

THE TAX MAN AND THE MOVING VAN: FISCAL POLICY AND STATE POPULATION

SHIFTS, 1995-2000

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EXECUTIVE SUMMARY

The Founders believed that the system of federalism enshrined in the Constitution helped to ensure personal liberty by making the jurisdiction to which you are subject smaller, and ultimately optional. Someone who has grown frustrated with the actions of their state government ultimately has the option to relocate to a state whose policies they prefer. If citizens and employers actually do move about the country in response to the policies pursued by state governments, state lawmakers should pay heed to which policies attract new citizens, and which drive them to other states.

This study examines United States Census data from 1995 to 2000, and finds strong evidence that people move into states with low tax burdens and favorable business climates, and exit states with high tax burdens, poor business climates and higher relative costs of living.

The ten states with the lowest overall tax burdens (Alaska, New Hampshire, Delaware, Tennessee, Alabama, Texas, Florida, South Dakota, Nevada and Colorado respectively) enjoyed a total net gain of more than 1,300,000 residents resulting from across-state migration. The nine states and the District of Columbia with the highest total tax burdens suffered a total net loss of more than 1,700,000 residents as a result of migration. A regression analysis of the Census data reveals that tax burdens, business climate and cost

of living strongly influenced millions of household decisions to move across state lines during the late 1990s. These inflows and outflows are more than large enough to both advantage and harm the political and economic strength of states.

New Mexico has long been a migration destination for retirees, due to its relatively low cost of living, relatively low property taxes and nice weather. Unfortunately, it continues to hemorrhage young, productive, and educated people without attracting enough similarly-ambitious people to take their place. While New Mexico's income and capital gains taxes have been reduced since these data were collected, the fact is that tax policy decisions have a significant impact on the decisions of average citizens in where they choose to live. For too long, New Mexico's economic policies have caused its productive citizens to flee the state; only by further lowering the burden of taxation will the state turn itself around.

INTRODUCTION: MIGRATION AS AN INDICATOR OF SUCCESS AND FAILURE

In the opening pages of *Capitalism and Freedom*, Nobel Prize winning economist Milton Friedman discussed how the public could enjoy the benefits of government while avoiding a threat to freedom. Dr. Friedman pointed to two broad Constitutional principles striking this balance in the United States (although he noted that both had been violated repeatedly in practice). The first of these broad principles is that the scope of government must be limited. The Founders struck this balance by giving Congress specific powers, and then limiting those powers further in the Bill of Rights.

Dr. Friedman outlines the dispersal of political power through federalism as the second broad principle of preserving liberty. “If government is to exercise power,” Friedman wrote, “better in the county than in the state, better in the state than in Washington. If I do not like what my local community does, be it in sewage disposal, or zoning, or schools, I can move to another local community, and though few may take this step, the mere possibility acts as a check. If I do not like what my state does, I can move to another. If I do not like what Washington imposes, I have few alternatives in this world of jealous nations.”¹

If migration functions as a rolling indicator of societal dissatisfaction (or satisfaction) with government as Friedman suggests, migration trends serve as a basic measuring stick for judging the success of various public policies. People moving when dissatisfied

serves as an interesting barometer, a sort of poll based on action rather than merely expressed sentiment.²

In terms of migration across states, dealing with growth is the problem to have, while dealing with a declining population is clearly the problem to avoid. Politically, states with declining populations face a decline in influence. Congressional reapportionment follows each census to properly match Congressional representation in the states with shifts in relative population. In the reapportionment that followed the 2000 Census, 12 Congressional seats were shifted across the country. Fast-growing Arizona, Florida, Georgia and Texas gained two seats each, while California, Colorado, Nevada and North Carolina gained one seat each. New York and Pennsylvania each lost two seats, while Connecticut, Illinois, Indiana, Michigan, Mississippi, Ohio, Oklahoma and Wisconsin each lost one congressional seat.³ Collectively, the movement of Congressional seats represents a substantial shift of political power out of the Northeast and Midwest to the South and West.

This trend looks likely to continue. According to an analysis of census data, if Congressional reapportionment had utilized 2005 estimated data rather than 2000 numbers, Iowa, Massachusetts, New York, Ohio, and Pennsylvania would have each lost an additional seat, while Arizona, Florida, Utah, Nevada, and Texas each would have gained an additional seat.⁴

In the long run, population growth or lack thereof plays a tremendous role in the apportionment of Congressional power. In 1900, for example, Iowa had 11 members of Congress while Texas had 16. After the 2000 reapportionment, Iowa had been reduced to five members of Congress (hanging on to the fifth seat by a thread) while Texas had 32 members of Congress and is well on the way to two additional seats after the 2010 Census.⁵

Migration patterns can also have a profound influence on state politics. For example, Marshall Trimble, Arizona's official state historian, noted that Democrats had a 9-2 registration advantage in Arizona early in the state's history, but that the migration of Republicans from the Midwestern states played a large role in boosting the fortunes of Arizona's Republican Party under Barry Goldwater.⁶ Likewise, analysts have pointed to the out-migration of more than 1.6 million likely Republican voters from California during the 1990s as playing a major role in the almost complete Democratic dominance of state politics seen in the latter part of the decade. Republican difficulties in California were balanced by dominance in other western states. In 1975, Democrats outnumbered Republicans in the state legislatures of the West (excluding California) by 739 to 488. By 1999, the figures stood at 712 seats for Republicans and 514 for Democrats, with Utah, Idaho, Texas and Wyoming becoming virtually one-party states.⁷

