State Taxation and Migration

As the Nebraska Unicameral continues its second week of the 2014 legislative session, lawmakers have already introduced numerous bills intended to make Nebraska more economically competitive, including a number of pieces of legislation that would modify, reduce, or eliminate particular taxes. An economy needs human capital in order to grow, and Nebraska's population is growing at a pace just shy of the national rate.[1] But while urban and suburban centers are expanding, and statewide growth is tracking the national numbers, rural populations are contracting and aging. This is creating concerns about maintaining a healthy economy in a future where a quarter of the population is sixty-five or older.[2]

Even though the more populous areas of the state are growing relatively well in comparison to Nebraska's fifty-one rural counties, employers increasingly complain of a lack of skilled workers in the state.[3] In a survey of entrepreneurs attending the Nebraska Chamber of Commerce & Industry's legislative forums last year, "when asked to name one main factor limiting the growth and/or profitability of their business, 25.47 percent said lack of available labor or inability to recruit skilled workers. More than 52 percent said they had experienced difficulty hiring qualified employees during the past year."[4]

According to a 2013 report from the Mercatus Center, Freedom in the 50 States: An Index of Personal and Economic Freedom, legislators should take note that fiscal, regulatory, and personal freedom are all positively associated with increased migration.[5] Co-authors William Ruger and Jason Sorens offer this advice to policymakers: if you want to grow your population, increase freedom and reduce the cost of government in your state.[6]

Travis Brown, the author of another 2013 publication, How Money Walks, offers compelling data that supports this hypothesis: that reducing the burden of government on individuals is key to growing a state's population.[7] Analyzing data from the United States Census Bureau and the annual Tax Foundation survey from 1995 to 2010, Brown's book makes the case that money "walks to where it is most welcome." Brown's fifteen years of data mapped show "a clear pattern of AGI… moving from states with high personal income taxes to states with no or low personal income taxes."[8]

As Brown points out, he is not the first to reach this conclusion. He cites law professor and former federal tax policy maker Michael Graetz for the idea that "When corporate and individual income tax rates on capital income are high, that income tends to move to a jurisdiction with lower rates. Often the capital—and its accompanying jobs—moves. Sometimes only the revenue is lost through tax planning. In today's highly competitive global economy, high income tax rates are counterproductive."[9]

What Brown offers that others have not, however, is an attempt at quantifying the wealth lost by states due to their tax regimes. Brown estimates that states have driven away more than $2 trillion with excessive taxation. "Working wealth appears to be leaving high-tax states in favor of lower-tax ones, especially those with low or no personal income taxes."[10]

According to Brown, the Midwest lost over $80.1 billion in adjusted gross income (AGI) between 1995 and 2010, $35 billion of which went to Florida, Arizona, and Texas with their more favorable tax environments.[11] Nebraska is estimated to have experienced a net loss of $2.3 billion AGI over that time period.[12] By Brown's estimates, Nebraska lost nearly sixty thousand workers since 1985 due to tax migration.[13] This is because the average migrant was not a wealthy individual seeking a tax haven, but rather a worker with a salary more characteristic of the middle class. Among the ten states seeing the greatest gains in AGI,[14] average AGI of the movers was less than $44,000.[15] [16] This fact is crucial, because it makes clear that reducing taxes to enhance the state's economic competitiveness is not merely about attracting capital, but about attracting the labor force that Nebraska employers need to grow their enterprises.

In the digital age, telecommunications technology increasingly allows workers to complete their work remotely. This means that the existence of dense population centers and concentrations of physical capital is becoming less determinative of where workers live, and consequently where they earn their income.[17] In the future, there will be less reason to stay in a high tax state for work. Lawmakers would do well to prevent workers from having to make that hard choice.

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1. Tysver, Robynn. "Census estimates: Nebraska, Iowa see steady population growth." *Omaha World-Herald*. December 31, 2013. [URL: http://www.omaha.com/article/20131230/NEWS/131239934]

2. Andersen, Erin. "Graying population poses problems for Nebraska children." *Lincoln Journal-Star*. January 14, 2014. [URL: http://journalstar.com/news/local/graying-population-poses-problems-for-nebraska-children/article_db8109ea-ca91-5205-a720-fc18bc8f763c.html]

3. "Shortage of skilled labor shows up in Nebraska chamber survey." *Lincoln Journal-Star*. November 17, 2013. [URL: http://journalstar.com/business/local/shortage-of-skilled-labor-shows-up-in-nebraska-chamber-survey/article_38395bae-1827-5215-8df8-49eef8139118.html]

4. *Ibid*.

5. Ruger, William P. and Jason Sorens. *Freedom in the 50 States: An Index of Personal and Economic Freedom*. Mercatus Center. George Mason University. 2013. p. 96.

6. *Ibid.*, p. 97.

7. Brown, Travis H. *How Money Walks: How $2 Trillion Moved Between the States, and Why It Matters*. Pelopidas. 2013.

8. *Ibid.,* p. 45.

9. *Ibid.,* p. 46, citing Graetz, Michael J. *100 Million Unnecessary Returns*. Yale University Press. 2008. p. 212.

10. *Ibid.*, p. 198.

11. *Ibid.*, pp. 203–204.

12. *Ibid.*, p. 201.

13. Data from [URL:]

14. The ten states that experienced the the greatest gains in AGI during the study period were Florida, Arizona, Texas, North Carolina, Nevada, South Carolina, Georgia, Colorado, Washington, and Tennessee.

15. Brown, pp. 59–60.

16. Cf. median household income in Nebraska between 2008 and 2012 of $51,381. United States Census Bureau. [URL: http://quickfacts.census.gov]

17. Brown, pp. 49.