – an indication that the mover expects life to be somehow better in his or her new home. Migration statistics, therefore, provide a good indication of how people in general feel about different parts of our country. If more move into than out of a community, that is a sign that people in general find that it is a good place to live. Indeed, migration might well be our most reliable indicator of how people find "the quality of life" in various locations.

Communities vary, of course, in many ways – climate, income levels, job opportunities, political orientation, environmental conditions and demographic factors (the age, racial and ethnic distribution of the population) are just six attributes, and there are many others. Many of these characteristics are determined by nature, or are at least difficult for local policymakers to modify. Yet governmental officials do influence several things that are important to citizens, the most important of which is the mix of public services and the "price" that people have to pay for them, as reflected in the level of taxation. Do tax decisions of state and local government officials impact on the movement of people? Do people typically move to states with high taxes, but also presumably high levels of governmental services? Or, do they seek the locations with the lowest tax "price"?

The answer to that question, of course, varies from individual to individual. Indeed, some persons may choose cities with high taxes and public services because of peculiarly strong tastes for the things that governments typically provide, while others are hardy individualists who want government to provide a few basic things well (e.g., police and fire protection) financed by low taxes, leaving the rest up to the individual and his family to provide.[1] As one moves from a very low price (low taxes) state with basic public services to a state with higher taxes, the issue is: are the welfare gains to the citizenry from added public expenditure enough to offset the loss of private income arising from higher taxes? At the margin, are the benefits greater than the costs?

[1] The classic elaboration on this point is Charles Tiebout, "A Pure Theory of Local Expenditure," *Journal of Political Economy*, October 1956, pp. 416-424.

Taxation and Migration in Twentieth-Century America

The United States is a great place to examine the issue of the relation of taxation to migration. To begin with, it has 50 states and the District of Columbia, all with good statistics and with free movement between jurisdictions, unimpeded by significant migration restrictions (the right to movement being implicit in the American Constitution). Moreover, there are huge variations in the behavior of states both with respect to the levels and variety of taxes levied, and with respect to migration.

Table 1 looks at both net domestic migration and international migration for the 50 States and the District of Columbia for two time periods: 1990-99, and 2000-2002. Net domestic migration equals in-migration minus out-migration of native-born Americans. Thus if a state has 70,000 in-migrants, but 55,000 out-migrants, its net-migration is 15,000 (70,000 - 55,000). Often, net migration is negative: out-migration is greater than in-migration. For the nation as a whole, net migration of native-born Americans is zero – one state's loss is another's gain. International migration reflects immigration minus emigration (since emigration is very small, the net totals are always positive).

Looking first at the 1990s data, note the huge extremes in net domestic migration. More than 1.1 million native-born Americans, net, moved into Florida – over 300 a day for everyday for nine years. Yet an even larger number – almost 2.2 million – migrated out of California – almost 25 *an hour* for every hour over nine years! There is some regional or climatic pattern to the numbers – most Sun Belt states had large in-migration – but then there is California. There is net out-migration from most of New England (e.g., Massachusetts, Connecticut, Rhode Island) – but in-migration into New Hampshire.

The pattern is essentially the same in the new century to date. The biggest state of in-migration is Florida, while the greatest out-migration now comes from New York, as the out-migration from California has slowed somewhat. Regarding immigration, it is positive to all states in both periods, with some states on the U.S. border such as California, Texas and Florida getting large numbers of immigrants.

The tax burden varies also considerably among the states. Looking at state and local taxes as a percent of person income, in 1990, the tax burden varied from 8.35 percent in New Hampshire, to 15.53 percent in neighboring New York (excluding Alaska and the District of Columbia, which had still higher burdens). By the end of the 1990s, the variation in tax burdens declined somewhat, as tax competition forced down some tax burdens in very high tax states. Still, New Hampshire and Tennessee took less than nine percent of the income of citizens, compared with over 14 percent in New York – more than a nickel more out of every dollar earned went for taxes in New York compared with Tennessee (meanwhile, the tax burden was still higher in Hawaii – over 15 percent of income).

<u>**Table 1:Net Migration in the U.S., 1990s and 2000-2002, in thousands**</u>

State	1990-1999		2000-2002	
	Net Domestic	International	Net Domestic	International
Alabama	112	14	-13	13
Alaska	-24	9	-3	4
Arizona	577	106	137	90
Arkansas	111	10	3	12
California	-2,171	2,280	-168	738
Colorado	403	65	61	120
Connecticut	-226	73	-7	36
Delaware	35	9	10	6
D.C.	–147	30	-17	10
Florida	1,109	640	356	277
Georgia	665	106	105	101
Hawaii	-99	54	-7	15
Idaho	136	18	16	24
Illinois	-560	384	-166	169
Indiana	83	29	-16	28
Iowa	-16	21	-25	16
Kansas	-16	28	-24	21
Kentucky	97	16	4	15
Louisiana	-140	26	-58	11
Maine	-7	4	16	2
Maryland	-55	132	30	56
Massachusetts	–244	148	-46	73
Michigan	-199	100	-50	58
Minnesota	87	55	3	37
Mississippi	45	7	-16	6
Missouri	101	38	8	24
Montana	48	3	1	1
Nebraska	-4	15	-15	12
Nevada	433	56	101	37
New Hampshire	30	7	24	5
New Jersey	-378	378	-54	141
New Mexico	42	38	-8	15
New York	-1,889	1,108	-373	330
North Carolina	554	58	74	86
North Dakota	-37	5	-14	2
Ohio	-166	53	-74	37
Oklahoma	43	29	-11	20
Oregon	271	66	31	37
Pennsylvania	-251	115	-27	51
Rhode Island	-63	16	7	9
South Carolina	143	19	31	19
South Dakota	-3	5	-4	2
Tennessee	357	30	30	26
Texas	570	715	93	365
Utah	73	30	-20	26
Vermont	6	5	4	2
Virginia	97	146	38	76
Washington	382	147	29	69
West Virginia	2	3	-5	2
Wisconsin	90	25	8	24
Wyoming	-4	2	-1	1

The government of the District of Columbia estimates the burden of paying major taxes (income, property, sales and auto) in the largest city in each state as well as Washington, D.C. It does this for different incomes, assuming a family of four. Looking at families with $50,000 income, the total tax burden was under $3,000 (six percent of income) in nine cities: Cheyenne, Anchorage, Las Vegas, Jacksonville, Sioux Falls, Memphis, Houston, Phoenix, and Denver. There were eight cities, however, where the burden exceeded $5,000 (10 percent of income): Bridgeport (highest), Philadelphia, Newark, Providence, Portland (Maine), Baltimore, New York City and Louisville. Thus the tax variations were substantial.

