New Jersey Is Dying

A SPECIAL-INTEREST-DOMINATED STATUS QUO IS HURTING THE STATE'S ECONOMY

Part V of the Legal Corruption Series

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The Legal Corruption Series: Executive Summary

New Jersey is in a bad way. Our economy is weak and significantly underperforms other states. Our tax system is consistently ranked as the worst in the nation. Our public-sector pensions are in the worst condition of any state, and our unfunded liabilities are at least $202 billion—almost six times the size of the $35 billion annual budget.[1] We have the second-lowest bond rating of any state—save broke Illinois.[2] Businesses, taxpayers, and young adults are leaving our state in droves. Sadly, New Jersey's future looks even worse.

How did New Jersey get into this position?

It was not happenstance. New Jersey is in this position because its largest public-sector union, the New Jersey Education Association (NJEA), often working in concert with its public-sector union allies, has rigged the system for its own benefit. The consummate special interest, the NJEA has dominated the state's political system for decades. It structured a legislative regime that allowed it to siphon off hundreds of millions of taxpayer dollars to spend itself to unmatched political clout. Predictably, New Jersey's politicians—both Republicans and Democrats—have succumbed to this clout and largely given the NJEA what it wanted. Too often, New Jersey citizens and taxpayers have been left out of the discussion, and yet it is they who will foot the bill.

If New Jersey citizens and taxpayers knew what was really going on, they would be outraged. They would be outraged that a special interest was able to control state government to their detriment. They would be outraged that their highest-in-the-nation taxes are flowing directly into union coffers to be used against their own interests. They would be outraged that the future of the state—and that of their children and future generations of New Jerseyans—has been mortgaged for the benefit of the few over the many.

The purpose of this research is to inform New Jersey's citizens of what is really going on and how we got into this position. Using published research, contemporaneous media accounts, and the NJEA's own publications to ascertain the facts, this study details the deliberate exploitation of New Jersey's political system and the resulting consequences—to the benefit of the NJEA and the detriment of New Jerseyans.

There are five parts to the research:

- **Part I. Follow the Money: The Real Money Behind the New Jersey Education Association's Political Clout.** Funded by hundreds of millions of taxpayer dollars, the NJEA's severely underreported political war chest dwarfs the competition. The NJEA spends many times more on political action than is reported and is by far the most powerful special interest—and political force—in the state. Far too often, this results in taxpayer dollars being used against taxpayer interests.

- **Part II. "And You Will Pay": How a Special Interest Dominates New Jersey Politics.** The NJEA used its clout to influence politicians of both parties and structure the political system to perpetuate its power and benefit itself. This extraordinary special-interest influence has shaped the current status quo in the state and threatens the state's solvency.

- **Part III. Job Number One: The New Jersey Education Association's Role in New Jersey's Disastrous Pension and Benefits Crisis.** Again using its money and clout, the NJEA created the broken benefit system we have today. While the NJEA seeks to blame the state, the facts show that the NJEA structured the system to maximize benefits for its members and consistently fought reform efforts. It participated in pension-asset raids and financing schemes that greatly damaged the soundness of the system. It gained for its members premium-free, "Cadillac" health plans. Because it was politically convenient, it chose not to punish politicians for underfunding the state's retiree liabilities, thus contributing to $202 billion in underfunding that threatens the future of the state. And it recently tried to lock this bankrupt system into the state constitution.

- **Part IV. Talk Is Cheap, but Good Education Costs: The Truth About New Jersey's High Tax Burden.** Using its money and clout, the NJEA has consistently pushed for higher taxes. At the local level, the NJEA consistently pushed for higher education spending and higher property taxes. Once high property taxes became a political problem, it pushed for higher state education spending and higher state taxes. The NJEA was a major force behind the initiation of New Jersey's first sales and income taxes and continues to push for higher taxes to this day.

- **Part V. New Jersey Is Dying: A Special-Interest-Dominated Status Quo Is Hurting the State's Economy**. High taxes and cost of living have hurt the state's economy. The tax system renders the state inhospitable to businesses and uncompetitive with other states—particularly with neighboring New York and Pennsylvania. Consequently, economic and job growth are weak and significantly underperform both the nation and New York and Pennsylvania. Businesses, taxpayers, and most ominously, young adults are emigrating to more favorable states. Reform and economic growth are the only way out of this fiscal hole, but our special-interest-dominated political system allows for neither.

New Jersey citizens and taxpayers must wake up to what has happened in our state and why we are where we are. In the end, the best description of what has occurred is "legal corruption." Our political system has been thoroughly corrupted—so much so that the corruption itself has been made legal. Either we change the system and root out the legal corruption or it will bankrupt the state—along with the future of our children and the next generations of New Jerseyans.

