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OF NEW JERSEY

BEWARE THE DOWNWARD SPIRAL:

THE ECONOMIC CONSEQUENCES OF NEW JERSEY'S SPECIAL-INTEREST-DOMINATED STATUS QUO

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"If I were relocating to some state that had a huge unfunded [public sector] *pension plan I'm walking into liabilities. I say to myself, 'Why do I want to build a plant there that has to sit there for 30 or 40 years?' Because I'll be here for the life of the pension plan, and they will come after corporations, they'll come after individuals … they're going to have to raise a lot of money."*

- Warren Buffet, 2019.[1]

If Warren Buffet is asking this question, then American businesses are asking this question.

Unfortunately, the state of New Jersey does not provide a good answer to Buffet's question. When it comes to New Jersey, former state Democratic Party chairman and head of the state's investment council, Tom Byrne agrees with Buffet. Byrne recently said of New Jersey: "The overhang of future spending makes the state even less attractive to employers, and risks an acceleration of our downward economic spiral."[2] And further: "When all else fails, there will be higher income taxes on the middle class."[3]

These are not partisan views. They are candid assessments of the future reality that New Jersey will face: pension liabilities and taxes are the two biggest weights dragging on New Jersey's economy. And as Buffet and Byrne surmise, New Jersey's severely underfunded pensions will require future tax increases on both corporations and individuals. So New Jersey's economy is really all about its supremely high taxes - both now and in the future - and the negative effects they have on the economy and the resulting outmigration of businesses, individuals and wealth.

How did New Jersey get into this position?

New Jersey's public pensions and very high taxes exist for a reason: they serve the needs of the powerful special interests that dominate the political system. By far the most powerful of these special interests is the taxpayer-funded New Jersey Education Association (NJEA). As described in the Sunlight Policy Center of New Jersey's (SPCNJ) previous reports, for decades, the NJEA used its unmatched political clout to

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[1] Eric Boehm, "Companies Should Avoid States with Huge Pension Debts, Warren Buffet Warns," *Reason*, March 1, 2019.

[2] Tom Byrne, "If politicians don't do the hard work, N.J. faces economic decline, more taxes, former Dem leader says," *nj.com*, February 26, 2019, https://nj.com/opinion/2019/02/if-politicians-don't-do-the-hard-work-nj-faces-economic-decline-more-taxes-former-dem-leader-says.html.

[3] Ibid.

take the lead in shaping our public pension system and to push unceasingly for more and increasing taxes. New Jersey's underperforming economy and outmigration problem are thus consequences of the NJEA's political dominance. New Jersey's economic status quo is the NJEA's status quo.

The Current State of the Garden State

It is a fact that New Jersey has the worst-funded public pensions in the nation, and that the state unfunded retiree liabilities stand at $190 billion – five times the size of the state's annual budget.[4] If investment returns disappoint, the state's largest public pension, the Teachers' Pension and Annuity Fund (TPAF), could run out of money within 10 years.[5] In five years, retiree benefits and debt service will consume an unsustainable 26 percent of the state's already stressed budget.[6]

It is also a fact that New Jersey has one of the worst tax systems for businesses in the country, and some of the highest overall taxes. The state's economy consistently ranks as among the least hospitable to business in the country in national studies. As New Jersey Chamber of Commerce president Tom Bracken said, "New Jersey has one of the worst business climates in the nation."[7] So, per Buffet, Byrne and Bracken, New Jersey is Exhibit A for a state American businesses should avoid.

They may already be doing so. Mercedes-Benz USA, Hertz, Sealed Air, Honeywell, Celgene are all New Jersey-based companies that recently made major corporate moves out of the state. And of course Amazon recently decided not to locate its new headquarters in Newark. Bracken states that, given its poor business environment, it would be unsurprising to him if "out-of-state companies contemplating a move to New Jersey are rethinking their plans."[8]

The Future: A Downward Spiral

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[4] In accordance with Government Accounting Standards Board (GASB) statements 67 and 68. The unfunded liabilities show a $15 billion reduction from the previous year due entirely to how the liabilities are calculated not to any increase in the amount of money being paid into the system. This does not include $45 billion of bonded debt or unfunded liabilities of $50 billion at the local government level. The Office of Public Finance of the State of New Jersey, *State of New Jersey Debt Report Fiscal Year 2018*, May 31, 2019, 15.

[5] Greg Mennis, Susan Banta, David Draine, "Assessing the Risk of Fiscal Distress for Public Pensions: State Stress Test Analysis," Harvard Kennedy School, Mossavar-Rahmani Center for Business and Government, M-RCBG Associate Working Paper Series, No. 92, May 2018, 25-26. The study used an investment return of 5 percent rather than the state's overly optimistic 7.5 percent, and assumed that the state would only make sustainable budget contributions fixed as a percentage of the state's own-source revenues.

[6] New Jersey Economic & Fiscal Policy Workgroup, *Path to Progress*, August 9, 2018, 32-33. Hereinafter, *Path to Progress*.

[7] Tom Bracken, "Op-Ed: It's Time to Stop Ignoring the Needs of NJ's Business Community," NJSpotlight, January 10, 2019.

[8] Ibid.

Both Buffet and Byrne predict the future climate for business will not get better: New Jersey will try to get the money to pay for its unfunded liabilities from higher taxes on corporations and individuals, particularly the middle class.

But New Jersey is already one of the highest-tax states in America. Moreover, there aren't enough millionaires in the state to tax to pay for these enormous costs,[9] and in any event they are leaving. As Byrne predicts, the brunt of the tax increases will fall on the middle class. As for corporations, per Buffet, Byrne and Bracken, when confronted by this grim reality, they will leave the state or never come in the first place.

This is the downward spiral Byrne referred to. New Jersey needs a strong economy if it is to overcome the enormous fiscal problems that threaten the state's future. Yet the burden of high taxes and a high cost of living has rendered New Jersey's economy underperforming and uncompetitive, and led to the one of the largest outmigrations of citizens and wealth of any state. This harms New Jersey's economy, reduces its tax revenues and exacerbates its fiscal problems at the same time that New Jersey's pension crisis will require additional tax revenues. All of this will result in higher taxes for ALL New Jerseyans, thus leading to a weaker economy and more outmigration. And then the cycle repeats.

<u>New Jersey's Malign Status Quo is the NJEA's Status Quo</u>

Yet reforming New Jersey's economic environment and tax system remains a very tall order. An entrenched, special-interest-dominated political system is a persistent and powerful impediment to needed reforms. For decades, this political system has been dominated by the most powerful special interest - and indeed political force – in the state, the NJEA.

As shown in SPCNJ's reports "NJEA: The Taxpayer-Funded Special Interest" and "Follow the Money: What the NJEA really spends on Politics," the facts show that the NJEA constructed a system whereby tens of millions (now $129 million) of property tax dollars flowed directly into its coffers annually. The NJEA then used these tax dollars to become the most powerful political force in the state.

Predictably, the NJEA used this unmatched political clout to further its own interests, and had a profound influence on the state's pension and benefit system as well as its tax system.

Pensions and Benefits. As detailed in SPCNJ's report "Job Number One: NJEA's Leading Role in New Jersey's Pension Crisis," the NJEA played the lead role in the structuring and then the underfunding of New Jersey's largest public pension fund, the Teachers Pension and Annuity Fund (TPAF), which shaped the state's overall public

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[9] Even using Murphy's optimistic assumptions, his proposal to expand the top 10.75 percent tax bracket to include all earnings over $1 million would generate $447 million. Nicholas Pugliese, "NJ millionaire's tax: Here are the arguments for and against the controversial tax hike," *northjersey.com*, April 17, 2019.

pension system. The NJEA also gained for its members and retirees "platinum-plus"-level health benefits at little or no cost to them. In addition, the NJEA has led the way in fighting needed reforms to place the pension system on firmer footing or reduce the cost to taxpayers of the healthcare plans.