At higher income levels, the tax differences grow, not only absolutely but also relatively, because of vast differences in the progressivity of tax systems. For example, at $100,000 income, six states had large cities with less than an average tax burden of $5,000 (five percent): Memphis, Jacksonville, Sioux Falls, Las Vegas, Cheyenne, and Anchorage. Notably, all of those cities are in states without a state individual income tax. By contrast, there were six cities with taxes exceeding 12 percent of income ($12,000): Bridgeport (where taxes were estimated at a staggering $22,442!), Portland (Maine), Philadelphia, New York City, Providence and Newark. The high tax cities had tax burdens roughly three times that of the lower tax ones, and a $100,000 income family in Las Vegas paid, it is estimated, more than $8,700 less than one in New York City. Taxes thus are not a trivial item in the budget of many families.[2]

Thus the differences in tax policies between the states are considerable. Some nine states (Alaska, Florida, New Hampshire, Nevada South Dakota, Tennessee, Texas, Washington and Wyoming) do not levy a general individual income tax, and five do not have a general sales tax (Alaska, Delaware, Montana New Hampshire, and Wyoming). The reliance on property taxes varies sharply by state as well. For example, the D.C. government estimates that a typical family of four making $50,000 annually pays $535 in property taxes in Phoenix – but $8,352 in Bridgeport, Connecticut.

Do Taxes Affect Migration?

America is a Nation of Movers – with vastly different migration patterns across the 50 states. It is also a nation where there are vast differences in the prices of governmental services, as reflected in taxes. Are these two phenomena related? Do taxes influence migration decisions?

For an initial exploration into this question, I divided the 50 states into two groups – high tax and low tax states – for two different periods, 1990-99, and 2000-2002. The 25 states

[2] While the District of Columbia data are interesting and provide some more vivid comparisons than Census data, this report stresses the latter data source. The D.C. data are only for the largest city in each state, they exclude some not inconsequential taxes on individuals, but most importantly, they exclude business taxes, which impact as well on economic activity. The D.C. data are published by the Department of Finance and Revenue, Government of the District of Columbia, *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison.* The Census Bureau data that provide the basis of most of the analysis in this study can be found via their web site at www.census.gov.

with the greatest state and local tax burden as a percent of personal income as of fiscal year 1990 were defined as the "high tax" states for our examination of migration in the 1990s; the 25 states with the lowest burden so measured were the low tax states. Similarly, for 2000-2002, the high and low tax states were defined the same way using data for fiscal year 1999, the latest data available at the time of the analysis.

Starting with the 1990s, and looking first at only domestic migration (ignoring immigration), I observed that *2,611,000 Americans net moved out of the high tax states into the low tax ones.*[3] That is a migration of about one thousand persons per day for each business day during this period of nearly a decade (the migration statistics are from April 1, 1990 to July 1, 1999).

Looking at the 2000-2002 period, the listing of high and low tax states changes somewhat, as some states raised their tax burdens during the 1990s while others lowered it. Seven states went from being classified high to low tax: Georgia, Iowa, Louisiana, Nebraska, Oregon, South Carolina, and Alaska.[4] Going from low to high tax states were: Connecticut, Delaware, Kentucky, Mississippi, New Jersey, North Dakota, and Ohio. In the 27 month period April 1, 2002 to July 1, 2002, net out-migration was 611,000 from the high tax to the low tax states.[5] Again, *out-migration from the high tax states exceeds one thousand for each business day.*

The evidence is striking – large numbers of Americans fled high tax jurisdictions for lower taxed ones. Indeed, the magnitude of the movement is probably greater than that from East to West Germany in the decade before the building the Berlin Wall, or in the decade since it came down. It is a movement on the scale with the Westward Movement that is a central part of the American historical story – but it is seldom mentioned in the newspapers or television, much less the history books.

Adding in immigration does not change the picture dramatically. Whereas native born Americans, already in the United States, are particularly sensitive to interstate differentials in characteristics such as wages, jobs, climate and taxes, international migrants no doubt concentrate on the differences between their native land and the U.S.

---

[3] The high tax states: Alaska, Arizona, California, Georgia, Hawaii, Idaho, Iowa, Louisiana, Maine, Michigan, Minnesota, Montana, Nebraska, New Mexico, New York, North Dakota, Oregon, Rhode Island, South Carolina, Utah, Vermont, Washington, West Virginia, Wisconsin, Wyoming. The low tax states: Alabama, Arkansas, Colorado, Connecticut, Delaware, Florida, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Mississippi, Missouri, Nevada, New Hampshire, New Jersey, North Carolina, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee, Texas, and Virginia.

[4] The move from "high" to "low" tax state often reflected fairly modest changes in tax burdens. For example, Nebraska ranked 19th in tax burdens in 1990, making it a "high" tax state, but 29th in 1999, making it arbitrarily a "low" tax state. Later, other data classifications will more sharply delineate the high and low tax states. Alaska is a special case, often left out of statistical analyses (as is the District of Columbia and Hawaii). The classification of energy-derived revenues as "taxes" or "non-tax" revenues is somewhat arbitrary, and those revenues change significantly with changing oil prices. This is a lesser problem in some other energy-intensive states as well.