New Jersey Is Dying

A SPECIAL-INTEREST-DOMINATED STATUS QUO IS HURTING THE STATE'S ECONOMY

Part V of the Legal Corruption Series

Mike Lilley

> *"New Jersey is dying. The infrastructure is crumbling, smart young people go out of the state for college and don't return, taxes are out of control."*
>
> —*A New Jersey CEO to* Chief Executive *in 2016*[3]

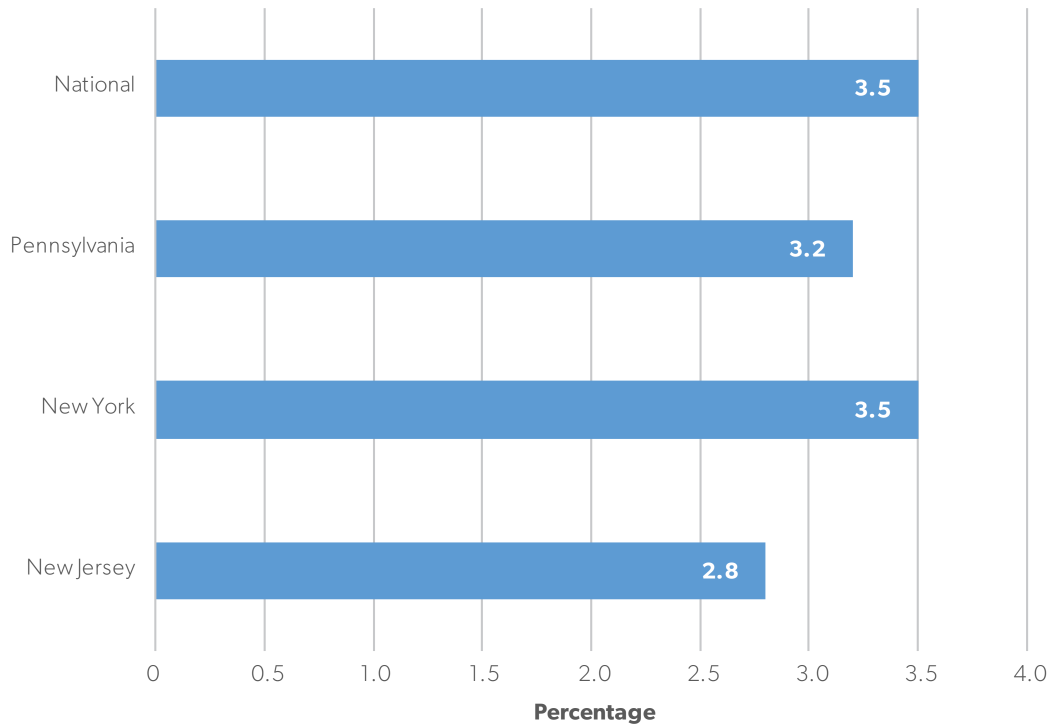
This is a troubling comment—and for more reasons than just the obviously bleak prognostication. As outlined in Part III, New Jersey is ranked as the state in the worst fiscal condition. New Jersey's unfunded pension and benefit liabilities are at least $202 billion, almost six times larger than the state's $35 billion annual budget. Without robust economic growth, it will be impossible for New Jersey to meet these obligations without economy-killing tax hikes or drastic cuts in services, or both. The bottom line is that New Jersey needs a strong economy if it is to overcome the enormous fiscal problems that threaten the state's future. And, yet, as this CEO says, New Jersey's economy is not strong; it is dying.

New Jersey is certainly not without hope. It has several natural advantages. After all, it is the Garden State, located on the Northeast Corridor adjacent to New York City and Philadelphia and blessed with 127 miles of ocean beaches. It is home to top universities and Fortune 500 companies. It is one of the wealthiest states, with per capita personal income of $61,968, the third highest in the country and 25 percent above the national average.[4]

But as the above CEO said, all is not well in New Jersey. For the past decade, New Jersey has had one of the weakest economies in the nation, well below the national average for jobs and economic growth. Its economic environment is inhospitable to businesses, both large and small. Its tax climate is the worst in the country, and the cost of living is sky high. Both New Jersey's fiscal condition and its pension and benefit underfunding are the absolute worst in the nation, earning it the second-lowest bond rating of any state. As a result, New Jersey is experiencing an out-migration of businesses, taxpayers, and most disturbingly its youngest citizens.

As detailed in Parts I and II, New Jersey's political status quo is dominated by the state's largest teachers union, the New Jersey Education Association (NJEA). The NJEA has constructed a system that siphons off taxpayer dollars directly into its coffers, giving it unmatched money and political clout. The NJEA has used this clout to dominate New Jersey politics, allowing it to perpetuate its power and gain pensions and benefits for its members that threaten to bankrupt the state (detailed in Part III). As shown in Part IV, the NJEA has also been a persistent and successful advocate for more state education spending and the higher taxes to support it. As the most powerful political force in the state for 50 years, the NJEA

Figure 1. Annual Growth Rate of State Personal Income, 2006–16



Source: Bureau of Economic Analysis, US Department of Commerce.

has played a significant role in bringing the state economy to its current woeful condition.

