Can't blame taxes for flight of the wealthy from New Jersey

By Tom Moran/ The Star-Ledger
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Why are New Jerseyans leaving the state?

For a careful academic like John Havens, a specialist on wealth at Boston College, these are trying times.

He finished a study last week that showed New Jersey lost nearly $70 billion in net wealth from 2004 to 2008 because we lost more wealthy people than we gained.

Then the politicians got a hold of it. And suddenly the report was twisted out of shape, presented as proof that New Jersey must rush to cut income taxes on the rich by $1 billion in the midst of our worst budget shortfall ever.

"I didn’t say that," Havens says. "Taxes are just one possibility."

In fact, Havens thinks the causes of this trend may lie elsewhere. But no matter. His study now has the status of a rotten tomato in Trenton’s latest food fight. It’s going to be used as the combatants see fit.

And that is a little scary, because watching a politician use statistics is a little like watching a child run with scissors. Nothing good can happen.

Take state Sen. Joe Pennacchio. He’s among those who see the report as proof that the income tax is the culprit in driving wealthy people away. "We can’t chase them out fast enough," he says.

Let’s check the facts: According to this report, the exodus of wealthy families from New Jersey did not increase when taxes rose after 2004, as Pennachio suggests. It actually slowed down. The problem was the sharper drop-off
in new arrivals.

And according to the Department of Treasury, the number of families in New Jersey earning at least $500,000 has skyrocketed in the last decade, despite rising income taxes. You can look it up.

When told of these facts, Pennachio showed a politician’s resolve in the face of inconvenient truth: "I just don’t believe those numbers," he says.

Let’s try to sort this out. Havens wasn’t asked to find the reasons for this loss of $70 billion, so we have to make educated guesses.

Yes, taxes are bound to be part of it. Ken Heidock, an accountant from Livingston, says he gets calls from clients every time the income tax inches upward. But of his 500 clients, only two or three actually move each year.

That makes sense. Taxes are painful, but most of us don’t organize our lives around them. A Census Bureau survey of wealthy New Jerseyans found their top reason for leaving, by far, was a new job offer. Family reasons loomed large as well.

And even if taxes are the cause, why the income tax? New Jersey has a tough estate tax that could be pushing wealthy retirees out. How about escaping the property tax once the kids have moved on?

If we are looking to improve the business climate, how about streamlining regulations instead? Or improving our state research universities?

Let’s face it, Republicans tend to have an almost religious faith in tax cuts for the rich as an economic elixer, despite the awful run we just had under George W. Bush. This report, co-sponsored by the state Chamber of Commerce and the Community Foundation of New Jersey, has stirred up those passions again.

At a budget hearing this week, you could see the split this issue is causing.

Democrats suggested extending the surtax on families over $400,000, which would bring in about $1 billion a year. When we are looking at moves like firing cops and teachers, or throwing working poor families out of health care programs, the tax cut is just not their priority.

Republicans talked about killing that surtax, forever. They were citing Havens’ report, using it recklessly, in a way the careful academic would not do in a million years.

"I think the data could support a series of conclusions," Havens says. "There’s just a lot I don’t know."

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