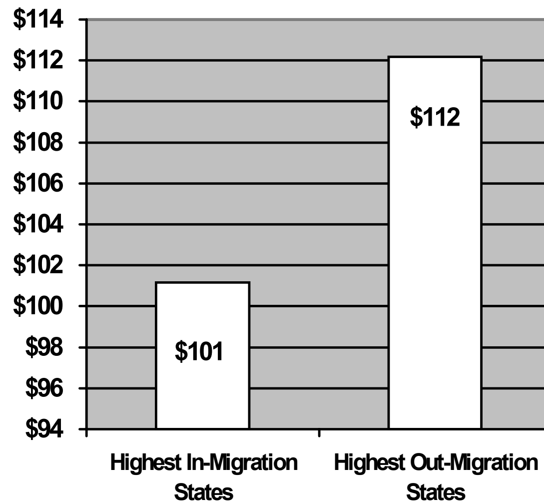
[5] Actually, 626,000 moved into the low tax states. The slightly discrepancy between the low and high tax state numbers is largely explainable by the exclusion of the District of Columbia (a high tax area) from our classification of states, but their residents are Americans classified in the migration statistics.

Adding in immigrants, in the 1990s, net in-migration was 5,806,000 into the low tax states – well over triple the 1,644,000 into the high tax states. For the early period in the new century, total net in-migration into the low tax states was 2,210,000, almost double the 1,142,000 going to the high tax ones. People voted with their feet mainly to live in lower tax havens than higher taxed ones.

What this all suggests is, for most movers, that increasing taxes from low levels to higher levels makes life less attractive. The benefits associated with the added government services provided by high tax states are less than the added costs. People are suggesting that they can gain more utility (happiness) spending the money themselves.

A problem with the categorization of "high tax" and "low tax" states is that many states with essentially middle-of-the-road tax policies are arbitrarily called "high" or "low" tax – the 25th ranked state is "high," while the 26th ranked state is "low." To get a truer picture of the difference in migration behavior between truly high and low tax states, we looked at the top 10 states in terms of burden (clearly high tax states by almost any definition), as well as those in the bottom 10 in tax burden (low tax states).

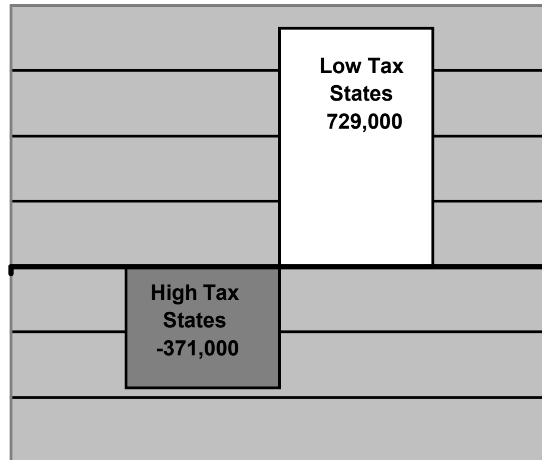
As Figure 1 shows, for the 1990s, the 10 highest tax states (Alaska, Arizona, Hawaii, Minnesota, Montana, New Mexico, New York, Washington, Wisconsin, and Wyoming) had *a negative* net internal migration of 890,000, while the lowest tax states (Alabama, Arkansas, Florida, Indiana, Mississippi, Missouri, New Hampshire, South Dakota, Tennessee, and Virginia) had a robust positive net internal migration of 2,052,000. Adding in immigration, the numbers change but the conclusion is the same: migrants are far more attracted to low tax than to high tax states. The high tax states had net in-migration of 667,000 – the low tax states had net in-migration of 2,978,000 – well over four times as many.



Has that pattern changed in the new century? No, in fact, if anything, it has intensified. To be sure, the list of high and low tax states has changed. Connecticut, Maine, Utah, Vermont and West Virginia have replaced Alaska, Arizona, Montana, Washington and Wyoming on the high tax list. Similarly, Colorado, Nevada, Oregon and Texas have joined the list of low tax states, replacing Arkansas, Indiana, Mississippi, and South Dakota. The cast of characters changes, but the story is the same.

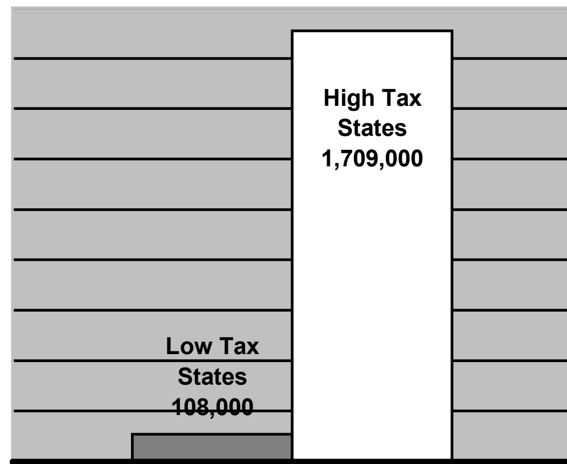
As Figure 2 shows, from 2000-2002, some 371,000 native born Americans left the high tax states net of incoming migrants, compared with an in migration of 729,000 into the low tax states. On a per year basis, the more recent figures show a sharp increase in movement between the two areas – the fleeing of high tax states is growing. For example, in the 1990s, average annual net out-migration of native born Americans from high tax states was 99,000 per year, compared with 165,000 annually since 2000. In-migration into the low tax states (so defined) averaged 228,000 in the 1990s, but 324,000 since 2000.