New Jersey's Underperforming Economy

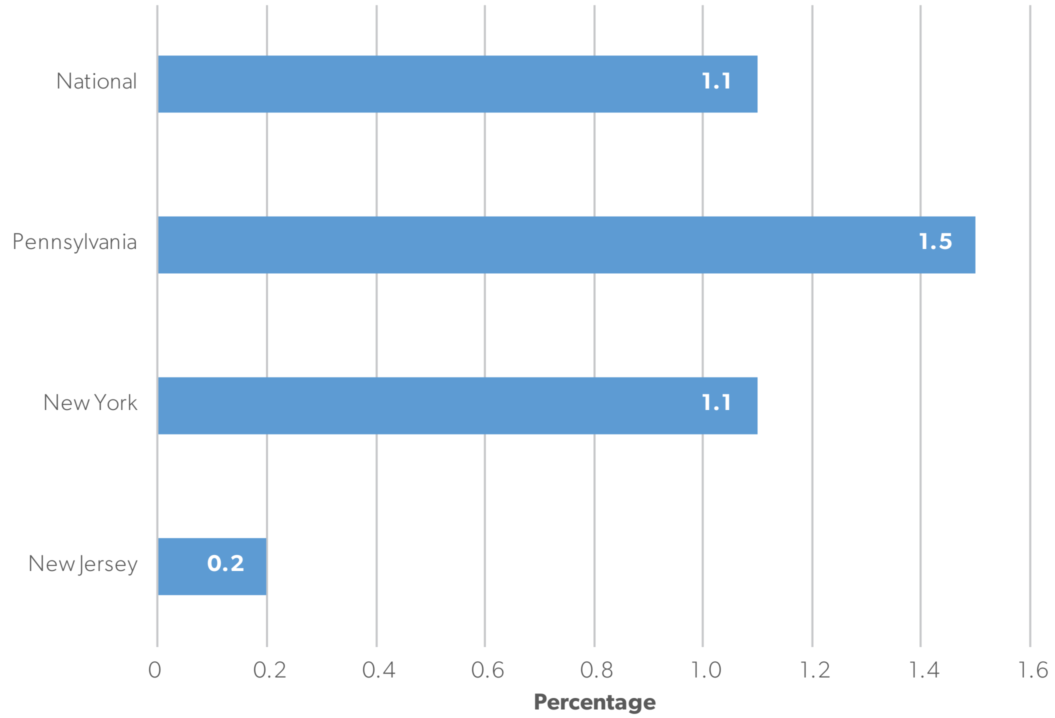
Over the past decade, New Jersey's economy has underperformed other states. According to the US Bureau of Economic Analysis, from 2006 to 2016, the annual growth rate for the state's aggregate personal income was 2.8 percent, 20 percent below the national average of 3.5 percent. The annual growth of the state's real gross domestic product (GDP) was a mere 0.2 percent, more than 80 percent below the national average of 1.1 percent.[5] In terms of jobs, while the nation has gained 6.2 percent more jobs since the Great Recession, New Jersey's job growth has been less than 1 percent.[6] From 2007 to 2016, New Jersey's job growth was the eighth worst in the country.[7]

Not only is New Jersey underperforming the national economy, but also it is underperforming its neighboring states of Pennsylvania and New York. New Jersey competes against these two northeast states for businesses, jobs, and residents. As shown in Figure 1, from 2006 to 2016, New York's aggregate annual personal income growth matched the national average of 3.5 percent and outperformed New Jersey by 25 percent. Pennsylvania's aggregate personal income grew 3.2 percent, which underperformed the national average but beat New Jersey's annual growth rate by 14 percent.

In annual GDP, New York matched the national average at 1.1 percent, and Pennsylvania exceeded it with 1.5 percent growth. Both massively outperformed New Jersey's near-recessionary 0.2 percent growth (Figure 2).

The picture held true for jobs as well. From 2007 to 2017, New York added a whopping 9.1 percent of jobs, far outpacing the national 6.1 percent rate. Pennsylvania's job growth was 2.4 percent, which

Figure 2. Annual Growth Rate of State GDP, 2006–16



Source: Bureau of Economic Analysis, US Department of Commerce.

underperformed the national average but more than doubled New Jersey's anemic 0.99 percent increase (Figure 3).[8]

As the data show, for the past decade, New Jersey's economy has been a significant underperformer—both compared to all other states and to its northeast neighbors.

Research confirms that New Jersey's lackluster economy ranks as one of the worst among the states in long-term economic performance. The American Legislative Exchange Council's (ALEC) Economic Performance Rank combines three economic measures that are highly influenced by state policy: a state's GDP growth (2005–15), domestic out-migration (2006–15), and employment growth (2005–15). New Jersey's woeful long-term economic performance ranked 47th among the states (Table 1). According to ALEC, New Jersey's economic future looks even worse: New Jersey's Economic Outlook Rank (measuring 15 state policy variables) was 48th among the states.[9]