Taxes. As reported in SPCNJ's "Who Has Been Complaining About the Sales Tax anyway?", the NJEA has also played the lead role in pushing for more and higher taxes. At the local level, the NJEA and its affiliates have bargained for ever-increasing education spending and very expensive healthcare plans, which has resulted in the highest property taxes in the nation. Once high and rising property taxes became a political liability, the NJEA pushed for increased state-level taxes to mitigate the pressure on local property taxes. The NJEA was the driving force behind the initiation of the first state sales and income taxes, and has been behind every state-level tax increase since. It currently is pushing for an expanded "millionaire's tax."

For over 50 years, the NJEA has used its unmatched political clout to play the leading role in creating the state's heavily indebted, high-tax status quo, which has strangled New Jersey's economy. New Jersey's economic status quo is the NJEA's status quo.

Consequences #1: New Jersey's Underperforming Economy

New Jersey is certainly not without hope. It has many 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 a median household income of $80,088, the second highest of any state and 25 percent above the national average.[10]

But as Buffet, Byrne and Bracken make clear, all is not well in New Jersey. Despite better growth over the last two years, for the past two decades, New Jersey has had one of the weakest economies in the nation, well below the national average for income, jobs and economic growth. Its economic environment is inhospitable to businesses, both large and small.

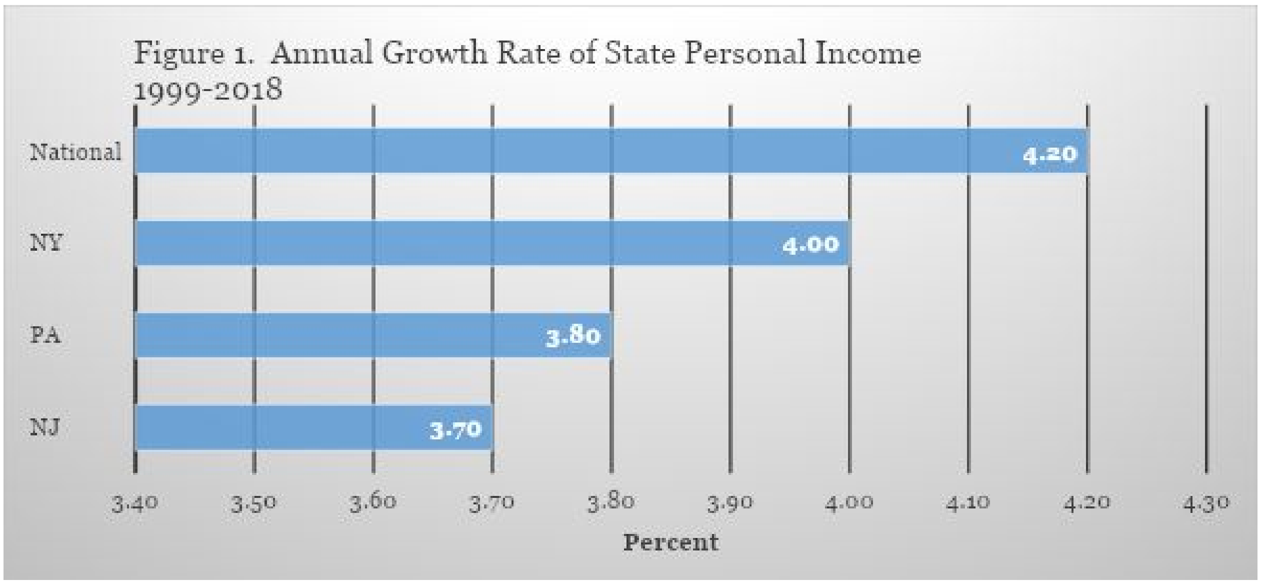
From 1999-2018, New Jersey's economy has underperformed other states. According to the US Bureau of Economic Analysis data, the annual growth rate for the state's aggregate personal income was 3.7 percent, 12 percent less than the national average of 4.2 percent. The annual growth of the state's real gross domestic product (GDP) was a mere 1.1 percent, 48 percent below the national average of 2.1 percent.[11] In terms of

[10] U.S. Census Bureau, "Median Household Income and Gini Index in the Past 12 Months by State and Puerto Rico: 2016 and 2017," https://www.census.gov/content/dam/Census/library/publications/2018/acs/acsbr17-01.pdf.

[11] US Department of Commerce, Bureau of Economic Analysis, "United States," "New York," "Pennsylvania," and "New Jersey," https://apps.bea.gov/itable/iTable.cfm?ReqID=70&step=1. Hereinafter "Bureau of Economic Analysis."

jobs, while the nation has gained 17.7 percent more jobs since 1999, New Jersey's job growth has been only 11.6 percent, or 34 percent less than the national average.[12]

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 1999 to 2018, New York's annual personal income growth averaged 4 percent and outperformed New Jersey by 8.1 percent. Pennsylvania's annual personal income grew 3.8 percent, which underperformed the national average but beat New Jersey's annual growth rate of 3.7 percent.[13]



Source: Bureau of Economic Analysis, US Department of Commerce

In annual GDP growth, from 1999-2018, New York averaged 1.7 percent, and Pennsylvania averaged 1.6 percent. Both significantly outperformed New Jersey's meager 1.1 percent growth (Figure 2).[14]