Figure 2: Domestic Migration of High & Low Tax States, 2000-2002



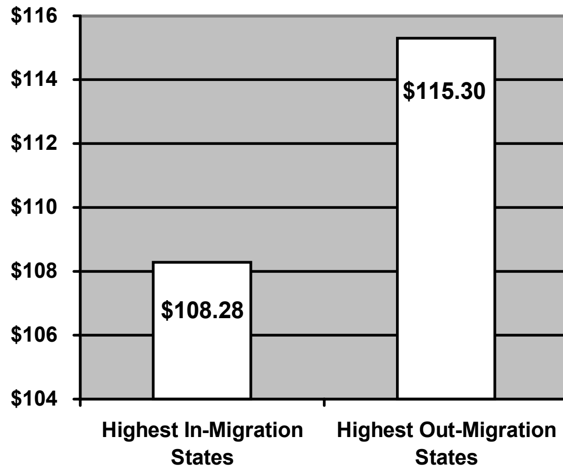
Adding in immigration does not change things dramatically, especially since immigration was twice as much into the low tax states as high tax ones. As figure 3 shows, total migration into the low tax states (1,709,000) was nearly sixteen times as great as for the high tax states (108,000).

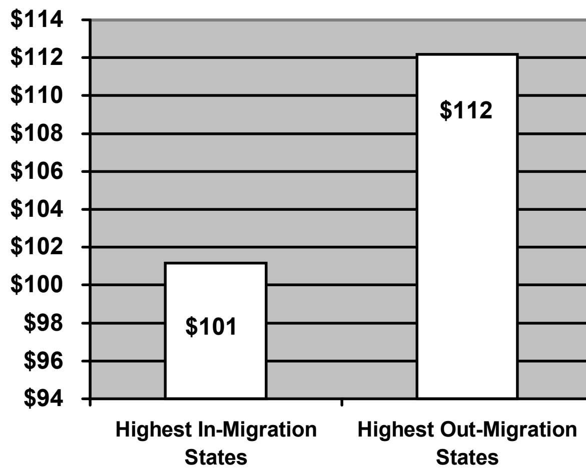
Figure 3: Total Migration of Low & High Tax States, 2000-2002



Rather than classifying states according to their tax burdens, it may make as much sense to classify them by migration patterns. Do the states having the greatest in-migration have lower tax burdens, and, if so, by how much? Have they changed over time?

Confining our analysis to domestic migration, Figure 4 suggests that the 10 states with the highest domestic in-migration in the 1990s (Arizona, Colorado, Florida, Georgia, Nevada, North Carolina, Oregon, Tennessee, Texas, and Washington) had an average tax burden in fiscal year 1990 of $108.28 for each $1000 in personal income. In the states with the largest out-migration (California, Connecticut, Illinois, Louisiana, Massachusetts, Michigan, New Jersey, New York, Ohio, Pennsylvania), the average tax burden was seven percent higher, $115.30 per $1000 income.





The picture for the 2000-2002 period is much the same – except that the differences have grown. As Figure 5 shows, the average tax burden for the 10 greatest out-migration states ($112.17 per $1000 in income) is almost 11 percent greater than for the 10 states with the greatest in-migration ($101.17).[6] As before, the tax-migration association seems to have grown over time.

Econometric Estimates

The results to this point could be justifiably criticized on the grounds that they do not control for factors other than taxes that might impact human migration. While there are some studies that show that taxes are impacted by migration decisions, no one claims that taxes alone impact those decisions.[7] It might be, for example, that people move to Florida

[6] The high out-migration states for 2000-2002 were: Illinois, Iowa, Kansas, Louisiana, Massachusetts, Michigan, New Jersey, New York, Ohio, and Pennsylvania; the high in-migration states were: Arizona, Colorado, Florida, Georgia, Nevada, North Carolina, South Carolina, Tennessee, Texas and Virginia.

[7] Early studies on the tax-migration relationship include: Richard Cebula, "Local Government Policies and Migration: An Analysis for SMSAs in the United States, 1965-1970," *Public Choice*, Fall 1974; Lynn E. Browne, "The Shifting Pattern of Interregional Migration," *New England Economic Review,* November-December 1979, and Deborah S. Ecker and Richard F. Syron, "Personal Taxes and Interstate Competition for High Technology Industries," *New England Economic Review*, September/October 1979. Later studies confirmed the importance of taxes in migration decisions. See, for example, William Niskanen, "The Case for a New Fiscal Constitution," *Journal of Economic Perspectives,* June 1992, Laurence J. Kotlikoff and Bernd Raffelhueschen, "How Regional Differences in Taxes and Public Goods Distort Life Cycle Location Choices," National Bureau of Economic Research Working Paper 3598 (Cambridge, MA: NBER, January 1991), Martin Cadwallader, "Metropolitan Growth and Decline in the United States: An Empirical Analysis," *Growth and Change*, Summer 1991, Afsanch Assadian, "Fiscal Determinants of Migration to a Fast-Growing State: How the Aged Differ from the General Population," *Review of Regional Studies*, Winter 1995, Karen Smith Conway and Andrew J. Houtenviille, "Elderly Migration and State Fiscal Policy: Evidence from the 1990 Census Migration Flows," *National Tax Journal*, March 2001; and Assaf Razin, Efraim Sadka, and Phillip Swagel, "Tax Burden and Migration: A Political Economy Theory and Evidence," *Journal of Public Economics*, August 2002.

or Texas not because their taxes are relatively low, but because the climate is better than in some northern states. One might expect out-migration from, say, high tax New York to Florida for climatic reasons (or some other reason). Accordingly, I took the migration data for 1990 to 1999 and related them to a variety of variables.