Declining state populations create a variety of economic as well as political problems—including a decline in the tax base and a loss of better-educated citizens to other states. Communities with declining populations can find themselves saddled with the task of

maintaining an infrastructure of roads, hospitals, schools and universities no longer appropriate for their size. Prolonged population decline can lead to political pressure to increase tax rates, which in turn can prompt more to leave.⁸

The Iowa state government, for example, has found it necessary to take steps to attempt to reverse the outflow of Iowans to other states. Approximately 60 percent of graduates from Iowa's colleges and universities move to other states upon graduation, leaving Iowa taxpayers in the unenviable position of subsidizing the economic well being of other states at enormous expense. Recently, the Iowa state government mailed 215,000 letters to graduates of Iowa colleges and universities in a largely futile attempt to convince them to return to the state that educated them. Iowa state government has also stepped up efforts to bring in skilled immigrants from overseas to compensate for the "brain drain" out of the state.⁹ Reflective of this lack of opportunity for graduates, Iowa's per capita income growth substantially underperformed the national average during the 1990s.¹⁰ States with flat and declining populations face relative economic stagnation as people move to more dynamic parts of the country.

Although the situation is not so dire here in New Mexico, the loss of talented young people during the last half of the last decade clearly illustrates the state's economic woes. As the chart below illustrates, New Mexico lost a greater number of young, college-educated, single people than any other western state (Rocky Mountains or farther west) between 1995 and 2000.¹¹

Table 1. Domestic Migration of People Who Were Young, Single, and College Educated 1995-2000

State	Net Migration				State	Net Migration			
	In Number	Out Number	Number	Rate*		In Number	Out Number	Number	Rate*
Nevada	13,651	6,863	6,788	281.8	Hawaii	6,738	8,895	-2,157	-69.8
Colorado	49,665	31,803	17,862	157.7	Utah	7,524	9,637	-2,133	-69.8
Georgia	63,306	38,639	24,667	150.5	Maine	5,693	7,399	-1,706	-80.1
Arizona	34,850	25,586	9,264	109.9	Michigan	26,639	42,657	-16,018	-86.7
Oregon	24,296	17,940	6,356	103.5	Ohio	32,053	50,462	-18,409	-88.2
Washington	39,469	27,800	11,669	96.5	Arkansas	5,215	7,853	-2,638	-90.4
California	170,270	97,233	73,037	92.7	New Mexico	9,240	12,127	-2,887	-93.3
North Carolina	44,925	37,706	7,219	50.2	Kansas	11,250	16,275	-5,025	-104.7
Texas	74,350	57,537	16,813	48.7	Wisconsin	17,004	28,228	-11,224	-107.7
Florida	69,053	58,599	10,454	40.1	Wyoming	2,856	3,670	-814	-109.2
Alaska	3,984	3,598	386	38.9	Pennsylvania	41,264	70,838	-29,574	-112.4
Virginia	58,572	52,097	6,475	38.4	New Hampshire	8,005	11,159	-3,154	-114.8
Maryland	42,126	37,768	4,358	32.2	Alabama	10,868	18,649	-7,781	-116.3
Minnesota	25,681	23,962	1,719	15.5	Oklahoma	7,877	13,850	-5,973	-125.9
Tennessee	23,581	22,264	1,317	15.2	Louisiana	12,103	21,834	-9,731	-130.2
Illinois	69,250	65,416	3,834	12.4	Nebraska	6,120	10,331	-4,211	-130.3
Idaho	5,276	5,189	87	5.9	Mississippi	6,041	11,013	-4,972	-134.1
DC	25,428	25,320	108	2.5	Indiana	17,379	31,713	-14,334	-142.3
Massachusetts	60,198	61,260	-1,062	-4.6	Vermont	5,222	7,474	-2,252	-143.5
New York	113,055	119,666	-6,611	-11.3	Rhode Island	6,526	10,751	-4,225	-147.0
New Jersey	43,138	45,922	-2,784	-13.0	Montana	4,557	7,307	-2,750	-161.5
Delaware	5,536	5,767	-231	-13.9	West Virginia	3,695	8,386	-4,691	-197.1
South Carolina	15,775	18,321	-2,546	-40.7	South Dakota	2,152	4,883	-2,731	-215.9
Missouri	23,259	27,945	-4,686	-47.0	Iowa	9,100	20,791	-11,691	-220.1
Kentucky	10,912	14,323	-3,411	-62.0	North Dakota	2,044	5,750	-3,706	-282.0
Connecticut	22,155	28,470	-6,315	-69.7					

*The net migration rate is based on an approximated 1995 population, which is the sum of people who reported living in the area in both 1995 and 2000, and those who reported living in that area in 1995, but lived elsewhere in 2000. The net migration rate is the 1995-to-2000 net migration, divided by the approximated 1995 population and multiplied by 1,000.

While a variety of other factors (family concerns and weather, for example) play a role in the decision of people to move from state to another, the relative amount of economic opportunity is a constant factor in drawing people from areas of low-opportunity to areas of greater opportunity.