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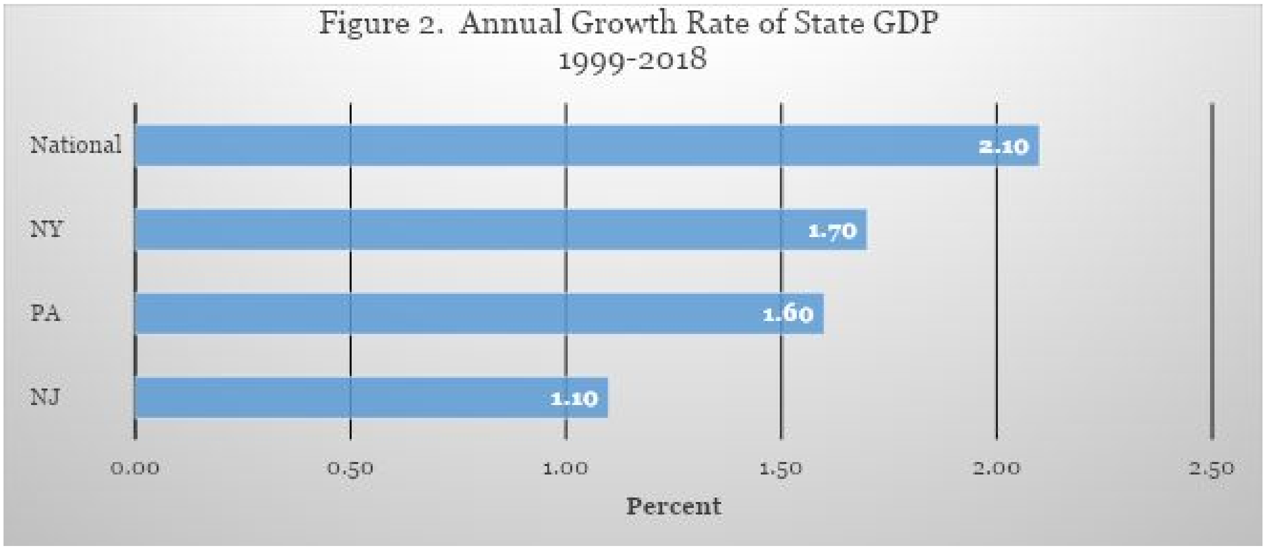
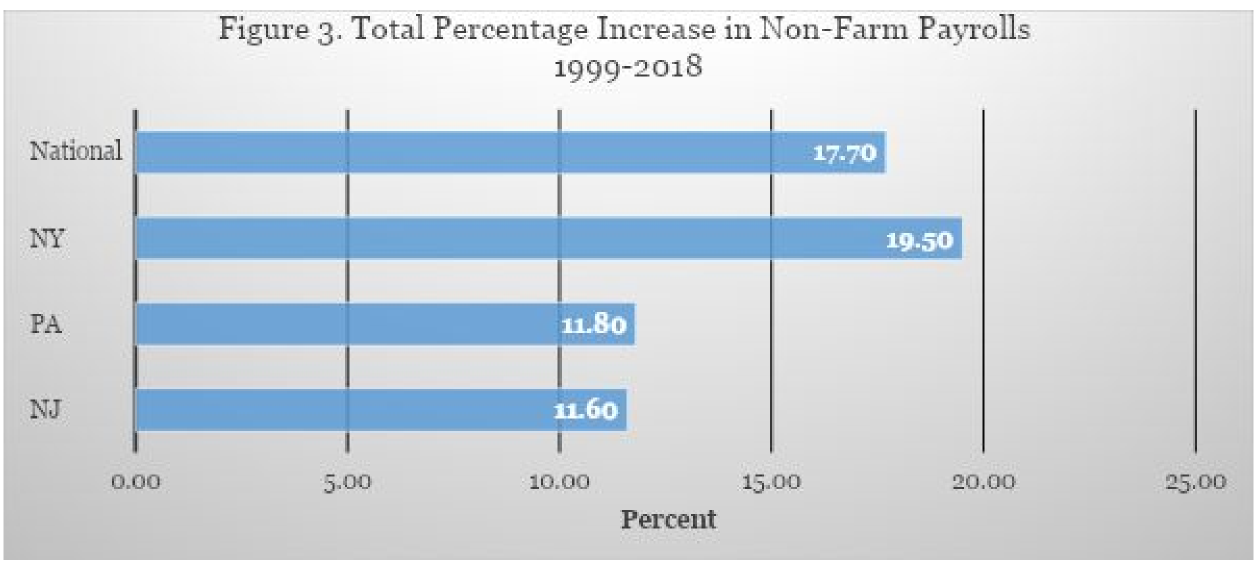
[12] US Department of Labor, Bureau of Labor Statistics, "State and Area Employment, Hours, Earnings," https://beta.bls.gov/dataViewer/view. Hereinafter "Bureau of Labor Statistics."
[13] Bureau of Economic Analysis
[14] Ibid.



Source: Bureau of Economic Analysis, US Department of Commerce

The picture held true for jobs as well. From 1999 to 2018, New York added 19.5 percent, outpacing the national 17.7 percent gain. Pennsylvania's job growth was 11.8 percent, which underperformed the national average but still beat New Jersey's 11.6 percent increase (Figure 3).[15]

Unsurprisingly, the size New Jersey's civilian labor force still remains 60,000 smaller than it was in 2008 (4,445,800 today versus 4,504,400 in 2008).[16]



[15] Bureau of Labor Statistics.
[16] Garden State Initiative, Press Release, "GSI Analysis: NJ's Workforce and Revenue Results Are True Indicators of the State of Our Economy," InsiderNJ, August 15, 2019, https://www.insidernj.com/press-release/gsi-analysis-njs-workforce-revenue-results-true-indicators-state-economy/.

Source: Bureau of Labor Statistics, US Department of Labor

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 (2007–17), domestic outmigration (2008–17), and employment growth (2007–17). New Jersey's woeful economic performance ranked 49th among the states (Table 1). By comparison, New York was 17th and Pennsylvania 33rd. Unfortunately, New Jersey's economic future does not look much better: New Jersey's Economic Outlook Rank (measuring 15 state policy variables) was 46th among the states.[17]

WalletHub ranked New Jersey's overall economic health 44th among the states, measuring such factors as the job market, household income growth, government deficits and unfunded pensions, foreclosure rates and growth in the number of businesses.[18]

The costs of this underperforming economy are real. If New Jersey had merely kept up with the national economy from 2002-2017 – rather than growing at one-third the national rate - it would have translated into an additional average of $12,900 per person per year.[19]

<u>Consequences #2: Lousy Business Climate</u>

The first and foremost cause for New Jersey's underperforming economy is its terrible business climate, mostly due to its very 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 2019 annual ranking of state business tax climates, New Jersey came in dead last among the 50 states—*for the fifth straight year* (Table 1). Its income and property taxes were in the bottom three, and its corporate and sales taxes in the bottom six. By comparison, New York was 48th and Pennsylvania 34th.[20]

Chief Executive magazine annually ranks the best and worst states for business, and New Jersey came in 47th - *for the fifth year in a row* (Table 1). New York was 49th and

[17] Jonathan Williams, Arthur B. Laffer and Stephen Moore, *Rich States, Poor States*, 12th Edition, American Legislative Exchange Council, 2019, 1,2.
[18] Adam McCann, "Best & Worse State Economies," *Wallethub*, June 3, 2019, https://wallethub.com/edu/states-with-the-best-economies/21697/.
[19] Byrne, "If politicians don't do the hard work, N.J. faces economic decline, more taxes, former Dem leader says."
[20] Jared Walzak, Scott Drenkard and Joseph Bishop-Henchman, *2019 State Business Tax Climate Index*, Tax Foundation, September 26, 2018, 3, 5.

Pennsylvania 33rd.[21] The magazine quoted a New Jersey business consultant as saying that the bottom states, including New Jersey, "have consistently high tax burdens and onerous regulatory environments—so they're not only perceived as being business-unfriendly, they are. It's reality."[22]

Not only was New Jersey a lousy environment for business in general, it was lousy for small businesses as well. 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.[23] They currently employ 49 percent of the state's workforce.[24]

The Small Business & Entrepreneurship Council (SBEC) ranked New Jersey 49th among the states for its tax system for small businesses – for the third year in a row (Table 1). New York was 47th and Pennsylvania 31st.[25] 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."[26]

A 2017 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.[27]

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[21] *Chief Executive*, "2019 Best & Worst States for Business," https://chiefexecutive.net/2019-best-worst-for-states-business/.

[22] Dale Buss, "CEOs Rank 2017 Best & Worst States for Business," *Chief Executive*, April 26, 2017, https://chiefexecutive.net/2017-best-worst-states/.

[23] Crossroads NJ, *Promoting Jobs and Economic Growth for All New Jerseyans*, Fund for New Jersey, 11, https://fundfornj.org/sites/default/files/crossroadsnj/Cross_ECON_1.7.pdf.

[24] U.S. Small Business Administration, "New Jersey Small Business Profile, 2019," https://s3.amazonaws.com/advocacy-prod.sba.fun/wp-content/uploads/2019/04/23142653/2019-Small-Business-Profiles-NJ.pdf.

[25] Small Business & Entrepreneurship Council, *Small Business Policy Index 2018*, February 2018, https://sbecouncil.org/wp-content/uploads/2018/02/SBPI2018-SBECouncil.pdf.

[26] Jeff Goldman, "N.J. Is a Terrible Place for Small Businesses, Analysis Finds," *NJ Advance Media*, December 24, 2014.

[27] Michael Symons, "How to 'Turbocharge' New Jersey's Economy for the Next Ten Years," New Jersey 101.5, July 18, 2017. http://nj1015.com/how-to-turbocharge-new-jerseys-economy-for-next-10-years/.