Specifically, in equation 1 I used ordinary least squares multiple regression analysis, looking at interstate domestic migration for the 50 states and the District of Columbia. I first tried a very simple regression, relating net domestic migration in the 1990s to the overall state and local tax burden in 1990 (as measured as a percent of personal income), as well as to the change in that tax burden over the 1990s – capturing increases and decreases in the tax burden during the period. The results are strongly consistent with the view that higher taxes mean less migration into a state, and more migration out of a state.

$$(1)\ NETMIG = \underset{(2.902)}{1847.4} - \underset{(2.922)}{166.40}\ TAX90 - \underset{(2.360)}{154.87}\ CHTAX9099,$$

$$R^2 = .151,\ \text{F-Statistic} = 4.272,$$

where NETMIG is the net migration of native born Americans into a state (positive sign) or out of a state (negative sign) from 1990 to 1999, expressed in thousands; TAX90 is the state and local tax burden as a percent of personal income; CHTAX9099 is the change in that tax burden (expressed as a percent of personal income) from 1990 to 1999, and the numbers in parentheses are t-values.

The results suggest that there is a statistically significant (at the one percent level in the case of TAX90, five percent level in the case of CHTAX9099) negative relationship between the tax variables and economic growth. The numbers say that for each one percent higher a proportion of personal income taken by state and local taxes in 1990, some 166,400 persons typically left a state during the ensuing nine years. Moreover, an increase in taxes by one percent of total personal income during the 1990s likewise led to negative migration (out-migration) of 154,870 persons. To be sure, since the typical tax burden was around 11 percent of personal income, a one percentage point increase, from say 11 to 12 percent of personal income, is a fairly sizable tax increase (about 9 percent of the tax burden). Looking at the impact of just a one percent increase in the state and local tax burden, the results suggest that this would reduce in-migration (or increase out-migration) by roughly 18,000 persons in the typical state – a substantial movement. The results also suggest that high tax states can stem the flow by lowering their tax burdens. A state that is losing migrants because of a high tax burden can stop the outflow by simply lowering taxes.

While the results in (1) above are supportive of the earlier descriptive statistical analysis, they still fail to control for a number non-tax factors potentially important in swaying individual migration decisions. It should be stated, of course, that many people move to be near friends or relatives, or for other reasons that are not readily quantifiable. Thus any net migration model will only explain that migration related to qualities of an area that are readily measurable.

As a first step in moving to a more elaborate model with more variables to control for non-tax factors, I introduced the population of a state in 1990 (POP90 below) into the analysis. One would expect migration figures for, say, Rhode Island, to be much smaller than those for New York or California, since they have a vastly larger population base. Equation (2) shows the results of adding POP90:

$$(2)\ NETMIG = \underset{(4.304)}{2228.0} - \underset{(3.859)}{177.03}\ TAX90 - \underset{(2.768)}{146.29}\ CHTAX9099 - \underset{(5.205)}{0.052}\ POP90,$$

$$R^2 = .461,\ \text{F-Statistic} = 13.426.$$

The results are even stronger than before. Holding population levels of the states equal, individuals migrated away from states the higher the 1990 tax level and the greater taxes were increased in the 1990s, with the amount of indicated migration similar to in the previous regression, although both tax variables are significant at the one percent level, and the model can explain almost half (46 percent) of the considerable variation in net migration between the states from 1990 to 1999. Interestingly, holding the tax variables constant, the greater a state's population, the more people left it. This almost certainly reflects the vast out-migration from the nation's most populous state, California.

Finally, in order to control more fully for non-tax variables, we introduced four such variables into the analysis. SUNSHINE, the percent of days a year that the sun shines, was introduced as a climatic measure;[8] INCOME90, the level of per capita income in 1990 was added as a measure of economic prosperity; GROWTH, the percent growth in real income per capita over the 1990s was inserted as a measure of economic growth, and UNION94, the percent of the labor force belonging to labor unions in 1994 (a mid-period year).

The results again confirm the earlier findings. The tax variables are still negative, implying higher taxes lead to negative (out) migration. The TAX90 variable is still statistically significant at the one percent level, and the variable measuring tax change is significant at the 10 percent level. While the population variable remains strong, only two of the other variables are remotely significant, the GROWTH variable, which has the opposite of the expected sign, and the union variable, which is negative – more union presence, more out-migration. While the additional variables are weak, they do control for a number of non-tax variables, and the augmented model now explains a majority of the variation in migration.[9]

[8] I experimented with a number of other climate variables, such as heating degree days; the results were similar to those given above so are not reported because of space limitations.

[9] I tried a number of other control variables, such as the percentage of the population with a college education, the density of population in 1990, and the proportion of output coming from the manufacturing sector. These variables were all statistically quite weak, and excluded from the model for both technical reasons (mutlicolinearity) and to save space. Their inclusion does not change the tax-migration findings.

Table 2
Regression Results: Taxation and Net Domestic Migration, 1990-1999

Variable or Statistic	Coefficient or Value	T-Statistic
CONSTANT	2694.63	3.354
TAX90	-153.16	2.886
CHTAX9099	-117.19	1.918
SUNSHINE	-0.54	0.073
INCOME90	-0.07	0.337
GROWTH	-20.10	1.775
POP90	-0.05	4.281
UNION94	-21.06	1.556
R^2	.532	
F-Statistic	6.972	

The econometric evidence increases our confidence in the basic conclusion that high taxes in general are perceived as lowering the qualify of life in a locality, leading to out-migration. People prefer to live in areas where taxes are low, and are declining.

I performed a similar analysis to that reported above for the 2000 to 2002 migration data. While migration patterns after 2000 in many ways were similar to those in the 1990s, there were some changes, such as the decline in out-migration from California mentioned earlier.[10] Nonetheless, the basic tax-migration relationship was as reported above – higher taxation, less migration (meaning potentially out-migration). In the interest of space and to avoid boring readers excessively, detailed results are not reported. In a typical regression with four other variables incorporated for control purposes, for example, the observed relationship between taxes and net migration was negative and statistically significant at the five percent level, with the model explaining about half of the variation in migration that occurred.