In addition to benefiting from waves of foreign immigrants throughout history, the United States also has a strong tradition of internal migration as people move around the country in search of opportunity. Phrases such as “go west young man” became a part of

American folklore as thousands of Americans streamed across the country in search of a better life. The modern era of mobile capital, where nations, states and cities compete for business investment, motivated by the accompanying benefits of economic growth and wealth, only reinforces this long-standing trend. Business investment readily wanders about the globe today in search of opportunity, often drawing economic and population growth along with it. Empirical research has established that migration tends to follow employment opportunity.¹²

Recently, politicians and news media outlets have focused a great deal of attention on the “offshoring” of back-office business jobs to countries such as India and China. This phenomenon is a reflection of a global competition for jobs ultimately based upon business costs, including labor costs and taxes, and the productivity of workers.¹³ While this trend has attracted a great deal of attention, the phenomenon likely pales in comparison to the amount of job shifting occurring within the United States itself, and states most impacted by such outsourcing of jobs overseas are likely to be the same states that lose out in the race for domestic investment. The principle involved in investment choices remains constant whether out of state or overseas: areas providing high rates of return attract investment, others lose it. Rather than engaging in counterproductive protectionist measures, states and nations should seek to improve their tax and business climates in order to retain and attract investment.

This paper empirically tests whether the American public actually exercises their freedom to move from one state to another as a form of “voting with their feet” in response to

policies promulgated by state governments. Do people pick up their lives and move to other states because of economic and other policies imposed by state governments? Do business firms make the same sort of decisions when making decisions about capital investments and where to headquarter? If so, which states have been the “winners” in terms of attracting new citizens from other states, and what sort of policy choices have they made? Likewise, which states have been the “losers” and what sort of policies have they pursued? What policy implications can state government draw from the movement of people across the country?

CENSUS DATA: THE MESSAGE FROM MIGRANTS

This study utilizes net migration between American states as an indicator of which states have done the best job in fostering and developing opportunity and economic growth. Growth not only provides economic opportunity to young people as they come of age, but also attracts new citizens. Does, migration across states serve as a sort of rolling referendum on state policy, as Friedman suggests?

Table 1 below presents net migration data from all 50 states and the District of Columbia. The table shows the net gain or loss of population in each state from movements in other states during the 1995 to 2000 period. The biggest winner in terms of net migration was Nevada, gaining 151 new citizens per 1000 residents in 1995. The biggest net loser among states was Hawaii, losing 65 residents per 1000 residents in 1995. The District of Columbia, while not a state, was the largest net population loser, having lost 81 residents

per 1000 to other states.¹⁴ Despite its favorable climate and presence among fast-growing neighbors in the Southwest – Nevada, Arizona, and Colorado were all in the top seven – New Mexico fared rather poorly by actually losing more people to migration than all but 10 states and the District of Columbia.

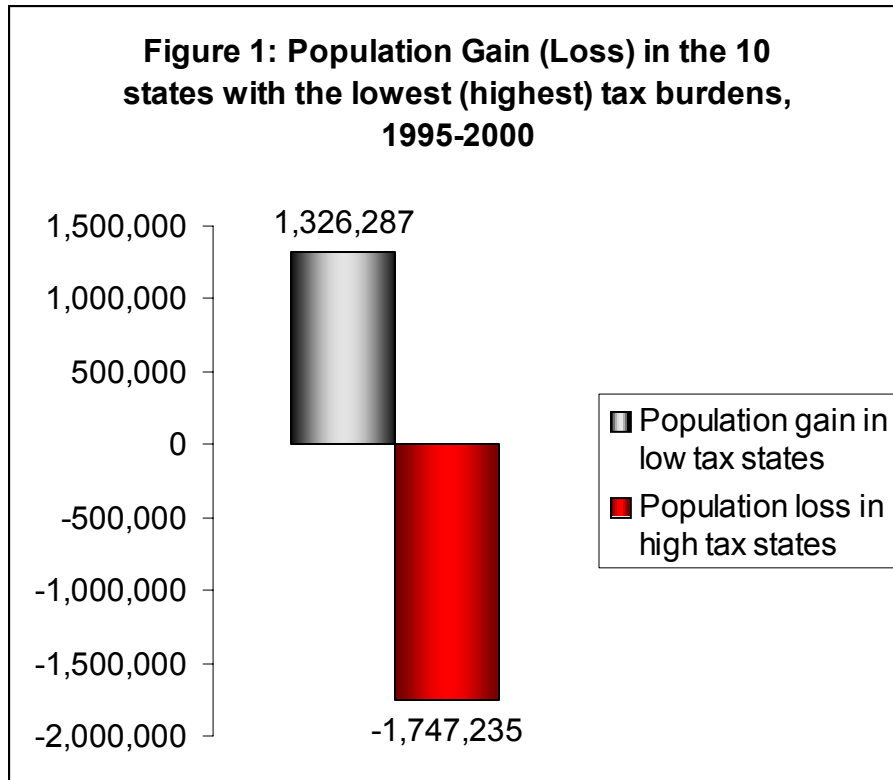
Table 2: Population Gain (Loss) per 1,000 residents 1995-2000 (Source: U.S. Census)

Nevada	151.5	Indiana	3.9
Arizona	74.3	Rhode Island	3.4
Georgia	48.6	Maine	3.1
North Carolina	48.4	Wisconsin	1.5
Florida	44	Kansas	-3.2
Colorado	43.8	Maryland	-4.1
South Carolina	37.2	Montana	-6.1
Idaho	29.6	West Virginia	-6.3
Delaware	24.9	Massachusetts	-9.4
Tennessee	28.7	Nebraska	-9.7
New Hampshire	25	Michigan	-10.0
Oregon	24.6	Ohio	-11.0
Arkansas	17.4	Pennsylvania	-11.4
Washington	14.3	Iowa	-12.1
Utah	13.1	South Dakota	-17.6
Virginia	11.9	New Mexico	-17.8
Mississippi	10.4	Louisiana	-18.1
Kentucky	9.2	Connecticut	-20.5
Missouri	9	California	-24.6
Texas	8.1	New Jersey	-23.7
Minnesota	6.5	Wyoming	-26.6
Alabama	6.3	Illinois	-29.7
Oklahoma	5.4	New York	-48.8
Vermont	4	North Dakota	-40.6
Indiana	3.9	Alaska	-51.0
Rhode Island	3.4	Hawaii	-65.4
Maine	3.1	District of Columbia	-81.7

The differences in these trends are substantial. If current trends were to continue, Nevada (the fastest growing state) could see a 45 percent population increase over the next 15 years as a result of migration, while the District of Columbia’s population would decline by approximately 25 percent during the same period, all else being equal.