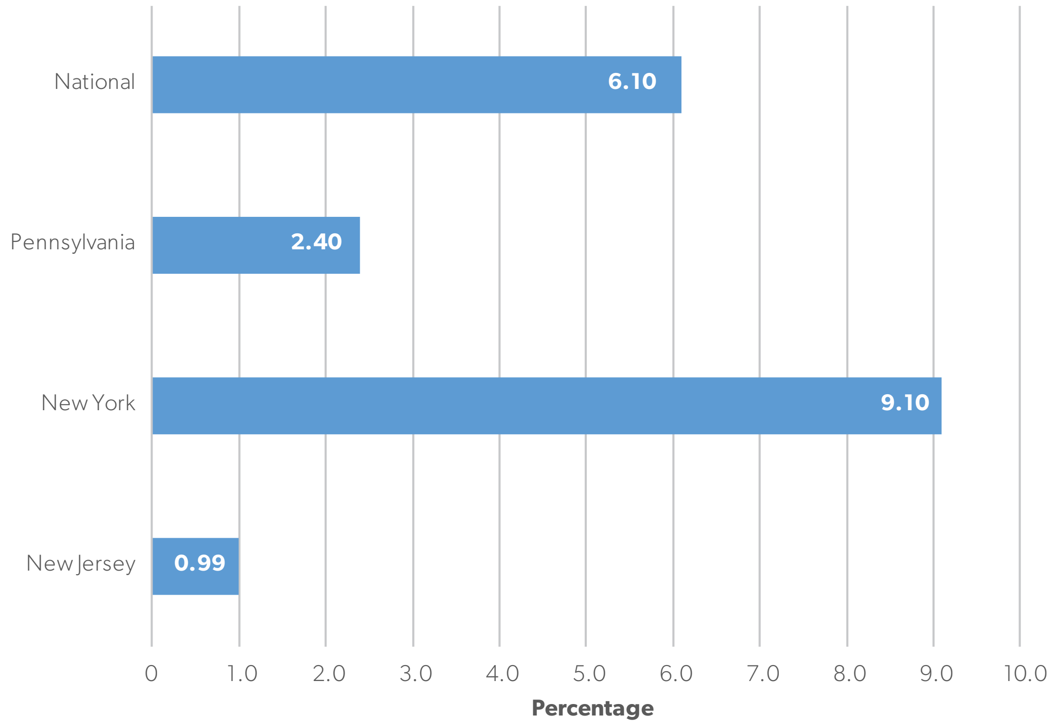
Why Does New Jersey Have Such a Weak Economy?

First and foremost, New Jersey has a terrible business climate, mostly due to its sky-high taxes. Whether for large corporations or mom-and-pop small businesses, New Jersey ranks as one of the most inhospitable states for businesses.

In the Tax Foundation's 2018 annual ranking of state business tax climates, New Jersey came in dead last among the 50 states—for the fourth straight year (Table 1). Its property taxes were the worst, its income and sales taxes in the bottom five, and its corporate taxes in the bottom 10.[10]

Chief Executive ranked the best and worst states for business, and New Jersey came in 47th for the fourth year in a row (Table 1). The magazine quoted a New Jersey business consultant as saying that the bottom states, including New Jersey, "have consistently high tax burdens and onerous

Figure 3. Total Increase in Nonfarm Payrolls, 2007–17



Source: US Bureau of Labor Statistics.

regulatory environments—so they're not only perceived as being business-unfriendly, they are. It's reality."[11]

Not only was New Jersey a lousy environment for large corporations, but also it was even worse for small businesses. Small businesses are extremely important for New Jersey's economy. Since the 1970s, they account for 55 percent of all jobs and 66 percent of new jobs. They currently employ 50.1 percent of the state's workforce.[12] The Small Business & Entrepreneurship Council (SBEC) ranked New Jersey 49th among the states for its tax system for small businesses (Table 1).[13] SBEC's 2014 report noted that New Jersey's "negatives are overwhelming," citing the state's high taxes and high levels of government spending and debt. The report scathingly criticized New Jersey's anti-small-business posture: "New Jersey's nickname is the Garden State. Unfortunately, the state's hostile policy climate is barren soil for planting and growing a business."[14]

A recent McKinsey & Company survey of 70 New Jersey business leaders validated this criticism. The report found that New Jersey underperforms other states when it comes to startups growing into larger companies, with just 5 percent of companies in the state with 500 or more employees being 10 years old or younger, compared with 11 percent nationally. As a McKinsey partner said: "Net job creation is being driven by these young companies. We need more companies that are 500 employees going to 2,000." Equally important, such companies would help stem the outflow of millennials from the state (discussed below) by "creating opportunities to work in these new, young and growing businesses." Indeed, millennials are often the entrepreneurs starting these businesses.[15]

New Jersey also ranks poorly when it comes to overall economic freedom (Table 1). The Cato Institute's annual ranking of states placed New Jersey 47th in economic freedom among the states. New Jersey has been 47th or worse since 2006. New Jersey was also 47th in regulatory freedom and 46th in labor market freedom, among other measures.[16]

Table 1. New Jersey's Ranking in Studies of State Economic Policies and Performance

Study	Ranking
Tax Foundation	50
Small Business & Entrepreneurship Council	49
American Legislative Exchange Council	47
Chief Executive	47
Cato Institute	47

Source: Author.