Other Findings

Additional analysis adds a bit to our understanding of the tax-migration analysis, although does not change the generalized conclusion that taxes seem to adversely impact on in-migration. We replicated the model in Table 2 using total migration, including immigration, for example. The results, reported in Table 3, are consistent with those in Table 2. The higher taxes were, the lower migration was; greater increase in taxes, lower migration. An increase in taxes equal to one percent of personal income lowers migration by around 100,000 persons – a significant amount. The critical TAX90 variable is statistically significant at the five percent level, and the tax change variable at the 10 percent level. The addition of immigrants does not change the basic finding. Interestingly, the results for the non-tax variables change somewhat; the population

[10] The correlation between the 1990-99 migration data and the 2000-02 data was a high .8468.

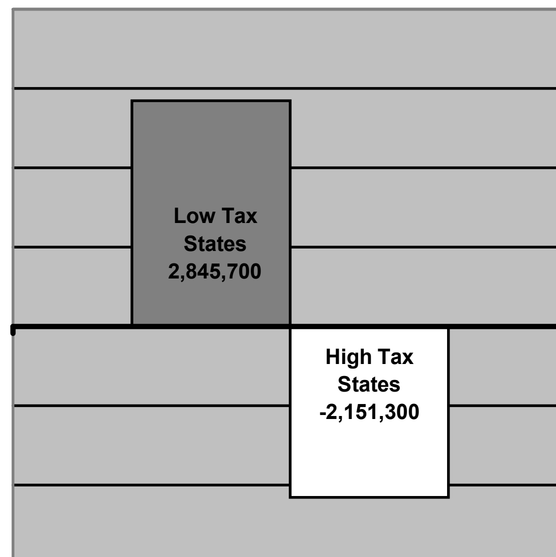
variable, for example, changes sign and the union variable is strongly negative and highly significant statistically (migrants avoid states where labor unions are strong).[11]

Table 3
Regression Results: Taxation and Total Net Migration, 1990-1999

Variable or Statistic	Coefficient or Value	T-Statistic
CONSTANT	1703.74	2.517
TAX90	-107.30	2.400
CHTAX9099	-98.42	1.912
SUNSHINE	3.590	0.582
INCOME90	0.005	0.273
POP90	0.014	1.560
UNION94	-27.29	2.393
GROWTH	-23.12	2.423
R^2	0.407	
F-Statistic	4.210	

I also did some limited analysis looking at major types of taxes. I have long observed a strong negative relationship between income taxation and migration. For example, take the ten states with the lowest individual income tax burdens in the middle of the period, nine (Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming) of which had essentially no burden, along with North Dakota, and compare that with migration into or out of the 10 jurisdictions with the highest income tax burden (Delaware, District of Columbia, Kentucky, Maryland, Massachusetts, Minnesota, New York, Ohio, Oregon, and Wisconsin). As Figure 6 shows, the in-migration into the states without income taxes was impressive – as was out-migration from the high tax states.

Figure 6: Net Domestic Migration, 1990-99: States with the 10 Highest and Lowest Individual Income Tax Burdens



Analysis for the other two major forms of state and local taxation – property taxes and general sales taxes – showed much weaker relationships. For example, an econometric examination of the property tax/domestic migration relationship for the 1990s, with

[11] More mystifying is the observed negative relationship between the rate of economic growth and migration. Economic theory and logic would predict a positive relationship. This in no way detracts from the basic finding of the analysis, namely that people avoid high tax areas.

several other control variables introduced as in Tables 2 and 3, shows a negative relationship between property taxation and migration, and also between changes in the property tax burden and migration, but neither relationship was statistically significant at conventionally accepted levels. I would conclude that "taxation in general, and income taxation in particular, has adverse effects on the attractiveness of a community."

It is probably true that some smaller taxes have very profound migration effects per dollar of taxes raised, although data limitations and technical problems makes detailed analysis difficult. For example, state death taxes beyond the federal estate tax credit exist in a number of states, and there is strong anecdotal evidence that such taxes impact on migration decisions of the elderly (one reason many elderly live in, for example, Florida).

Taxation, Migration and Economic Growth

The analysis above establishes a rather strong and persuasive case that high taxation leads to out-migration. Also, a vast literature shows that high taxation leads to reduced economic growth.[12] Is there a connection between these findings? While an exhaustive answer to that question is beyond the scope of this study, the tax-induced migration no doubt impacts on growth. A basic premise in economics (the factor price equalization theorem) suggests that in general out-migration can raise incomes in the place of origin, and possibly lower it in the place of destination. However, that short term impact is often reversed in the long run. In particular, migrants tend to be disproportionately highly skilled and productive, so tax-induced out-migration can induce a "brain drain" and a reduction in the average level of "human capital" among the population remaining in an area.[13] Thus, the tax-induced out-migration can lower the resource base of a community, increasingly important in an era when the rewards associated with high levels of education and skills are particularly large.

While the results suggest that taxation seems to lower the quality of life of many Americans, leading to out-migration, it is worth noting that migration provides a "safety value" that constrains state lawmakers. If taxes are raised too much, resources migrate (both labor and capital). Indeed, the growing perception of this problem is probably a factor in the decline in interstate variation in tax burdens over time.

Conclusions

Happiness cannot be precisely measured and quantified. Still, the movement of persons is presumably undertaken to increase happiness. Out-migration occurs when a person believes she or he can be happier in another community, and in-migration is an expression that happiness is perceived higher in the destination area. It is a fact that

---

[12] A survey of much of the literature can be found in Richard Vedder, *Taxes and Economic Growth?* Cedarburg, WI: Taxpayers Network Inc., September 2001. Available via www.TaxpayersNetwork.org.

[13]For a dated but still highly useful review of the literature on American human migration, see Michael J. Greenwood, 'Research on Internal Migration in the United States: A Survey," *Journal of Economic Literature*, June 1975.

Americans migrate out of high tax states, on average, and into lower tax ones. It would seem to follow that Americans are happier with relatively low tax governments. The marginal benefit from greater tax-financed government spending is more than offset by the marginal costs that high taxation imposes. Those costs are both direct – less money in one's paycheck after taxes- and indirect – lower economic growth associated with big government, meaning a less bright future.