These results do suggest a policy dimension for migration patterns. The Tax Foundation provides a national ranking of state tax burdens. Nevada, whose economy and population boomed in the 1990s, has consistently had one of the nation's lowest overall tax burdens, ranking 43rd out of 50 states in 2000 (the last year for which the census data is available).¹⁵ Hawaii and the District of Columbia have consistently had some of the heaviest tax burdens in the nation, ranking 3rd and 1st in total tax burdens in 2000.¹⁶ Nevada clearly gained from not only having significantly lower taxes than its' giant neighbor California, but also a significantly more favorable business climate. Nevada ranked 3rd best in the nation in the Tax Foundation's ranking of state business climate, which ranks each state according to the size and complexity of the tax burden. California ranked 49th out of 51 in the ranking.¹⁷

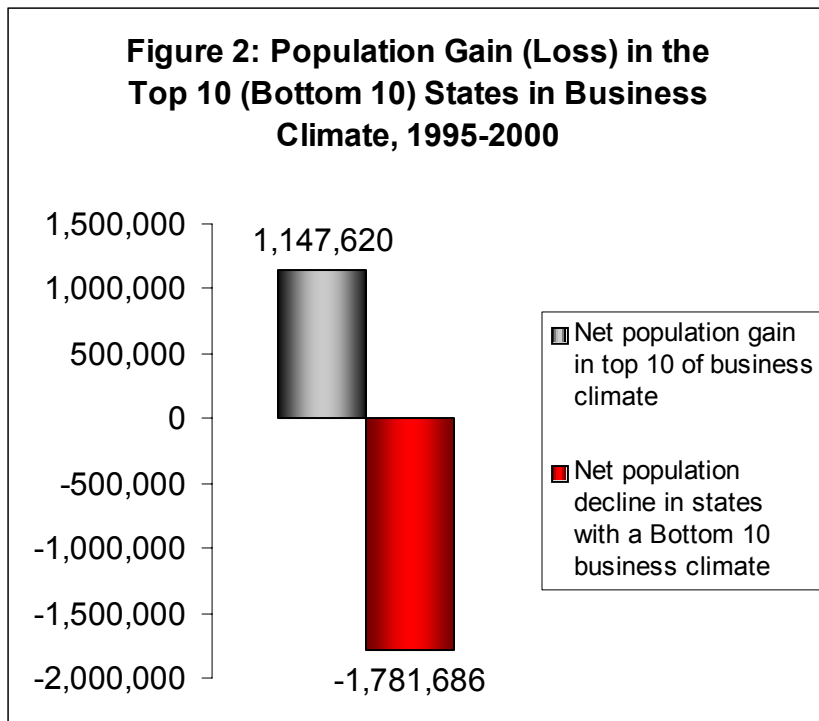
Of the 10 states with the lowest overall tax burdens in 2000 (Alaska, New Hampshire, Delaware, Tennessee, Alabama, Texas, Florida, South Dakota, Nevada and Colorado respectively) eight had positive net migration, and the average gain was 27.56 migrants per 1000 1995 citizens, with a total net gain of more than 1,300,000 residents resulting from across state migration. In the 9 states and the District of Columbia with the highest total tax burdens, the average net loss per state was 18.43 net out-migrants per 1000 citizens in 1995, suffering a total net loss of more than 1,700,000 residents as a result of migration.



Data Source: United States Census Data and Tax Foundation.