Similarly, WalletHub found New Jersey to be among the worst states to start a business, ranking it 49th in the nation. (Table 1). New York was 37th and Pennsylvania 47th. Notably, New Jersey ranked as the worst state for business costs such as office space affordability, taxes, insurance and overall cost of living.[28]

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 46th in economic freedom. New York was 50th and Pennsylvania 20th. New Jersey has been in the bottom five among the states since 2006. New Jersey was also 49th in regulatory freedom.[29]

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	49
Chief Executive	47
Cato Institute	46
WalletHub	49

Source: Author

As might be expected, New Jersey's business leaders are downcast about New Jersey's economic environment. A 2017 Rutgers University poll 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."[30]

A New Jersey CEO summed it up to *Chief Executive* magazine in 2016:

> 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.[31]

<u>**Consequences #3: The Causes of New Jersey's Lousy Business Environment**</u>

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[28] Adam McCann, "2019's Best & Worst States to Start a Business," Wallethub, July 10, 2019, https://wallethub.com/edu/best-states-to-start-a-business/36934/.
[29] Cato Institute, *Freedom in the 50 States*, www.freedominthe50states.org.
[30] John Reitmeyer, "Business Leaders Meh About NJ's Prospects but Optimistic for Nation's Economy," NJSpotlight, January 27, 2017.
[31] *Chief Executive*, "2016 Best & Worst States for Business," https://chiefexecutive.net/new-jersey/.

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

High Taxes. As described earlier, New Jersey has very high taxes, and as detailed below, high 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 previous SPCNJ reports, that has certainly been true in New Jersey where its high taxes feed its special-interest-dominated status quo.

The Mercatus Center 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." 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. [32]

The SBEC's 2017 report cited 26 studies that "consistently point to significant negative effects of taxes on economic growth." 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."[33] 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."[34] Having the highest taxes in the region—as New Jersey does—pushes high earners and their "taxable income and thus revenue out of New

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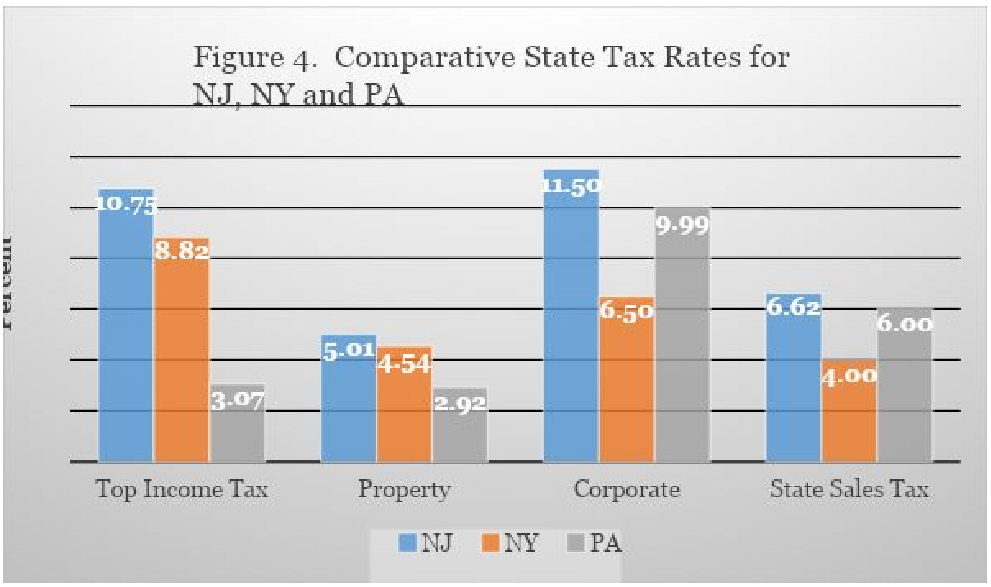
[32] Pavel A. Yakovlev, "State Economic Prosperity and Taxation," Mercatus Center at George Mason University, July 10, 2014.

[33] Raymond Keating, *Small Business Tax Index 2017: Best to Worst Tax Systems for Entrepreneurship and Small Business*, Small Business & Entrepreneurship Council, June 2017, 9, https://www.sbecouncil.org/wp-content/uploads/2017/06/BT2017-1.pdf.

[34] Andrew Sidamon-Eristoff, "Opinion: A New Jersey Voter's Guide to State Tax Policy," NJSpotlight, May 12, 2017.

Jersey."[35]

Looking at New Jersey's tax rates compared to New York and Pennsylvania helps explain the disparities in economic performance. New Jersey's current top individual income tax rate is 10.75 percent, with New York at 8.82 percent and Pennsylvania at a flat 3.07 percent.[36] As for property taxes, as a percentage of personal income, New Jersey has the highest in the country at 5.01 percent, versus 4.54 percent for New York and 2.92 percent for Pennsylvania.[37] On corporate taxes, New Jersey's top current rate is 11.5 percent, with New York at 6.50 percent and Pennsylvania at 9.99 percent. Finally, regarding state-level sales taxes, New Jersey's rate is 6.625 percent compared to 4 percent for New York and 6 percent for Pennsylvania.[38] As Figure 4 shows, and as the Tax Foundation's overall index confirms, New Jersey's combined taxes are the worst of the three states.



Source: Tax Foundation and NJBIA

The New Jersey Business & Industry Association (NJBIA) also confirmed this analysis

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35 Ibid.

36 Joe Bishop-Henchman and Michael Lucci, *Facts & Figures: How Does Your State Compare, 2019*, Tax Foundation, 2019, 12, https://files.taxfoundation.org/20190418120355/Facts-and-Figures-2019-PDF.pdf.

37 New Jersey Business and Industry Association, "2019 Regional Business Climate: An NJBIA State Level Analysis," March 2019, https://www.njbia.org/wp-content/uploads/2016/05/2019-Business-Climate-VFinal3.pdf.

38 Sales tax figures exclude local sales taxes. When local sales taxes are included, NJ = 6.60 percent, PA = 6.34 percent and NY = 8.49 percent (local NY sales tax figure is heavily skewed by New York City). Joe Bishop-Henchman and Michael Lucci, *Facts & Figures: How Does Your State Compare, 2019*, Tax Foundation, 2019, 15, 19, https://files.taxfoundation.org/20190418120355/Facts-and-Figures-2019-PDF.pdf.

of comparative tax rates. NJBIA's 2019 Regional Business Climate report found that New Jersey was the least competitive state in the region with the highest combination of corporate, income, sales and property taxes. New Jersey declined further from its last-place position in 2018 due to additional tax increases.[39]

Michele Siekerka, president of NJBIA, homed in on this relationship between taxes and economic performance. 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."[40]

And, indeed, high taxes are very much on the mind of New Jersey citizens. A 2019 Monmouth University poll determined that high taxes are their top concern, cited by 68 percent of the respondents. The related issue of cost of living was second at 16 percent, with jobs coming in third at 11 percent.[41]

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, and 13.6 percent higher than the national average.[42] A State of Missouri study calculated New Jersey's cost of living as 25 percent higher than the national average, or 42nd among the states.[43]

Unsurprisingly, WalletHub ranked New Jersey as the third-least affordable state in the country (only California and New York are less affordable).[44] Bankrate also ranked New

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[39] Region includes CT, DE, MD, MA, NY, PA and NJ. NJBIZ Staff, "NJ ranking continues downward spiral in 2019 NJBIA business climate analysis," *njbiz.com*, March 27, 2019, https://www.njbiz.com/garden-state-ranking-contiues-downward-spiral-2019-njbia-business-climate-analysis.
[40] Michelle Siekerka, "Op-Ed: Eliminating Estate Tax Will Improve New Jersey's Economic Climate," NJSpotlight, May 12, 2017.
[41] David Wildstein, "Monmouth Poll: New Jersey on the issues," *newjerseyglobe.com*, February 19, 2019, https://newjerseyglobe.com/section-2/monmouth-poll-new-jersey-on-the-issues/.
[42] Michael B. Sauter, "Cost of Living: The purchasing power of a dollar in every state," *USA Today*, May 10, 2018, https://www.usatoday.com/story/money/economy/2018/05/10/cost-of-living-value-of-dollar-in-every-state/34567549/.
[43] Using Council for Community and Economic Research data. Missouri Economic Research and Information Center, "Cost of Living Data Series First Quarter 2019," Missouri Department of Economic Development, 2019, https://www.missourieconomy.org/indicators/cost_of_living/.
[44] Adam McCann, "2019's Best States to Live in," Wallethub, June 11, 2019, https://wallethub.com/edu/best-states-to-live-in/62617/.