Are Americans over-taxed or under-taxed? By voting with their feet for low tax jurisdictions, the American people have indicated that they prefer low taxation (and government expenditure) to high taxation. Thus, on balance, the migration data suggests Americans feel in general over-taxed.

March 2003

State Tax Increases Will Fuel Further Decline

By Marc C. Duff

As many states face their worst fiscal crisis in decades, tax increases are being looked to by some Governors and state legislators to resolve budget shortfalls, which are estimated to exceed $80 billion for Fiscal Year 2004.[1] Some states have already increased taxes and 15 states are calling for tax increases of approximately $14 billion in upcoming budgets according to a report issued by the National Governor's Association on February 22, 2003. Unfortunately most politicians will worry more about how voting to increase taxes will impact them during the next election, rather than fully considering how, in the long-term, increasing taxes or maintaining a high burden in their state will fuel further economic and population declines.

The clear findings in this publication by Dr. Richard Vedder regarding the population loss experienced by high tax states should provide warnings to state government leaders, whose goal should be to make their state an attractive place live and prosper. The warning bells should be ringing even louder inside the minds of governors and legislators when one accounts for Vedder's previous finding that high taxes reduce a state's personal income growth.[2] State leaders who fail accept that higher taxes will drive people away and smother economic prosperity are leading their states down the wrong path toward further decline.

State Tax Revenues Uncollected

An interesting finding by Vedder is that for every one-percent increase in the state and local tax burden, over 166,400 people will choose to live somewhere else over the next nine years. That means those people are paying taxes, even if they are lower, somewhere else! Using the Tax Foundation's figures that an average person pays $3,274 in state and local taxes, by the ninth year a state will miss out on $545 million in tax revenues that is now going to another state's treasury.

While losing state tax revenues because people flee to lower tax havens is significant, the problem is magnified when you consider how high taxes stunt economic and income growth. In Vedder's study, *Taxes and Economic Growth* published by The Taxpayers Network, he studied income growth over a 20 year period in the ten highest and lowest tax states. He found that real total income growth was 38% higher in the ten lowest tax states vs. the ten highest tax states. The high tax drag on a state's income growth affects all taxpayers and further reduces the money flowing into government treasuries.

This should be no secret to governors, legislators and state budget and revenue officials. Personal income growth is a major factor used by firms to forecast state government tax revenues. However, it is clear that states need to receive better information about how their tax policies could affect their economies, population and future revenues.

---

[1] National Conference of State Legislatures, State Budget Update, November 2002

[2] Vedder, Richard. September 2001. *Taxes and Economic Growth*, The Taxpayers Network.

Struggling States Making Matters Worse

Governors throughout the country and state legislators are actively working to address some of the worst budget deficits facing states in over a half-century. Tax increases are on the agenda for many states in order to solve their problems. However, a majority of states are working to address their shortfalls without resorting to general tax increases. In fact, many governors successfully campaigned last year that they would resolve their state's fiscal woes without increasing taxes.

However, it may not be surprising that many of the states that are increasing taxes are the same ones that have been struggling and are losing population. Their actions may only make matters worse for their state over the long-term. In addition, some of these states have not taken decisive actions to resolve their budgetary woes. Last month, The Taxpayers Network issued a study on the health of state budgets and determined that 11 states were in "critical" condition and 21 are in "serious" condition. States earned this designation based on the size of their deficits compared to any budget reserves.

Some of the struggling states that could be making their matters worse are:

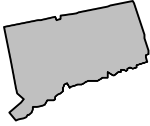
California - In keeping with the tradition of Hollywood, their budget deficit of over $30 billion is of "epic" proportions and is over 30% of their general fund budget. As a result, their budget health is considered to be in "critical" condition. Over 2,239,000 people left the state from 1990 to 2002. However, an influx of over 3 million international immigrants kept California's population growing.

Governor Davis has proposed $8 billion in tax hikes, including increased income taxes for high income individuals and a 1% boost in the sales tax. Considering California's total state and local government revenues are about $170 billion[3], an $8 billion in tax increases means a 4.7% boost! Approving these higher taxes could cause further state economic decline and prompt millions more to flee the state over the next decade.

Massachusetts – The state lost overall population when over 290,000 people left the state since 1990. International migration was not enough to make up the loss. Massachusetts' deficit of almost $2 billion earns it a "serious" condition budget health rating.

While Governor Romney proposed no tax increases to deal with the current deficit, income taxes were increased by over $1 billion in FY2003. With total tax revenues collected at $32 billion, this is over a 3% increase and the exodus of hundreds of thousands over the decade could continue.

[3] U.S. Bureau of Census, Table 1. State and Local Government Finances by Level of Government and by State: 1999 - 2000



Connecticut – Over 233,000 people left Connecticut since 1990 and international immigration only brought in 109,000. The FY2004 deficit in Connecticut is $2 billion or over 17% of their general fund budget, prompting a "critical" condition rating for their budget.

Already considered a high tax state, Governor Rowland and the Legislature agreed to a .5% income tax increase and are considering a temporary 10% increase in the corporate income tax. In total, this will generate over $820 million. With state revenues at $19.4 billion, this is over a 4% increase, which will only continue the flight of and hundreds of thousands from the state.

Ohio – This state's population dropped considerably since 1990 when it saw 240,000 move to other states with only a trickle of 90,000 coming in through international immigration. Their total FY2004 shortfall is at $1.8 billion giving them a "serious" condition for their budget health.

With its taxes already rated high, Governor Taft proposed making it worse by proposing a sales tax expansion that increases revenues by $550 million and raising corporate taxes by $325 million. These actions will keep Ohio on the road toward decline.