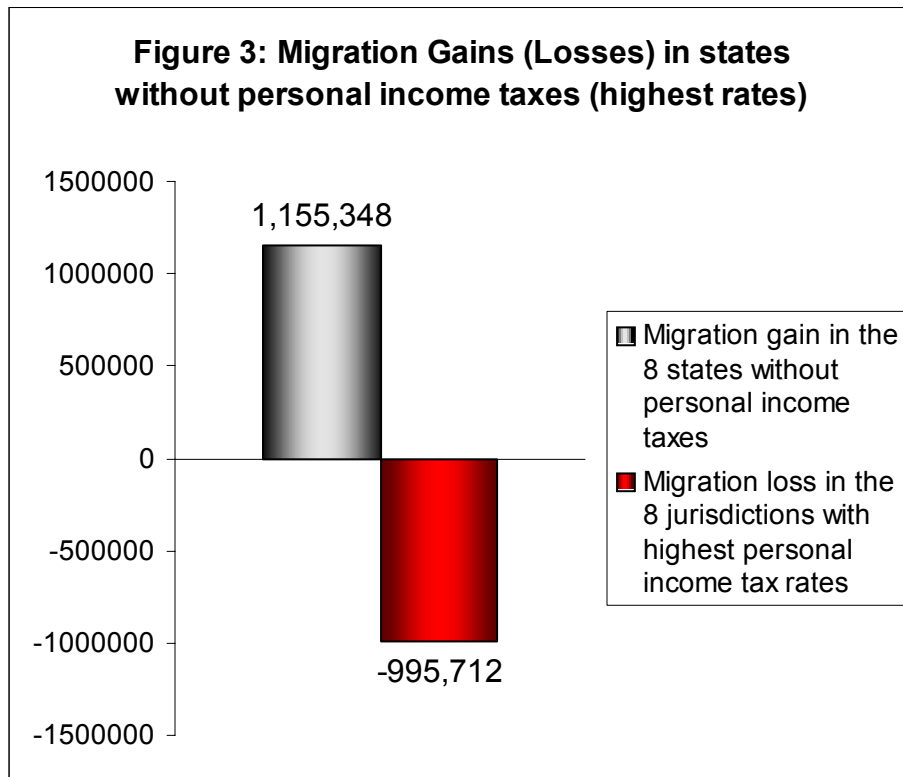
Another possible policy dimension to migration patterns is the overall business climate of each state. Factors other than simply the tax level can have an impact on the desirability of a state’s business climate to possible outside investors. The Tax Foundation notes that taxes are an input cost, similar to the cost of raw materials. If taxes increase, the cost is either passed along to consumers (through higher prices), workers (through lower wages or fewer jobs), or shareholders (through lower dividends or share value). States do not enact tax policies in a vacuum, but rather in a competitive environment in which other states can attempt to lure firms away from states based on fiscal policy advantages.¹⁸ To the extent that migrants follow employment opportunities, we can expect states with poor business climates to lose residents relative to other states.

A ranking of state business climates suggests that this is in fact the case. The Tax Foundation ranks state business climates according to a variety of factors, including tax complexity, multi-rate corporate and individual tax codes that impose above-average tax rates at all levels of income. Examining the net migration population losses and gains among the 10 states with the best business climate rankings (Wyoming, New Hampshire, Nevada, Colorado, Alaska, South Dakota, Florida, Washington, Oregon and Indiana) with those of the states with the 10 lowest business climate rankings (Minnesota, Maine, New York, Hawaii, Nebraska, District of Columbia, Ohio, Arkansas, California and Mississippi) reveals a similar pattern. The top 10 states gained over 1,100,000 new residents from other states during the 1995-2000 period, while the 10 states with the worst business climates lost almost 1,800,000 residents to other states during the same period.



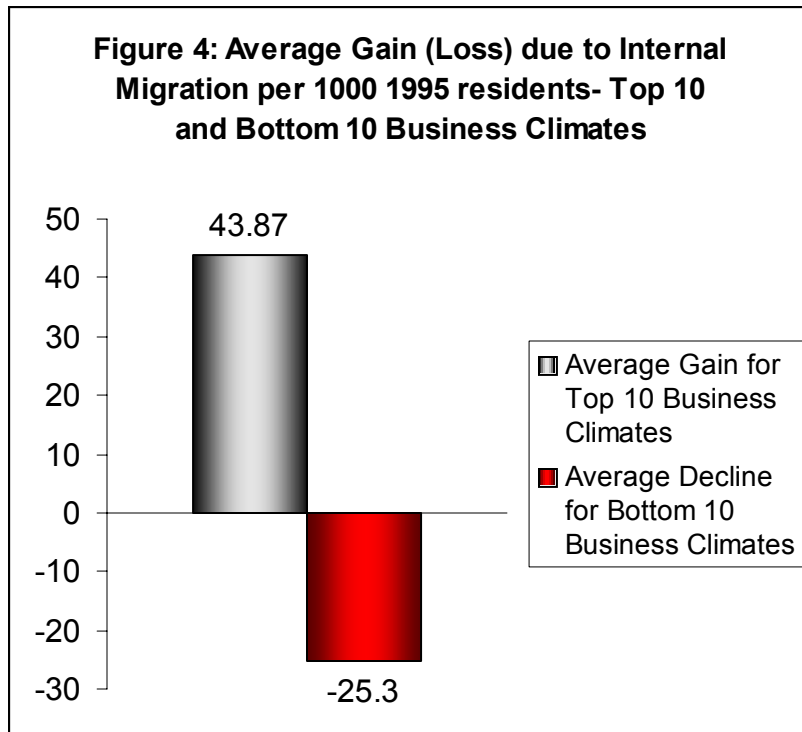
Data Source: United States Census Data and Tax Foundation.

Another policy factor possibly driving individual migration decisions across states is the extent of personal income taxation. Eight states- Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, and Wyoming funded their activities without a personal income tax during the period covered by the census data. Figure 3 below presents the combined net migration figures for these eight states in comparison with the combined net migration figures for the eight jurisdictions (seven states and the District of Columbia) with the highest marginal rates.¹⁹ The eight states lacking a personal income tax gained over 1,100,000 net residents from other states, while the seven states and the District of Columbia with the highest personal income tax rates lost almost 1,000,000 citizens to other states.



Data Source: United States Census Data and Tax Foundation.

Finally, Figure 4 below presents the average 2000 population gains in states with a top 10 business climate and the average population loss for the 9 states and the District of Columbia with a bottom 10 business climate ranking. The gains and losses presented are per 1000 residents in 1995.



Data Source: United States Census Data and Tax Foundation.