As might be expected, New Jersey's business leaders are downcast about New Jersey's outlook. In a recent Rutgers University poll, only 38 percent of these leaders rated New Jersey's economy as "good," and even fewer, 36 percent, predicted improvement next year. The survey reported that "executives are perturbed about New Jersey's high taxes and the state government's approach to business." As one New Jersey business executive said: "It's really that simple, lower taxes."[17]

Slower economic growth has had concomitant effects on New Jersey's fiscal condition. Standard & Poor's assessed New Jersey's recovery since the Great Recession: "The state's economic growth continues to lag the nation, contributing to growth in [state] revenues that has not kept pace with expenditure growth."[18]

Consistent with Standard & Poor's findings, recent research shows that New Jersey has the greatest gap between revenues and expenses in the nation. The Pew Charitable Trust determined that from 2002 to 2015, New Jersey took in enough revenue to cover only 92.4 percent of its expenses—the smallest percentage of any state. New Jersey and Illinois were the only two states with aggregate deficits exceeding 5 percent and the only states to have annual deficits in each of the 14 years analyzed.[19] While neighbors Pennsylvania and New York managed to turn the situation around in 2015, each generating greater revenues than expenses, the Mercatus Center found that New Jersey's state government took in revenues that covered only 91 percent of its expenses in 2015, once again the worst ratio in the nation.[20]

Nor do these chronic deficits portend well for the future. The Pew report noted that such chronic shortfalls indicate a "serious structural deficit in which revenue will continue to fall short of spending absent policy changes" and potentially create "an unsustainable fiscal situation."[21] Long-term, structural budget deficits inevitably result in borrowing and debt, and as might be expected, New Jersey is the worst in the nation in that regard as well.

Thus, further adding to—indeed causally related to—New Jersey's inhospitable business climate is the deplorable financial condition of New Jersey's state government. A 2017 Mercatus Center study ranked New Jersey dead last among the states in overall fiscal condition. New Jersey performed particularly poorly when it came to budget solvency (49th) and long-run solvency (50th). As the report stated: "On a long-run basis, New Jersey's metrics are dire."[22] The state's long-term liabilities (including pensions and health benefits) equal 3.6 times its total assets, or $16,821 per capita, the highest in the nation and almost four times the national average of $4,272.[23]

On a per-taxpayer basis, New Jersey's debt situation is even worse. Truth in Accounting found New Jersey's debt per taxpayer to be $59,400, the worst in the country and $10,000 higher than the second worst state, Connecticut. New Jersey's debt load was more than four times the national average of $13,514.[24]

New Jersey is a lousy place to do business.

The Causes of New Jersey's Poor Business Environment

New Jersey's poor and uncompetitive business environment is driven by three main factors: its high taxes, its high cost of living, and its crumbling transportation infrastructure.

High Taxes. As the Tax Foundation report indicated, New Jersey has the worst tax climate in the country,[25] and as detailed below, taxes have significant negative effects on economic growth.

High taxes raise costs and create disincentives for economic undertakings such as working, entrepreneurship, and investment. They take resources away from productive private-sector activities and give them to elected officials and bureaucrats to spend according to political incentives. As shown in Parts I–IV, that has certainly been true in New Jersey, where its most powerful special interest, the NJEA, has used its unmatched political clout for decades to push for ever-higher government spending, budget-busting pension and health benefits for its members, and the higher taxes it takes to pay for them.

The SBEC's 2016 report noted the commonalities between the best states for small business and the worst ones. From 2011 to 2014, real economic growth in the top 25 states was 29 percent higher than in the bottom 25 states (1.68 percent to 1.3 percent). The population growth of the top 25 states averaged 4.9 percent, almost double the 2.5 percent of the bottom 25.[26]

The SBEC's 2017 report cited 26 studies that "consistently point to significant negative effects of taxes on economic growth."[27] Among other findings, the report found that high taxes affect personal income growth and, citing a Tax Foundation report, that high marginal tax rates reduce "investment, risk taking, and entrepreneurial activity since a disproportionately large share of these activities is done by high income earners."[28]

In addition, the SBEC report cited research that showed that raising taxes more than neighboring states led to slower economic growth and reduced per capita income. Former New Jersey State Treasurer Andrew Sidamon-Eristoff concurred: "The focus of New Jersey's tax policy should be to avoid being notably uncompetitive, particularly within our region."[29] Having the highest taxes in the region—as New Jersey does—pushes high earners and their "taxable income and thus revenue out of New Jersey."[30]

Looking at New Jersey's tax rates compared to New York and Pennsylvania helps explain the disparities in economic performance. New Jersey's top income tax rate is 8.97 percent, with New York at 8.82 percent and Pennsylvania at a flat 3.07 percent. As to property taxes, New Jersey has the highest in the country at 5.4 percent, versus 4.6 percent for New York and 2.95 percent for Pennsylvania. Finally, on corporate taxes, New Jersey's rate is 9 percent, with New York at 8.34 percent and Pennsylvania at 9.99 percent. As Figure 4 shows, and as the Tax Foundation found, New Jersey's combined taxes are the worst of the three states.[31]

