Escape from Taxation

A new study shows that wealth flees after taxes rise.

New Jersey’s Governor Chris Christie must be following the economic news from Greece. Its tattered reputation for fiscal control has turned Greece into an international financial nightmare and laughingstock. Perhaps tiring of New Jersey jokes, Governor Christie this week handed down a stiff freeze on spending.

Announcing the freeze on $1.6 billion of unspent money, Mr. Christie was blunt: "Today, we come to terms with the fact that we cannot spend money on everything we want. Today, the days of Alice in Wonderland budgeting in Trenton end."

Not a day too soon, judging from the striking data that a just-released study reveals about the number of residents of the Garden State fleeing to greener pastures.

The study by Boston College’s Center on Wealth and Philanthropy—"Migration of Wealth in New Jersey and the Impact on Wealth and Philanthropy"—looked at 1999 to 2008. It found that in the decade’s first half New Jersey experienced a "substantial increase in both household wealth and charitable capacity,” otherwise known as "expected giving." During those five years the Garden State had a $98 billion net influx of capital due to wealthy households moving into the state, and it enjoyed a corresponding $881 million increase in "charitable capacity."

The Garden State was blooming. Then the trend reversed. From 2004-2008, author John Havens found "a large decline in the number of wealthy households entering New Jersey" as well as "a moderate increase in the outflow of wealthy households leaving." The result: a net decline of $70 billion in household wealth while the "expected giving" became a net outflow of $1.132 billion.

So what happened in 2004? The study doesn’t purport to explain what caused the wealth movements. But the state’s most notable economic policy event that year was an increase in its top income tax rate to 8.97% from 6.37%, on incomes starting at $500,000. That’s a 40% increase.

The state Chamber of Commerce commissioned the study with the Community Foundation, and Chamber Chairman Dennis Bone says it is "crystal clear that the state’s tax policies are resulting in a
significant decline in the state's wealth." New Jersey's estate tax, which kicks in at 2.5% on assets of as little as $675,000, goes up to 16% on assets over $10 million.

The study found that the state's out-migration from 2004-2008 went primarily to New York and Pennsylvania, both of which have lower top tax rates. But the third most popular destination was Florida, which has no income tax and no estate tax. The Sunshine State received 17% of the households, 20% of the capital flight and 37% of the charitable capacity that left New Jersey.

As to the less-robust "in-migration," the study finds that people who are moving to New Jersey aren't as wealthy as those leaving. This has a large effect on charitable giving. "Statistically the relationship between the value of assets and the amount of charitable giving is roughly seven times stronger than the relationship between the level of income and the amount of charitable contributions," Mr. Havens writes.

The number of wealthy households coming from New York, for example, "declined by half, their average wealth declined by half, their aggregate wealth declined by 75% and their expected giving declined by 70%." In other words, by soaking "the rich" with high taxes, liberals end up harming the charities that benefit from rich donors.

The nearby table shows the upward march in taxation in New Jersey, which was once a fast-growing state but has now joined California and New York as high-tax, high-debt states with budget crises. As Jim Hughes, dean of the Edward J. Bloustein School of Planning and Public Policy at Rutgers, told NJ.com recently, until the tax picture is improved, "we'll probably see a continuation of the trend, until there are no more high-wealth individuals left."

Last year, Democrats raised the top rate for one year to 10.75%. This year New Jersyans elected Chris Christie.

Without economic growth, New Jersey will wither. Mr. Christie knows that. He is smart to enact this freeze using his executive authority while he has the public's support to act. And before the pols in Trenton push the state back in the direction of Greece.