STATISTICAL EVIDENCE OF TAXES AND BUSINESS CLIMATE IMPACTING MIGRATION

The above figures suggest that people tend to move themselves and their companies out of states with high tax burdens and poor business climates. The relationship must be examined statistically, however, to feel entirely confident of this conclusion.²⁰

Regression analysis gauges the independent impact of each independent variable on a dependent variable (in this case net migration by state) while statistically holding the other independent variables constant, essentially revealing to what degree (if at all) each respective factor influence migration rates independent of other factors. The advantage of the multiple regression technique lies in the ability to test multiple relationships at once, measuring the relative strengths of relationships and quantifying the size of each one.

The main variables of interest in the regression models below involve the relationship between total tax burdens and business climate (respectively) on the movement of people in and out of states. The Tax Foundation ranks the total state and local tax burden for each state, and also developed an index of the business tax climate. The business climate index includes total tax burden as a part of the overall index, so the tax and business climate variables will be included in separate regression models as independent variables.

Other factors, however, could influence such movements and should be included in the model as alternative independent variables. The long-established migration of New Yorkers to Florida, for example, could indicate that weather is a driving force behind a number of migration decisions. If people tend to move out of states with cold winter weather to states with warm winter weather, this trend should be accounted for separately in the statistical analysis. The statistical models below therefore include a measure of January low temperatures to control for the movement of people to warmer climate states.

Cost of living factors outside of taxation issues could also impact the movement of people across state lines. People living in areas with high housing prices, for example, may often sell their houses at a premium to resettle in states with lower housing costs. While many cost of living factors are the unavoidable result of geography (for instance food prices in Alaska) others will have been impacted by government policies.

Housing prices represent a prime example of how government action can drive up the cost of living. Between 1986 and 2000, Californians voted on 671 local initiatives concerning growth, with 60 percent producing victories for the slow-growth lobby. Additional constraints to the building of new houses from environmental lobbies also resulted in high fees for developers, an approval process for new construction that is among the most complicated in the country. Developers estimate that these barriers add about \$70,000 to the cost of building a single-family home.²¹

The California Association of Realtors recently estimated the median house price in California to be \$404,520, and the minimum income required to purchase a median priced home to be \$94,730, assuming the mortgage applicant was able to make a 20 percent down payment, which is over \$80,000 for the median priced home.²² Not surprisingly, rates of home ownership in California are low. Land use restrictions, such as building height restrictions and others, play a prominent role in raising California home prices by effectively restricting the supply of new housing.²³

Columnist George Will asked Arizona Governor Janet Napolitano about the source of Arizona's fast population growth for a column. Governor Napolitano's answer proved quite revealing:

“Asked why her state is growing so fast -- 40 percent in the 1990s, faster than any state except Nevada -- Napolitano answers with one word: ‘California.’ There is, of course, more to it than that. New Arizonans include retirees fleeing the winters of the upper Midwest and job-seekers drawn to the state that ranks seventh among recipients of defense spending. But begin with what Napolitano, wonderfully undiplomatic, calls California's ‘crummy conditions.’ Even earning \$75,000, she says, ‘you still can't afford a house most places over there.’”²⁴

Cost of living is not purely the result of government policy, so the impact of such policies should be evaluated separately from fiscal policy. The model therefore controls for the effect of cost of living as measured by the Consumer Price Index as a separate independent factor. The 1995 cost of living index for each state was therefore included in the regression models as an independent variable.²⁵

Another longstanding migratory trend in the United States has involved the migration of people out of farming communities, particularly in the Great Plains states of the Midwest. The federal government strongly encouraged the settlement of the Great Plains by farmers in the 1860s, offering 160 acres to anyone willing to farm in the area. The federal

government felt it necessary to offer such incentives, as the land is not ideally suited for farming, lacking groundwater.

With the onset of substantial increases in agricultural productivity, farm employment has fallen substantially. The amount of time required for a farmer to produce 100 bushels of wheat fell from 20 hours in 1930 to 5 hours in 1975. The time required has fallen further since. The productivity revolution has done much to relieve world hunger and increase the standard of living, but also began a large migratory trend of people out of traditionally rural areas. For example, as the economy required fewer farm laborers, the number of farms in the Great Plains, declined steadily, from 575,000 in 1930 to 231,000 in 1997. Not coincidentally, during the 1990s, 47 of North Dakota's 53 counties and 53 of Nebraska's 93 have seen their populations drop.²⁶ Movement of people out of rural areas impacts state migration, as many will move to entirely new states.

The steady migration of people out of farming therefore represents a migratory trend largely independent of fiscal concerns, although certainly one with fiscal impact. In order to account for this trend, a measure of the decrease in land devoted to agriculture during the 1995-2000 period for each state was included as a separate independent variable. The expectation is that states with greater losses of agricultural land will also experience greater net migration loss.

Tables 3 and 4 below presents the results of two regression models, both utilizing net migration figures as the dependent variable. In Model 1, total tax burden is included in the analysis along with control variables for agriculture, weather and cost of living.

Table 3: Total State Tax Burden and Net Migration, 1995-2000	
	Model 1: Tax Rates
Total State Tax Burden	-854.42 (324.01)***
State Cost of Living	-2.26 (.616)***
Agriculture Decline	-318.54 (73.89)***
Weather	-.11 (.324)
Constant	119.25
Adjusted R-square	.42

Note: Ordinary Least Squares regression; entries are unstandardized coefficients; standard errors are in parentheses. * p < 0.05 ** p < 0.01 *** p < 0.001

The regression analysis reveals a strong and statistically significant link between total tax burdens and the out-migration of citizens, independent of the respective influences of cost of living, declining agricultural base, or weather. All of the main independent variables have the expected relationship with migration: high taxes prompt people to move to other states, relatively high costs of living likewise spurred migration, and states with declining agricultural bases lost residents as well. Ultimately, taxes, cost of living, and agriculture have strong relationships with migration. The model explains 42 percent of the variation in net migration between states, indicating that policy factors strongly influence migration.