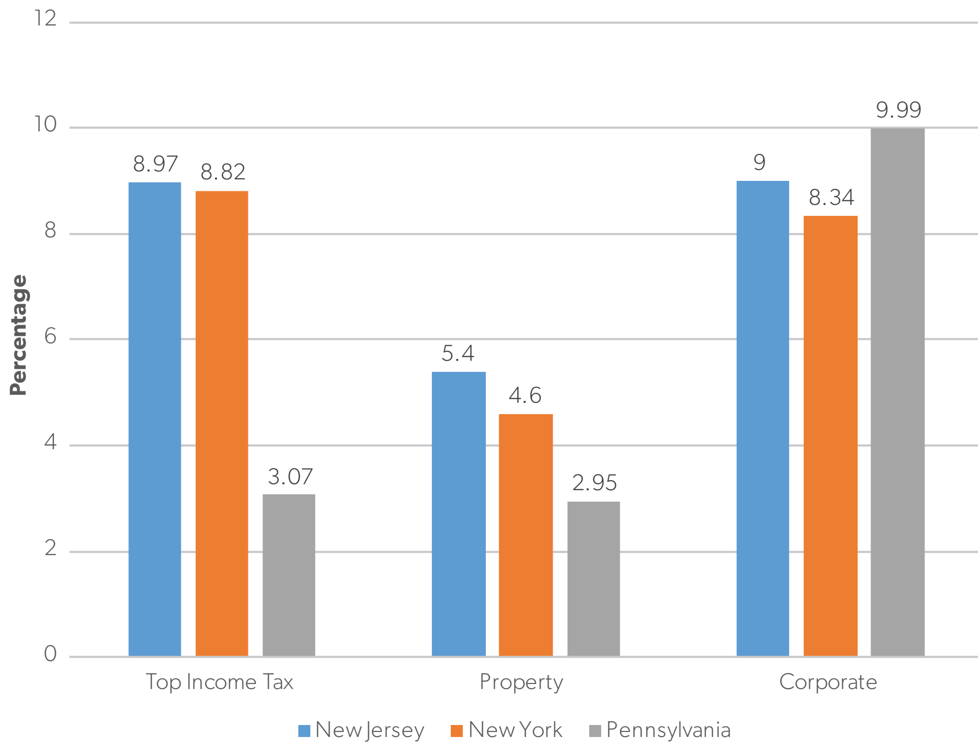
Michele Siekerka, president of the New Jersey Business & Industry Association (NJBIA), homed in on this relationship. New Jersey's tax burden "is a significant factor. New Jersey is now at or near the bottom of every category including, income, sales, property, corporate and estate and inheritance taxes. And where do the residents go? . . . It is actually Pennsylvania and New York that are the top two outmigration states, both of which fare better on these taxes than New Jersey."[32]

The Mercatus Center likewise found that "higher state taxes generally reduce state economic growth, GSP [gross state product], and even population. It is clear that people produce or consume less, or even move to a different state."[33] A 1 percent increase in a state's average tax rate led to a 1.9 percent decline in economic growth rate. The study also found that business startup creation, which accounts for 20–50 percent of a state's overall productivity growth, is sensitive to income tax progressivity, with a 1 percent increase in personal income tax rates associated with a 1.2 percent reduction in the growth rate of new firms.[34]

High Cost of Living. High taxes drive the high cost of living in New Jersey. Just as New Jersey has among the highest tax burdens in the nation, so it has among the highest cost-of-living rankings, tied for the third highest with California.

Overall, New Jersey prices for all goods and services (including rent) were 13.4 percent higher than the national average.[35] The United Way found that New Jersey was the fourth most expensive state for housing, with prices up 19 percent from 2007 to 2012.

Figure 4. Comparative Tax Rates for New Jersey, New York, and Pennsylvania



Source: Tax Foundation.

Rental costs were up 32 percent and health care 36 percent,[36] with New Jersey becoming the seventh most expensive state for renting housing.[37] Along with high taxes, New Jersey's high cost of living has had a significant impact on New Jersey's migration patterns.

Transportation Infrastructure. Cited in the CEO's quote at the beginning of this piece, New Jersey's crumbling transportation infrastructure contributes to its poor economic climate. This CEO is not alone in believing this. The McKinsey survey indicated that New Jersey's limited and outdated transportation infrastructure was second only to the high cost of doing business as the reason companies are not located in or expanding to New Jersey.[38]

But as the recent deal cut by Gov. Chris Christie and the legislature revealed, fixing or expanding infrastructure requires money, and New Jersey is already overtaxed and short of revenues. Christie's fix required higher gasoline taxes, but to minimize the negative impact on New Jerseyans, these were offset—much to the NJEA's chagrin, as shown in Part III—by reducing the sales tax and phasing out the estate tax.

In the end, the ability to address New Jersey's infrastructural shortcomings will be determined by the same factors that affect New Jersey's business climate: Taxes are already too high, and the state already has too much debt. In the long term, money for infrastructure must come from either a reduction in other state spending or robust economic growth, or both.