Jersey 48th in terms of affordability.[45]

A high cost of living has an impact on businesses as well. As mentioned earlier in this report, WalletHub ranked New Jersey as the worse state for business costs such as office space affordability, taxes, insurance and overall cost of living.[46] New York was 49th and Pennsylvania 37th. Similarly, a CNBC study placed New Jersey 45th among the states in terms of the cost of doing business due to its high taxes, utility costs, office space affordability and wages. New York was 42nd and Pennsylvania 30th.[47] This comports with the McKinsey survey that found that the high cost of doing business was the number one reason companies were not locating or expanding in New Jersey.[48]

The high cost of living also has implications for higher education – as well as the critical outflow of New Jersey millennials, which will be discussed later. Using National Center for Education Statistics data, an NJBIA study determined that New Jersey had the fourth-highest tuition and fee costs in the nation for public four-year institutions. Consequently, 61 percent of New Jersey college graduates had school debt, with an average of $32,247 per student.

A significant factor in the high cost of post-secondary education is New Jersey's overall high cost of living. As NJBIA stated: "it is no secret that New Jersey is plagued by a severe affordability issue. As the cost of living continues to increase, the cost of tuition and fees at the state's postsecondary institutions continues to increase as well."[49] The president of Montclair State University summed it up: "Higher education is no longer affordable to New Jersey students …"[50]

Infrastructure. New Jersey's crumbling infrastructure contributes to its poor economic climate. 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.[51]

The American Society of Civil Engineers (ASCE) gave New Jersey a D+ grade for its infrastructure. In a finding that will resonate with New Jersey drivers, the ASCE determined that 42 percent of the state's roadways are "deficient." New Jersey's dams,

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45 Bankrate, "These are the best and worst states for retirement," *bankrate.com*, July 10, 2019, https://www.bankrate.com/retirement/best-and-worst-states-for-retirement/.
46 Adam McCann, "2019's Best & Worst States to Start a Business," Wallethub, July 10, 2019, https://wallethub.com/edu/best-states-to-start-a-business/36934/.
47 CNBC.com Staff, "America's Top States for Business 2019," *cnbc.com*, July 10, 2019, https://www.cnbc.com/2019/07/10/americas-top-states-for-business-2019.html.
48 Symons, "How to 'Turbo-Charge' New Jersey's Economy for Next 10 Years."
49 Nicole M. Sandelier, "The Education Equation: Strategies for Retaining and Attracting New Jersey's Future Workforce," New Jersey Business & Industry Association, January 24, 2018 (updated 2019), 2, 4, 8, https://www.njbia.org/2018equation/.
50 Brenda Flanagan, "Business Leaders Say They're Falling Behind, Need State Help," NJSpotlight, March 11, 2019
51 Symons, "How to 'Turbo-Charge' New Jersey's Economy for Next 10 Years."

levees, bridges and wastewater disposal all received D grades as well.[52] In CNBC's annual ranking of the best and worst states for business, New Jersey was ranked 39th in infrastructure (New York was 44th and Pennsylvania 24th).

The Reason Foundation confirmed these poor results in its 24th annual report on highway performance and the cost-effectiveness of highway spending. New Jersey came in dead last overall – for the second straight year. The report looked a 13 measures of road conditions and spending, with New Jersey ranking among the bottom five states in eight of the 13 measures. New Jersey performed particularly poorly in cost-effectiveness, road conditions and congestion (and particularly well in the overall fatality rate). By comparison, New York was 45th and Pennsylvania 35th overall.[53]

This inefficiency in spending on highways has hurt the overall condition of New Jersey's infrastructure. Despite what has already been spent, New Jersey's infrastructure still requires a substantial upgrade. In total, the "State Budget Crisis Task Force" co-chaired by Paul Volcker projected that New Jersey's infrastructure needs will exceed $135 billion over the next decade.[54] This is an enormous additional burden on New Jersey's already strained budget and the retiree liabilities it will face in the near future. As former New Jersey budget director and comptroller Richard Keevey said, "The fiscal future of New Jersey is fragile and, as such, will challenge those who want … needed infrastructure improvements."[55]

The bottom line is that fixing or expanding infrastructure requires money, and New Jersey is already overtaxed and its state budgets perennially strained. 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. Money for infrastructure will inevitably be squeezed by tight budgets. After all, money to pay for increased education spending or unfunded liabilities cannot be used for infrastructure.

Consequences #4: The Poor Fiscal Condition of State Government

Slower economic growth has had concomitant effects on New Jersey's fiscal condition.

Weak State Revenues. Standard & Poor's (S&P) assessed New Jersey's recovery from 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

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52 American Society for Civil Engineers, "2016 Report Card for New Jersey's Infrastructure," https://www.infrastructurereportcard.org/wp-content/uploads/2016/10/NJ-Report-Card-Brochure-Final.compressed.pdf.
53 Baruch Feigenbaum, Spence Purnell and M. Gregory Fields, "24th Annual Highway Report," Reason Foundation, August 22, 2019, https://reason.org/policy-study/24th-annual-highway-report/new-jersey/.
54 Richard Keevey, "Opinion: Our Fiscal House Is Fragile – On Two Counts," NJSpotlight, March 29, 2019.
55 Ibid.

growth."[56]

Consistent with S&P's conclusion, Pew Charitable Trusts found that New Jersey was one of only eight states where inflation-adjusted tax collections remained behind pre-Great Recession peaks. Tax revenues in the third quarter of 2018 were still 1.4 percent below 2007 revenues, while on average U.S. states' revenues had increased 13.4 percent. Reflecting their stronger economies, New York's revenues were up 18.2 percent and Pennsylvania's 6.1 percent.

Unfortunately, New Jersey's cost of living continued to rise during this time, so the purchasing power for each of these tax revenue dollars was the equivalent of 1.4 cents weaker than in 2007, whereas the national average was 13.4 cents stronger. In other words, because of New Jersey's high and rising cost of living, the lower tax revenues that New Jersey did take in did not buy as much per dollar as in 2007. A double-whammy for New Jersey citizens.[57]

Chronic Budget Deficits. As a result of weak revenues and ever-increasing spending, New Jersey's budget is in perennial, structural deficit, and the mismatch between revenues and expenditures is the *worst in the nation* (Table 2). According to Pew Charitable Trusts, from 2003-2017, New Jersey's revenues only covered 91.3 percent of its expenditures, compared to a national average of 102.1 percent.[58] 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 15 years analyzed. By comparison, Pennsylvania's revenues averaged a surplus of 100.3 percent of its expenditures, and New York a near-balance of 98.9 percent. [59]

Reflecting this reality, a 2018 Mercatus Center study ranked New Jersey 48th among the states in overall fiscal condition (Table 2). By comparison, New York was 41st and Pennsylvania 35th. As might be expected, New Jersey performed particularly poorly when it came to budget solvency (49th).[60]