In Table 4, the measure of business climate is included along with control variables for weather and cost of living. The Tax Foundation’s measure of business climate replaces the total tax burden variable from Table 3 because it includes total taxes as a part of an overall index. The Tax Foundation’s Business Climate Index scores Wyoming and New Hampshire with the nation’s best and second business climates (scoring 8.3 and 8.05) and California and Mississippi with the next to worst and worst business climates (scoring 4.36 and 3.97 respectively). The average score on the index was 5.97. States tax systems were ranked poorly by the Tax Foundation for above-average sales tax rates that have high compliance costs exempt few business input items, have high overall state tax burdens and revenues that have grown faster than citizens’ incomes.

Table 4: Total State Tax Burden and Net Migration, 1995-2000	
	Model 2: Tax Rates
State Business Tax Climate	11.98 (3.36)***
State Cost of Living	-2.39 (.57)***
Agriculture Decline	-303.61 (69.82)***
Weather	-.03 (.309)
Constant	119.25
Adjusted R-square	.47

Note: Ordinary Least Squares regression; entries are unstandardized coefficients; standard errors are in parentheses. * p < 0.05 ** p < 0.01 *** p < 0.001

The regression results in Table 4 indicate that the state business climate is an even better predictor of migration trends than total tax burden. The results for the control variables are very similar to those presented in the previous model. The business climate model, however, explains more variation in migration results (47 percent) than the total tax burden model (42 percent). States with strong business climates attract new citizens and business investment, while those with poor business climates lose residents, taxpayers and investment.

CONCLUSION: THE HUMAN COST OF HIGH TAXES

Movement across states, rather than being random in nature, is largely systematic: Americans prefer to live and do business in states where taxes are low and relatively straightforward. The migration process does indeed seem to reinforce freedom in the way that Friedman described: federalism affords citizens the opportunity to move themselves and their businesses elsewhere when government becomes too large or obtrusive. Enduring such burdens is thankfully optional under our system of federalism, and serves as an important brake on the size of government.

This analysis demonstrates that the relationship between fiscal policy and migration is large and quantifiable. When considering changes in fiscal policy, therefore, state governments should factor the impact of migration changes. States considering lowering their overall tax burdens can expect additional citizens to move into their states, or at least, to have fewer leave. Likewise, states contemplating increasing their tax burdens

ignore the fact that higher taxes will drive a portion of their citizens to live, work, and do business elsewhere only at the peril of their long-term fiscal health. States such as Florida and Nevada have profited enormously as havens for tax refugees from other states. States such as California and New York have created an exodus of their businesses and citizens to other parts of the country. States have a rather stark and simple question to ask themselves: Do we wish to embrace dynamic growth or stagnation and relative decline?

The relationship between tax complexity and out-migration of citizens represents especially important information regarding the best way to attract high-wage jobs to a state. Many states, especially those with burdensome and complex tax structures, have taken to negotiating individual, “sweetheart” taxation deals with individual employers in an attempt to lure them into investing in their state. Such deals often result in outrageous costs per job gained for the states in question. The migration data, however, clearly indicates that such activities are ultimately counter-productive insofar as they make the tax code more complex and more costly to others. The best way to attract business investment seems to be a system of low and uncomplicated taxes, rather than a system of high and complex taxes. These results are entirely consistent with the large numbers of studies of economic growth demonstrating a strong link between low and simple tax regimes and both economic and employment growth.²⁷ It is clear that the structure of American federalism underlies this relationship by creating a market for jobs and labor rewarding lighter government burdens and punishes high state taxes.

New Mexico, despite its favorable climate, has historically struggled. This is especially true considering the rapid growth of neighboring states with more favorable tax climates like Colorado and Arizona. On the positive side, since the census data included in this study, New Mexico's top personal income tax rate and capital gains taxes have been reduced significantly.²⁸ While these reductions will undoubtedly slow the out-migration, especially of young and productive workers, New Mexico has a long way to go before its economy rivals those of neighboring states. For that reason, the Rio Grande Foundation has urged Governor Richardson and the Legislature to consider using the current economic boom and eliminating the state's income tax completely.²⁹

In 1992, Colorado enacted what was known as a Tax Payer's Bill of Rights limiting increases in state government spending to grow no more than the combined rate of inflation and population growth. Any excess revenue collected has been rebated back to Colorado taxpayers. The result is that Colorado taxpayers have received \$3.2 billion in tax rebates since 1997, an average of \$900 per taxpayer. Despite predictions of doom by opponents, Colorado's economy has been exceptionally strong. Between 1995 and 2000, Colorado ranked first among all states in gross state product growth and second in personal income growth. New Mexicans looking to create a stronger economy should also consider adopting Constitutional limits as Colorado has done.

Groups seeking to benefit from higher government spending or tax expenditures employ every argument imaginable in order to convince people that what their goal will further the public good in any number of ways. Self-interest masking itself in the guise of public

interest invariably plays up theoretical benefits while ignoring concrete costs. As John Adams stated however, “Facts are stubborn things and whatever may be our wishes, our inclinations, or the dictates of our passions, they cannot alter the state of facts and evidence.” One such stubborn fact is that people make rational decisions about where to work and do business, placing states into a healthy competition punishing and rewarding states based on policy decisions.