The Consequences of New Jersey's High Taxes and Weak Economy: Out-Migration

Domestic migration patterns serve as a barometer for a state's economic conditions. Cato found that domestic migration patterns were "one of the best indicators of the growth of a state's economy" because a state that attracts people from other states "almost certainly does so because it is offering more employment opportunities or a better quality of life than other states."[39] According to the Cato Institute, from 2000 to 2014, New Jersey was 49th among the states in terms of net migration to and from the other states, with a net migration rate of –7.8 percent. Unfortunately, this trend appears to be getting worse, not better: The American Community Survey found that in 2015, New Jersey saw a net domestic out-migration of –0.9 percent, behind only Illinois (–1 percent) and tied with New York (–0.9 percent).[40]

From 2000 to 2014, New Jersey was 49th among the states in terms of net migration to and from the other states, with a net migration rate of –7.8 percent.

United Van Lines reached a similar conclusion: In 2014, New Jersey lost more residents as a percentage of population than any state in America, and it has been in the top three since 2006.[41] The same study in 2016 found that New Jersey had the widest gap between people moving out and people moving in. Sixty-three percent of the moves were outbound, meaning that about two people moved out of the state for every one who moved in. New Jersey has the dubious distinction of topping this category since 2012.[42]

In looking at the similarities among the findings of several studies and rankings of state economies, a Mercatus Center report found that the bottom-ranked states shared the most in common: "The burdensome tax and regulatory regimes in these states are driving citizens and businesses to vote with their feet and move to other states."[43] The 2016 SBEC report concurred, with the top 25 states in their tax climate rankings seeing a net domestic in-migration of two million people and the bottom 25 seeing a net out-migration of two million. In fact, nine out of the bottom 10 states lost population.[44] This is consistent with Mercatus Center research that showed that "a higher personal income tax rate is associated with a higher probability of residents migrating to a state with a lower tax rates [*sic*]."[45]

The NJBIA's Siekerka agreed: New Jersey's "cost of living, including our tax structure, is not competitive with our neighboring states and those vying for our residents and our jobs."[46] The facts back her up. From 2005 to 2014, New Jersey lost more than two million residents to other states. On a net basis—taking into account in-migration from other states—New Jersey lost 682,000 residents.[47] The inflow of foreign immigrants keeps New Jersey's population from declining on an absolute basis, but relative to other states, New Jersey's share of the US population decreased from a high of 3.5 percent in 1970 to 2.85 percent in 2010. New Jersey's relative decline is strikingly captured by the resulting loss of congressional seats, which dropped from 15 to 12 during this time period, a 20 percent decline.[48]

But it is not just people and congressional seats that New Jersey loses; it also loses these residents' incomes, spending, and taxes. All told, since 2005, the NJBIA calculated that New Jersey lost $20.7 billion of net adjusted gross income, which resulted in losing $13.1 billion in economic output, nearly 87,000 jobs, and $4.6 billion in labor income.[49] Moreover, the residents choosing to leave New Jersey are relatively high income, averaging $85,000 in adjusted gross income in 2013,[50] which was almost 20 percent higher than New Jersey's median household income of $71,637.[51]

Underscoring the consequences of New Jersey's comparative disadvantages with its neighboring states of New York and Pennsylvania, the two top destinations for out-migrating New Jersey residents were Pennsylvania (385,000) and New York (350,000).[52]

Who Is Voting with Their Feet?

Given New Jersey's high cost of living, New Jersey loses retirees—many of whom are on fixed incomes—to lower-tax states. Bankrate rated New Jersey as the 40th best state for retirement, citing the high taxes and cost of living as New Jersey's biggest negatives (outweighing positive factors such as weather, health care, and relatively low crime).[53] The NJBIA reports that from 2006 to 2010, New Jersey lost an average of 19,000 retirees per year to states with more favorable tax structures.[54]

Describing the outflow of retirees, Melissa Sullivan of United Van Lines stated that "New Jersey is really losing big segments of that population. And it's not just a one-off. It's been pretty consistent."[55] And this situation is not likely to improve: In an NJBIA survey of 35- to 59-year-olds, two-thirds of the respondents said they would retire outside New Jersey.[56]

Sadly, and more ominously, while it might be predictable that retirees on fixed incomes would opt for lower-tax states, New Jersey has seen an exodus of millennials and young college graduates. And no wonder. Due to the state's poor economy and high housing costs, an astounding 807,000 18- to 34-year-olds in New Jersey are living with their parents, making up 47 percent of that age-group, which is the highest in the nation by far and 38 percent higher than the national average.[57] James Hughes of Rutgers University noted how extraordinary this retrogression is: "It is sort of unprecedented, we would have to go back generations, to come to this situation where grown children live at home to the extent that they are today."[58]

The result is that New Jersey's young adults are voting with their feet. From 2007 to 2014, New Jersey lost 111,674 18- to 34-year-olds, with a net loss of 57,566.[59] Indicating that this worrisome trend might be getting worse, in 2015, New Jersey was last in the country with a net out-migration of 22,000 from this age-group. By way of comparison, neighboring Pennsylvania saw a net in-migration of 19,000 in 2015.[60]

According to the NJBIA, this out-migration of millennials "has an impact on the broader state economy because companies are looking to add millennials."[61] This exodus also represents a poor return on investment for the state. As the NJBIA's Siekerka points out, New Jersey on average spends about $19,000 per year per student, which over 13 years amounts to $247,000 spent educating a young New Jerseyan. She notes that "to let those students walk out of the state, we're losing our pipeline."[62]

Why Are Residents Leaving New Jersey for Other States?