The Fiscal Future Looks Worse. New Jersey's chronic deficits portend greater problems for the future. In its 2017 report, Pew noted that New Jersey's chronic shortfalls indicate a "serious structural deficit in which revenue will continue to fall

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[56] John Reitmeyer, "No Credit Downgrade for NJ, Although Ratings Agencies Say Budget Problems Linger," NJSpotlight, August 18, 2016.
[57] Another reason cited for New Jersey's tax-revenue shortfalls is the state's progressive income tax structure. In the aftermath of the Great Recession, New Jersey's tax revenues dropped over 18 percent. John Reitmeyer, "State Tax-Revenue Growth in NJ Lags Well Behind Most Other States,"
[58] Pew Charitable Trusts, *Fiscal 50: State Trends and Analysis*, May 3, 2019, https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind9.
[59] Pew Charitable Trusts, *Fiscal 50: State Trends and Analysis*, https://www.pewtrusts.org/en/research-and-analysis/data-visualizations/2014/fiscal-50#ind9.
[60] Eileen Norcross and Olivia Gonzalez, "#48|Ranking the States by Fiscal Condition: New Jersey," Mercatus Center at George Mason University, October 9, 2018, https://www.mercatus.org/print/268189.

short of spending absent policy changes" and potentially create "an unsustainable fiscal situation."[61] In addition to higher taxes, 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, mostly due to its massive unfunded retiree liabilities.

The 2018 Mercatus Center study ranked New Jersey dead last for long-run solvency (50th).[62] As Mercatus stated: "On a long-run basis, New Jersey's metrics are dire."[63] The state's long-term liabilities (including pensions and health benefits) equal 3.88 times its total assets, or $18,928 per capita, the highest in the nation and 4.3 times the national average of $4,387.[64]

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 $61,400, *the worst in the country* and $8,000 higher than the second-worst state, Connecticut, and over six times the national average of $9,870 (Table 2). New York was 42nd at $21,500 and Pennsylvania 40th at $18,800.[65]

As bad as it currently is, and as Buffet and Byrne predict, New Jersey's fiscal condition will get worse. As stated earlier, the state has unfunded retiree liabilities of $190 billion, plus another $45 billion of bonded debt, with funding costs expected to rise from $6.6 billion to almost $12 billion in FY2023, or from 20 percent of the state budget to an "unsustainable" 26 percent.[66]

Inadequate Rainy Day Funds. Should a recession occur, New Jersey is also in the worst position of any state to respond to the inevitable revenue short-fall. The bond rating agency Moody's gave New Jersey (and Illinois) the lowest ranking among the states in being ready for the next recession. First, New Jersey is heavily dependent on income taxes which go down when the economy goes down. But it also lacks a sufficient "rainy day" fund to mitigate revenue short-falls. Moody's concluded that New Jersey has "low levels of reserves relative to potential revenue decline in our recession scenario" as well as "weakness in [its] pension risk scores."[67]

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[61] Matt McKillop, "Over the Long-Term, Revenues Fall Short of Expenses in 11 States," Pew Charitable Trusts, July 12, 2017.
[62] Eileen Norcross and Olivia Gonzalez, "#48|Ranking the States by Fiscal Condition: New Jersey," Mercatus Center at George Mason University, October 9, 2018, https://www.mercatus.org/print/268189.
[63] Eileen Norcross and Olivia Gonzalez, "#50|Ranking the States by Fiscal Condition: New Jersey," Mercatus Center at George Mason University, July 11, 2017, https://www.mercatus.org/statefiscalrankings/newjersey.
[64] Norcross and Gonzalez, *Ranking the States by Fiscal Condition,* 2018 *Edition,* 17.
[65] Truth In Accounting, *Financial State of the States*, September 2018, https://www.truthinaccounting.org/library/doclib/2017-FSOS-Booklet-.pdf.
[66] *Path to Progress*, 15, 32-33.
[67] John Reitmeyer, "New Jersey Gets Lowest Rating Among States for Recession Preparedness," NJSpotlight, May 21, 2019.

Likewise, rating agency Standard & Poors (S&P) ranked New Jersey 47th among the states for preparedness for a recession, citing unfunded liabilities, a highly progressive income tax, high fixed costs, and low reserves.[68] S&P found that New Jersey had only 13-14 percent of the reserves necessary to buffer a fiscal shock caused by a recession.[69]

Because of its perennial structural deficits, Pew Charitable Trusts also found that New Jersey was one of only three states that failed to rebuild its "rainy day" fund after the Great Recession.[70]

New Jersey Treasurer Elizabeth Muoio summed it up: "We're told every time we talk to the ratings agencies we are an outlier in terms of where our surplus is. We are not adequately prepared for a downturn in the economy as a result."[71]

It must be noted that Governor Murphy is planning to use a FY2020 "budget surplus" to shore up New Jersey's rainy day fund.[72] This is a positive development so far as it goes but it will likely still leave New Jersey relatively unprepared for a recession.

Table 2. New Jersey's Ranking in Studies of State Fiscal Condition

Study	Ranking
Pew Charitable Trusts	50
Mercatus Center	48
Truth In Accounting	50
Standard & Poors	47

Source: Author

[68] Samantha Marcus, "New Jersey is among America's least prepared states if another recession hits," *nj.com*, September 19, 2018.
[69] Gabriel J. Petek, "When the Cycle Turns, U.S. States May Be Tested in Unprecedented Ways," S&P Global, September 17, 2018.
[70] Daniel J. Munoz, "Pew report: Just 3 states lack rainy day fund, and NJ is one," *njbiz.com*, June 4, 2019.
[71] Samantha Marcus, "What you absolutely need to know about Murphy's budget – taxes, pensions, spending and weed," *nj.com*, March 5, 2019.
[72] It must also be noted that this is a false budget surplus, given that the state is only meeting 70 percent of its required pension payment for FY2020, or about $1.6 billion short of what it owes. So any "surplus" is really no surplus at all.

Consequences #5: Outmigration of People and Wealth

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."[73]

National Trend. 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] 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."[45] Recent Gallup polling likewise concluded that there is "a strong relationship between total state tax burden and desire to leave one's current state of residence."[74]

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."[75] Moreover, 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]

Cato found that in 2016 a net of almost 600,000 people - with an aggregate income of $33 billion - moved from the 25 highest-tax states to the 25 lowest-tax states. 24 out of the 25 highest-tax states saw net outmigrations, and 17 of the 25 lowest-tax states had net in-migrations. As the Cato study concluded: "Americans are moving from higher-tax states to lower-tax states in substantial numbers."[76]

The SBEC's 2018 report also noted the commonalities between the best states for small business and the worst ones. From 2010 to 2016, real annual economic growth in the top 25 states was 23 percent higher than in the bottom 25 states (1.77 percent to 1.44 percent). From 2010-2017, the population growth of the top 25 states averaged 6.09 percent, almost double the 3.17 percent of the bottom 25. Most tellingly, from

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[73] Cato Institute, "FAQ," https://www.freedominthe50states.org/faq.
[74] Steven Malanga, "Why Service Is Lousy in High-Tax States," *The Wall Street Journal*, February 19, 2019, https://www.wsj.com/articles/why-service-is-lousy-in-high-tax-states-11550619841.
[75] Antony Davies and John Pulito, "Tax Rates and Migration," (working paper, Mercatus Center at George Mason University, August 2011), 23, https://www.mercatus.org/publications/tax-rates-and-migration/.
[76] Edwards, "Tax Reform and Interstate Migration," 5.