¹ Friedman, Milton. 1962. *Capitalism and Freedom*. Chicago: University of Chicago Press, Pgs. 2-3.

² Consider, for example, that we don't see Americans swimming 90 miles through shark-infested waters trying to immigrate to Cuba. Many Cuban nationals, however, engage in this and similar sorts of risky behavior each year while desperately trying to reach the United States. While it would be possible to invent other measures of societal success, a reasonable observer would almost certainly conclude that the United States to be a far more successful society than Cuba.

³ Source: United States Census Bureau, <http://www.nado.org/legaffair/census.html#count>.

⁴ Electronic Data Services “Two Seats Would Change Hands If Congress Were Reapportioned With 2002 Numbers,” http://www.electiondataservices.com/Appor05_NR.pdf

⁵ Electronic Data Services “Two Seats Would Change Hands If Congress Were Reapportioned With 2002 Numbers,” http://www.electiondataservices.com/content/Appor02estimates_0903ReleaseandTables.pdf.

⁶ Speech by Marshall Trimble for the Goldwater Institute, February 11, 2004.

⁷ “A New Republican Heartland” Article in the *Economist* magazine, October 7, 1999.

⁸ James Q. Wilson describes how net out-migration of middle class residents from central cities into the suburbs during the 1960s not only put financial pressures on city budgets but also contributed to an explosion in inner-city crime rates, contributing to a spiral of decline for many large American cities. See James Q. Wilson, 1985, *Thinking About Crime* (Vintage Books, New York) pp. 13-40.

⁹ “A fading state. Fare thee well, Iowa.” Article in *The Economist*, August 16th, 2001.

¹⁰ Hoffman, David. 2003. “Special Report No. 121-State Tax Collections and Rates.”

¹¹ Rachel S. Franklin, “Migration of Young, Single, and College-Educated 1995-2000,” US Census Special Reports, November 2003, <http://www.census.gov/prod/2003pubs/censr-12.pdf>

¹² For instance, see Debra Roubik, “Study Links Job, Population Movement,” *Arizona Economic Trends*, Winter 1996-1997, Arizona Department of Economic Security.

¹³ Mike Sunnucks, 2004, “Economic officials see job exports as threat,” *The Phoenix Business Journal*, February 13, 2004.

¹⁴ Source for all net migration figures, U.S. Census Bureau “Domestic Migration Across Regions, Divisions, and States: 1995 to 2000.”

¹⁵ Tax Foundation, “Nevada’s State and Local Tax Burden 1970-2006,” <http://www.taxfoundation.org/taxdata/show/467.html>

¹⁶ *Ibid.*

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- ¹⁷ Scott Hodge, J. Scott Moody and Wendy P. Worcholik, “State Business Climate Index,” Tax Foundation Background Paper, 2003, <http://www.heartland.org/pdf/12356.pdf>.
- ¹⁸ Scott Hodge, J. Scott Moody and Wendy P. Worcholik, “State Business Climate Index,” Tax Foundation Background Paper, 2003, p 3.
- ¹⁹ The states and jurisdictions with the eight highest marginal rates in 1995 include Delaware, Hawaii, Idaho, Maine, Minnesota, New York, Oregon and Washington DC.
- ²⁰ For an earlier statistical analysis of migration trends, see Richard Vedder, “Taxation and Migration,” Taxpayers Network Study, 2003.
- ²¹ “No End in Sight to California’s Housing Troubles,” Article in the *San Diego Union Tribune*, July 20, 2003.
- ²² Mark Giberson “California’s Housing Affordability Index falls five points in December; Minimum household income needed to purchase median-priced home at \$94,730,” publication of the California Realtors Association, February 5th, 2004, <http://www.car.org/index.php?id=MzMzMjQ=>
- ²³ Sowell, Thomas, “Housing Hurdles,” <http://www.townhall.com/columnists/thomassowell/ts20040204.shtml>.
- ²⁴ George Will. “Blue Tinges in Arizona” appeared in the April 22, 2004 edition of the *Washington Post*, <http://www.washingtonpost.com/wp-dyn/articles/A32842-2004Apr21.html>.
- ²⁵ William D. Berry, Richard C. Fording and Russell L. Hanson, Cost of Living Index for the American States, 1960-2000, available on the internet at <http://ssdc.ucsd.edu/ssdc/icp01275.html>
- ²⁶ “In the Great American Desert.” *Economist*, December 2001, http://www.economist.com/displaystory.cfm?story_id=904829.
- ²⁷ For example, Debra Roubik’s modeling of the Arizona economy estimated that the state would gain 14,100 of jobs per year and \$24 billion in personal income growth by abolishing the state’s personal and corporate income taxes and replacing them with a broad-based consumption tax. See Debra Roubik, *Three Paths to Prosperity*, report of the Goldwater Institute, February 2004, <http://www.goldwaterinstitute.org/article.php/417.html>.
- ²⁸ New Mexico Business Weekly, “*Forbes* Hails Richardson Tax Cuts,” November 23, 2004, <http://www.bizjournals.com/albuquerque/stories/2004/11/22/daily6.html>
- ²⁹ Paul J. Gessing, “Building on Success: Leveraging New Mexico’s Strong Fiscal Position for Future Growth,” June 19, 2006, <http://www.riograndefoundation.org/new/articles/?EC=ReadArticle&ArticleID=72>