New Jersey – Since 1990 about 432,000 people left New Jersey, but international immigration of 519,000 still allowed population growth to occur. The Garden State's budget is in "critical" condition with a FY2004 deficit of around $5 billion which is over 20% of general fund budget.

While Governor McGreevey has not proposed tax increases to address their current budget deficit, last year the state increased corporate taxes by $811 million and cigarette taxes by $275 million.

A number of other states have opted to increase taxes in order to address their budget shortfalls. Many of these don't warrant full attention because they are in states that are traditionally low tax, experiencing population growth, or have proposed modest increases. It should be noted that several states have increased taxes on tobacco or are seeking significant revenues from gambling. The economic impact of gaming revenues on a state deserves its own study. However, they should consider the warning that tax increases will likely cause economic and population consequences into the future. Some selected states are:

Arkansas – To help address a budget shortfall, Gov. Huckabee proposed a five-eighths cent sales tax increase which will generate $237 million in FY04.

Georgia – Gov. Perdue proposed tobacco and alcohol tax increases raises $400 million in FY04. A rollback of a property tax credit will increase taxes by $353 million.

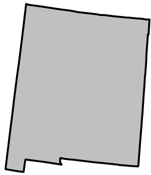
Idaho – Gov. Kempthorne proposed a $270 million tax increase boosting the sales tax from 5% to 6.5% and cigarette taxes by 34 cents per pack. The tax increase is meeting resistance in the Legislature.

Missouri – Gov. Holden proposed several tax increases, including an income tax surcharge for high income earners, a cigarette tax increase, gaming tax increases and closing several business tax loopholes.

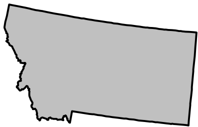
Tennessee – In FY03, sales taxes were increased $655 million and corporate taxes by $125 million.

States Moving in the Right Direction?

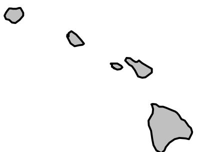
Clearly many governors and legislators understand that cutting taxes can promote prosperity in the state. A number of state leaders have also made it a priority to solve their budget crisis without increasing taxes. But some special recognition is some of the states that are pursing tax cuts or reforms that are understood to promote economic prosperity.



New Mexico – While most states have been facing deficits, New Mexico is benefiting from former Gov. Johnson's sound fiscal management. Using the benefits, newly elected and past Clinton Administration cabinet member Governor Richardson ushered through a $300 million income and capital gains tax cut. The intent of the tax cut is to enhance the economy and improve upon from New Mexico's personal income levels which rank neat the bottom in the country.



Montana – Montana has some of the highest income tax rates in the country. As part of an economic development plan, Governor Judy Martz has forwarded a reform plan that cuts income taxes by 10% and significantly reduces the top brackets. While Gov. Martz is proposing a targeted sales tax increase to offset the revenues lost from the income tax cut, her plan recognizes the adverse effects high income tax rates have on economic activity.



Hawai'i – Recognizing the need to have a tax structure that fosters economic growth, Hawai'i implemented a phased cut in income taxes. Gov. Lingle is recommending further income tax cuts for lower-income individuals, and eliminating excise taxes on private health insurance policies. She also plans to propose repealing taxes on food and medical services. Hawai'i is one of the high tax states that has lost population since 1990 and their efforts are attempting to put the state on the right path.

Most Governors throughout the country pledged to resolve their budget shortfalls without tax increases, and they deserve credit. Governors like Tim Pawlenty from Minnesota, Maine's John Baldacci, Bob Riley from Alabama, James Douglas from Vermont, Arizona's Janet Napolitano, Rick Perry from Texas and many others kept their words and

are working for tax free budgets. However, this praise only counts if they continue to strive for tax and fiscal policies that promote prosperity in their states.

Conclusion

The warnings are clear, according to the findings by Dr. Vedder, that embracing high taxes will stunt a state's income growth and cause thousands to flee to low tax havens. However, the reverse is also can occur that pursing an agenda of lower taxes will make states a place where people want to live and can prosper. Considering virtually every state is facing a budget crisis, there is no better time for a state to embrace sound tax policy that promotes prosperity.

State government leaders throughout the country have proven it is possible to make the necessary tough decisions and address a serious budget crisis without increasing taxes. Others have ignored the warnings and may only leading their states to further decline. The Taxpayers Network urges individuals to use the lessons learned in this report to communicate with government leaders as they act upon policies to make their states a better place to live and prosper. Some of these lessons include:

- Increasing taxes or maintaining a high tax burden will only fuel the decline in a state as people to flee to states with lower taxes.

- As states looks to revive their economies, they cannot ignore how high taxes stunt income growth in states. A tax cut agenda should be recognized as vital to steering a state toward more prosperity.

- State leaders should have tax and economic forecasts include information about how their tax policies impact other factors, including income growth and population.

State leaders need to hear these messages so they take action on tax policies that truly promote economic prosperity will benefit all American citizens for many years to come.

About the Author:

Marc C. Duff is the Senior Research and Policy Director for The Taxpayers Network. He is a former member of the Wisconsin State Assembly from 1989 until 2002 where he served on the state's budget committee and previously chaired the Committee on Environment. He received his Master of Arts in Public Policy and Administration from the LaFollette Institute of Public affairs at the University of Wisconsin – Madison.

NOTES

NOTES

Bulk order forms for:
Taxation and Migration

$1.00 per copy (shipping and handling included)
First 50 copies free for educational and non-profit groups
Quantities may be limited based on availability

Make checks payable to and mail form to:
The Taxpayers Network
W67 N222 Evergreen Blvd. #202
Cedarburg, WI 53012

Ship reports to:

Name:____

Address:____

City:____

State:_______________________________________ Zip:______________________

Email orders can be directed to: mduff@taxpayersnetwork.org

Be sure to check out Dr. Richard Vedder's previous report for The Taxpayers Network,
TAXES AND ECONOMIC GROWTH!