The New Jersey Policy Perspective explained that New Jersey's out-migration of millennials is more drastic than that nationwide "because it is a very, very expensive place to live, and this is happening at a time where wages are pretty much stagnant."[63] In other words, it is New Jersey's lousy economy and high cost of living.

Former State Treasurer Sidamon-Eristoff likewise states that there is ample statistical data linking New Jersey's high taxes to the out-migration of wealth and people.[64] He notes that many wealthy taxpayers opt for nonresident status, with the percentage of citizens with incomes over $500,000 filing as nonresidents up from 5.9 percent to 7.9 percent since 1996. He believes that this increase is "hugely consequential given the concentration of our income tax base at the high end"—with the top 10 percent paying 72 percent of the state income tax—and nonresidents typically slash their tax payments to New Jersey.[65]

The Mercatus Center also found that "higher state income-tax rates cause a net out-migration not only of higher-income residents, but of residents in general."[66] The effect of high property taxes—of which New Jersey has the highest—is "significantly stronger than the effect of high-income tax rates,"[67] with a 1 percent increase in the property tax rates having almost three times the effect of a 1 percent rise in income tax rates. As has been the case in New Jersey, "these data suggest a recipe for population depletion."[68]

The New Jersey Department of the Treasury reached a similar conclusion. Looking at data from 1992 to 2008, the researchers found that "average marginal tax increases have a small but significant effect on net out-migration from a state."[69] In particular, they estimate that the state's cumulative losses up to 2011 from the 2004 "millionaire's tax" totaled 25,000 taxpayers, $3 billion in gross income, and $150 million in income tax revenue. They note that New Jersey's steady out-migration has been attributed to "the state's relatively high tax rates, high cost of living, and the decline of manufacturing in the Northeast."[70]

These studies are corroborated by current research. According to the Tax Foundation, the top nine highest-tax states had net domestic out-migrations,[71] as did the eight states with the highest costs of living, according to Bureau of Economic Analysis data.[72]

A Downward Spiral

More ominously, the Department of the Treasury researchers described a vicious cycle developing in New Jersey whereby losses from departing taxpayers spread to other taxes such as corporate, sales, and property taxes and degrade a state's overall economic performance, which leads to more out-migration.[73]

Illinois—the one state with a worse bond rating than New Jersey—is experiencing the same negative cycle. The rating agency Moody's describes Illinois' plight: "Perhaps more important, population loss can be a cause, as well as an effect, of economic deterioration. A self-reinforcing cycle of population loss and economic stagnation could greatly complicate Illinois' effort to stabilize its finances."[74] According to Illinois Policy's Michael Lucci, raising taxes, as Illinois just did, is not the solution because "taxes are already driving out residents and more taxes to pay for government spending will drive out even more residents as the state population continues to shrink."[75]

The warning to New Jersey is clear: New Jersey's weak economy and high taxes are driving residents from the state, and this out-migration will reduce economic growth and tax revenues. But a weaker economy and rising tax rates will simply drive more residents out of the state.

The Political Force Behind the Status Quo

New Jersey needs a growing population and economy to maintain its quality of life and support the state's massive unfunded pension and benefit liabilities. But New Jersey's current high-tax, antibusiness economic environment is not generating sufficient growth and jobs, especially when compared to neighboring states. The resulting out-migration of residents—and especially young adults—is an ominous sign that portends a grim future.

It does not have to be this way. High taxes are strangling New Jersey's economy, and these taxes were imposed for a reason. As set forth in Part IV, New Jersey's worst-in-the-nation tax system exists primarily to pay for New Jersey's public education system: first at the local property tax level, where more than half of property taxes go to fund district schools, and then at the state level after high property taxes generated political backlash.

Behind New Jersey's descent to the worst tax system in the country was the constant push by the state's most powerful political force, the NJEA, for higher education spending and higher taxes to fund it. As shown in Parts I and II, over the past 50 years, the NJEA has used its unmatched political clout to rig the system in its favor—causing hundreds of millions of taxpayer dollars to be siphoned directly into the NJEA's treasury and used to dominate politics from the local school district level all the way to the State House. No other political force in the state even comes close.

Due to this enormous political power, the NJEA has been able to elect friendly candidates, influence lawmakers, and fend off attempts at reform. From generous salaries and pensions to premium-free "Cadillac" health plans to the ever-increasing taxes to pay for them, the NJEA has largely gotten what it wanted—much to the detriment of the state and its citizens.

New Jersey's status quo is dominated by taxpayer-funded special interests, led by the most powerful of them, the NJEA. Most New Jerseyans are unaware of this fact. Most are unaware that their tax dollars are being used against their own interests. Most are unaware that the future of the state and its next generations are imperiled by this malign status quo. If things do not change, they will be made aware—but only after a fiscal train wreck, when it is too late.

It is time to change the status quo.

About the Author

Mike Lilley served for four years as the executive director of Better Education for New Jersey Kids. He is a Princeton graduate and longtime New Jersey resident.

Notes

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