2010-2017 net domestic migration of the top 25 states was a positive 3.15 million while for the bottom 25 states it was a negative 3.18 million.[77]

Similarly, a 2015 state Department of the Treasury study found that "average marginal tax increases have a small but significant effect on net out-migration from a state;"[78] and a Bankrate study identified that cost of living and taxes were the two top factors for people considering leaving their states.[79]

A Monmouth Poll of New Jersey residents concurs: when asked why they wanted to leave New Jersey, 30 percent listed taxes and 24 percent the overall cost of living, the top two responses.[80]

New Jersey Among the Worst. A NJBIA study found that from 2005 to 2014 New Jersey saw more than two million residents move to other states, leading to a net loss of 682,000 residents.[81] Only the inflow of foreign immigrants kept New Jersey's population from declining on an absolute basis.

Unfortunately, this trend appears to be continuing: In 2016, New Jersey lost a net 25,941 households, the third-largest domestic outmigration (after other high-tax states New York and Illinois). New Jersey's ratio of in-migrants to out-migrants was 76 percent, the fourth-worst among the states.[82] In 2016-2017, New Jersey lost a another net 69,278 people to other states (again 4th most),[83] and in 2017-2018, a further net 50,591 people left for other states.[84]

United Van Lines found the same in its 42nd annual survey of moving patterns. In 2018, more residents moved out of New Jersey than any other state, with 66.8 percent of

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[77] Small Business & Entrepreneurship Council, *Small Business Policy Index 2018*, February 2018, 4-5, https://sbecouncil.org/wp-content/uploads/2018/02/SBPI2018-SBECouncil.pdf.
[78] Edwards, "Tax Reform and Interstate Migration," 11, citing Roger S. Cohen, Andrew E. Lai, and Charles Steindel, "A Replication of 'Millionaire Migration and State Taxation of Top Incomes,'" *Public Finance Review* 43, no. 2 (2015): 206-25.
[79] Chris Edwards, "Tax Reform and Interstate Migration," *Tax & Budget Bulletin* no. 84, Cato Institute, September 6, 2018, 5.
[80] Ibid.
[81] New Jersey Business & Industry Association, "Outmigration by the Numbers: How Do We Stop the Exodus?" February 11, 2016, https://www.njbia.org/wp-content/uploads/2016/05/njbiaoutmigrationreport.pdf.
[82] Nathan Benefield, "Residents are Still Leaving the Keystone State," Commonwealth Foundation, December 21, 2018.
[83] Ashley Collman, "These are the top 10 states people are moving out of," Business Insider, May 28, 2019, https://www.businessinsider.com/the-top-10-states-people-are-moving-out-of-us-2019-5#5-louisiana-lost-28921-residents-between-2016-and-2017-6.
[84] Commonwealth Foundation, "State-to-State Migration 2017-18," https://www.commonwealthfoundation.org/policyblog/detail/residents-are-still-leaving-the-keystone-state.

movers moving out versus 33.2 percent moving in. Again highlighting the long-term nature of this problem, New Jersey has been in the top ten for residents moving out for ten years straight. These departures are "driven by factors like job growth, lower costs of living, state budgetary challenges and more temperate climates."[85]

As mentioned earlier, underscoring the consequences of New Jersey's comparative disadvantages with its neighboring states of New York and Pennsylvania, NJBIA found that the two top destinations for outmigrating New Jersey residents were Pennsylvania (385,000) and New York (350,000).[86]

The NJBIA's Siekerka summed up New Jersey's predicament: 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."[87]

So which New Jerseyans are voting with their feet?

Retirees. 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 42nd best state for retirement, citing affordability as New Jersey's biggest negative (outweighing positive factors such as weather, culture and relatively low crime).[88] The NJBIA reported that from 2006 to 2010, New Jersey lost an average of 19,000 retirees per year to states with more favorable tax structures.[89]

Describing the outflow of retirees, United Van Lines stated that "New Jersey is really losing big segments of that [retiree] population. And it's not just a one-off. It's been pretty consistent."[90] 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.[91]

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[85] Yaron Steinbuch, "More people moved out of this state then any other in America," *nypost.com*, January 2, 2019, https://www.nypost.com/2019/01/02/more-people-moved-out-of-this-state-than-any-other-in-america/.

[86] New Jersey Business & Industry Association, "Outmigration by the Numbers: How Do We Stop the Exodus?" 4.

[87] Michele N. Siekerka, letter, February 11, 2016. For full report, see New Jersey Business & Industry Association, "Outmigration by the Numbers: How Do We Stop the Exodus?" February 11, 2016, https://www.njbia.org/wp-content/uploads/2016/05/njbiaoutmigrationreport.pdf.

[88] Bankrate, "These are the best and worst states for retirement."

[89] New Jersey Business & Industry Association, "Outmigration by the Numbers: How Do We Stop the Exodus?"

[90] Linda Moss, "N.J. Still Tops List of States Losing Residents," *Record*, January 4, 2017, https://www.northjersey.com/story/money/2017/01/04/nj-still-tops-list-states-losing-residents/96108416/.

[91] New Jersey Business & Industry Association, "Outmigration by the Numbers: How Do We Stop the Exodus?"

Cato determined that in 2016 among those 65 or older, the ratio of in-migrants to out-migrants was 44 percent.[92] Likewise, United Van Lines found that of those moving out of New Jersey in 2018, 34.3 percent were 65-or-older. [93]

The Wealthy. Older people are generally wealthier,[94] and the facts are inescapable: wealthy citizens have been leaving the state, leading to a net drain on taxable income.

The outmigration of wealth has been a longstanding problem. NJBIA calculated that, from 2005-2014, 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.[95] The residents that were leaving New Jersey were relatively high income, averaging $85,000 in adjusted gross income in 2013,[96] which was almost 20 percent higher than New Jersey's then-median household income of $71,637. NJBIA has since updated some of the figures: from 2004-2016, New Jersey lost a net $24.9 billion in adjusted gross income.[97]

Similarly, a 2015 state Department of the Treasury study found that after New Jersey increased its top income tax rate to 8.97 percent from 6.37 percent in 2004, the state lost a net 80 millionaires a year for the next decade.[98] 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 outmigration has been attributed to "the state's relatively high tax rates, high cost of living, and the decline of manufacturing in the Northeast."[99]

The trend has continued. Cato determined that in 2016, New Jersey's out-migrants took with them higher incomes than the in-migrants brought in: the aggregate income of

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92 Edwards, "Tax Reform and Interstate Migration," 6.
93 United Van Lines, "2018 National Movers Study: Americans Are on the Move, But Where Are They Moving to and from?" https://www.unitedvanlines.com/contact-united/news/movers-study-2018?utm_source=dynamic&utm_medium=press&utm_campaign=National-Movers-Study&utm_content=2018-movers-study.
94 According to the Federal Reserve, people over 55 own 73 percent of America's total wealth. Phil Gramm and Mike Solon, "Warren's Assault on Retiree Wealth," The Wall Street Journal, September 10, 2019, https://www.wsj.com/articles/warrens-assault-on-retiree-wealth-11568155283?mod=searchresults&page=1&pos=1.
95 Siekerka, "Op-Ed: Eliminating Estate Tax Will Improve New Jersey's Economic Climate."
96 New Jersey Business & Industry Association, "Outmigration by the Numbers: How Do We Stop the Exodus?" 9.
97 New Jersey Business & Industry Association, "Wealth Outmigration: NJ Money Trail Leads to Florida," *njbia.org*, May 28, 2019, https://www.njbia.org/wealth-outmigration-nj-money-trail-leads-to-florida/.
98 Edwards, "Tax Reform and Interstate Migration," 11, citing Roger S. Cohen, Andrew E. Lai, and Charles Steindel, "A Replication of 'Millionaire Migration and State Taxation of Top Incomes,'" *Public Finance Review* 43, no. 2 (2015): 206-25.
99 Lai, Cohen and Steindel, "The Effects of Marginal Tax Rates on Interstate Migration in the U.S."

in-migrants was a mere 68 percent of the out-migrants, the fourth-worst in the nation. This translated into an outflow of $3.4 billion of aggregate income[100] - third-worse after New York and Illinois - and about $200 million in lost income tax revenue.[101]

LendingTree found a similar outmigration of wealth in 2016. Using IRS data, the LendingTree study determined that New Jersey lost $3.59 billion in adjusted gross income due to outmigration, the third worst total among the states. Only Illinois and New York were worse. This amounted to a loss of one percent of New Jersey's overall adjusted gross income, which placed New Jersey 45th among the states.[102]

More recently, United Van Lines found that of those moving out in 2018, 42.6 percent had incomes over $150,000.[103]

The recent limitation of state and local tax (SALT) deductions might be exacerbating the outflow of wealth from the New Jersey/New York area. In 2018, the New York/Newark/Jersey City metropolitan area lost 5,700 millionaires with liquid assets of $1 million to $30 million each. Quoting a New Jersey financial planner, the article reports that the loss of the SALT deduction "is drastically elevating the metro area's already high cost of living …" and stimulating the move to states with "much more attractive" tax situations. Even middle class New Jerseyans are finding "their money buys more in places with lower cost of living and taxes … They are leaving New Jersey."[104]

Cato warned that: "The out-migration of high earners is a serious threat to high-tax states because those individuals pay a large share of state income taxes, invest in new businesses and generate jobs, and are heavily engaged in philanthropy."[105] Given that the top one-percent of earners pay 37 percent of New Jersey's income taxes, the potential hit to revenues could be severe. The recent departures to low-tax Florida of billionaires David Tepper and Leon Cooperman alone cost the state hundreds of millions of dollars in income tax revenues.

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[100] Edwards, "Tax Reform and Interstate Migration," 3, 4. Bloomberg came up with the same $3.4 billion number for 2016. See Lee J. Miller and Wei Lu, "Florida Is the Big Winner as the Wealthy Move Out of Northern States," Bloomberg, May 24, 2019, https://www.bloomberg.com/news/articles/2019-05-24/migration-s-biggest-loser-is-connecticut-as-florida-profits.

[101] Byrne, "If politicians don't do the hard work, N.J. faces economic decline, more taxes, former Dem leader says."

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[103] United Van Lines, "2018 National Movers Study: Americans Are on the Move, But Where Are They Moving to and from?" https://www.unitedvanlines.com/contact-united/news/movers-study-2018?utm_source=dynamic&utm_medium=press&utm_campaign=National-Movers-Study&utm_content=2018-movers-study.

[104] David M. Zimmer, "New Jersey-New York area lost 5,700 millionaires in 2018," *North Jersey Record*, January 20, 2019, https://www.northjersey.com/story/news/new-jersey/2019/01/18/new-jersey-area-lost-5-700-millionaires-2018/2605414002/.

[105] Edwards, "Tax Reform and Interstate Migration," 1, 2.

Millennials. Sadly, and more ominously, while it might be predictable that retirees on fixed incomes or the mobile wealthy would opt for lower-tax states, New Jersey has seen an exodus of millennials and young college graduates. New Jersey Policy Perspective explained that New Jersey's outmigration 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."[106] In other words, it is New Jersey's underperforming economy and high cost of living.

And no wonder. Due to the state's sluggish economy and high cost of living, as of 2015, an astounding 807,000 18- to 34-year- olds in New Jersey were living with their parents, making up 47 percent of that age-group, which was the highest in the nation by far and 38 percent higher than the national average. 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."[107]

The result is that New Jersey's young adults are voting with their feet, too. NJBIA found that from 2007 to 2017, New Jersey lost 1,162,038 18-to-34-year-olds, with a total net loss of 205,824, making New Jersey *the highest millennial outmigration state in the country*.[108]

According to the NJBIA's Siekerka, this bodes ill for New Jersey's future. The out-migration of millennials "has an impact on the broader state economy because companies are looking to add millennials."[109] Moreover, NJBIA notes that millennials "are the future of New Jersey's workforce and they will ultimately be the drivers of the state economy. In order to ensure a successful future for the Garden State, New Jersey must first attract and retain millennials."[110]

This exodus also represents a poor return on investment for the state. Historically, New Jersey has been one of the top three spending states for public education, currently spending about $19,000 per year per student. New Jersey Institute of Technology president Joel Bloom points out that "every time one of those kids leaves the state, the price tag that goes with them is $275,000 that we have invested as a state in those K-12

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106 Atmonovage, "Recent College Grads Are Leaving N.J. in Record Numbers, Here's Why."

107 Joseph Atmonovage, "Recent College Grads Are Leaving N.J. in Record Numbers, Here's Why," NJ Advance Media, June 25, 2017, https://www.nj.com/entertainment/index.ssf/2017/06/new_jersey_millennials_struggling_with_costs_of_living.html.

108 New Jersey Business & Industry Association, "The Education Equation," January 4, 2018, https://www.njbia.org/2018equation/, 2, 7.

109 John Reitmeyer, "Warning: New Jersey in Midst of Millennial Outmigration," NJ Spotlight, February 16, 2016.

110 New Jersey Business & Industry Association, "The Education Equation," 6.

students."[111]

Losing Congressional Seats, Too. Reflecting its stagnant population growth relative to other states, New Jersey's share of the US population has 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.[112]

Consequences #6: A Downward Spiral

As Tom Byrne stated: New Jersey's economy is now threatened with a downward spiral.

Illinois—the one state with a worse bond rating than New Jersey—is experiencing the same negative cycle for the same reasons as New Jersey. The rating agency Moody's described 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."[113] According to Illinois Policy's Michael Lucci, raising taxes to make up for revenue losses, as Illinois 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."[114]

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

Conclusion

New Jersey needs a growing population and economy to maintain its quality of life, fund the budget, and pay for the state's massive unfunded retiree liabilities. But over the long term, New Jersey's high-tax, anti-business economic environment has not generated sufficient growth and jobs, especially when compared to neighboring states. The resulting outmigration of residents—and especially young adults—is an ominous sign that portends a grim future.

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111 Brenda Flanagan, "Business Leaders Say They're Falling Behind, Need State Help," NJSpotlight, March 11, 2019.
112 Kristin D. Burnett, "Congressional Apportionment," US Census Bureau, November 2011, https://census.gov/content/dam/Census/library/publications/2011/dec/c2010br-08.pdf.
113 Michael Lucci, "Here's Why Moody's Is Warning of an Illinois Death Spiral," Illinois Policy, January 17, 2017, https://www.illinoispolicy.org/heres-why-moddys-is-warning-of-an-illinois-death-spiral/.
114 Ibid.

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 previous SPCNJ reports, New Jersey's high taxes came about primarily to pay for New Jersey's public education system and the massive liabilities that are attached to it. Historically, more than half of local property taxes have gone to fund district schools, but this was not sufficient to pay for the overall cost of public education (including New Jersey Supreme Court-imposed spending mandates). So state sales and income taxes were enacted to help relieve local property tax burdens. Yet these have also proven to be insufficient to keep up with spending, as indicated by New Jersey's perennial budget deficits.

Over the past 50 years, 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, higher benefits and the higher taxes to fund them. The facts show that the NJEA was a driving force behind the introduction of state sales and income taxes, and has been behind every tax increase since then, right up to today's increased "millionaires' tax." New Jersey's economic status quo is the NJEA's status quo.

Yet most New Jersey citizens are unaware of these facts. 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 shine a light on these facts so New Jerseyans can change the status quo.