

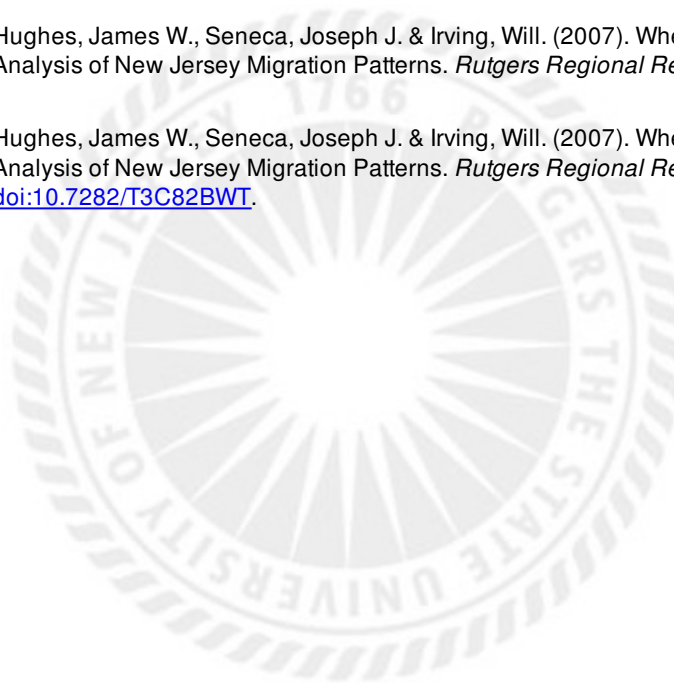
Where Have All the Dollars Gone? An Analysis of New Jersey Migration Patterns

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Citation to Publisher Hughes, James W., Seneca, Joseph J. & Irving, Will. (2007). Where Have All the Dollars Gone? An Analysis of New Jersey Migration Patterns. *Rutgers Regional Report 26*, 1-28.

Citation to *this* Version: Hughes, James W., Seneca, Joseph J. & Irving, Will. (2007). Where Have All the Dollars Gone? An Analysis of New Jersey Migration Patterns. *Rutgers Regional Report 26*, 1-28. Retrieved from [doi:10.7282/T3C82BWT](https://doi.org/10.7282/T3C82BWT).



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Where Have All the Dollars Gone?

An Analysis of New Jersey Migration Patterns

James W. Hughes

Dean

Edward J. Bloustein School of Planning and Public Policy

Joseph J. Seneca

University Professor

Edward J. Bloustein School of Planning and Public Policy

Will Irving

Research Associate

Edward J. Bloustein School of Planning and Public Policy

This research was supported by the

Michael J. and Susan Angelides Public Policy Research Fund

of the Edward J. Bloustein School of Planning and Public Policy

Published by

RUTGERS

Edward J. Bloustein School
of Planning and Public Policy

Introduction

There has been much discussion about New Jerseyans selling their homes, cashing out, and moving to lower-cost, more-affordable states, and of New Jerseyans establishing permanent residence in low-tax states while continuing to maintain a New Jersey domicile. But the actual evidence of what is happening has been mainly anecdotal. A major question is whether anecdotes are matched by statistical reality. This report examines U.S. Census Bureau and Internal Revenue Service data and concludes that the population outflow is real, is approaching worrisome dimensions, and is exerting a small but increasingly negative impact on the New Jersey economy. Less clear are the reasons behind the out-migration and whether there are feasible policy options for significantly changing it.

Executive Summary

There has been a sharp *deceleration* of population growth in New Jersey starting in 2002 and persisting since then. This has been primarily caused by the sharp *acceleration* in the number of New Jerseyans moving to other states, causing what the Census Bureau calls *net internal migration losses*, i.e., more people moving out of the state than moving in.¹ These population losses are starting to have significant economic and fiscal consequences. Because of the *cumulative* net outflows of people since the start of the decade, New Jersey's 2005 aggregate adjusted gross income was reduced by \$7.9 billion. This represents a direct loss to the state economy, reducing consumer expenditures, employment, and state taxes. The total annual state tax loss to New Jersey in 2005 approached \$539 million. It is estimated that the cumulative effect of continued net migration losses in 2006 reduced income by more than \$10 billion and state tax revenues by \$680 million.

Demographic Lag

- The 2002–2006 period has been marked by a sharp downward trend in New Jersey's annual population growth and a corresponding sharp upward trend in the number of people leaving the state, as shown below.

Year ^a	Population Growth	Net Internal Migration ^b
2002	79,184	-23,759
2003	63,144	-33,225
2004	56,467	-45,045
2005	32,759	-56,989
2006	21,410	-72,547

^aThe U.S. Census Bureau population data measure a year from July to July. For 2002, for example, the change in population is measured from July 2001 to July 2002.

^bNote again that net internal migration *excludes* net international migration, which has been positive for each year of the decade to date.

- In 2002, the state's population increased by 79,184. In the next four years, population growth steadily declined. By 2006, the state's population increased by only 21,410 persons. A simple extrapolation of this trend indicates New Jersey could experience an absolute population loss by 2008.
- In 2002, New Jersey had a net population outflow (net internal migration loss) of 23,759 people, i.e., 23,759 more people moved out of the state to the rest of the country than people from the rest of the country moved into the state. The losses accelerated over the next four years. By 2006, the outflow totaled 72,547 persons. A simple extrapolation of this trend indicates that New Jersey could have a net population outflow of more than 100,000 persons in 2009.

¹Net internal migration is the difference between the number of people moving out of New Jersey to the rest of country and the number of people from the rest of the country moving into New Jersey. Net internal migration does *not* include international migration flows. To simplify the text, this report mostly uses the terms "net population outflow/inflow" or "net migration loss" instead of "net internal migration."

- The cumulative net migration loss between 2002 and 2006 was 231,565 people.
- To put New Jersey's population change into perspective, North Carolina—a peer competitor state—grew by 807,000 people between 2000 and 2006, nearly triple the gain of New Jersey (310,000 people). As a result, during the first half of 2006, New Jersey dropped out of the top ten states in the nation in terms of total population. North Carolina moved up to tenth place, while New Jersey fell to eleventh.

Loss of Taxpayers and Income

- The net internal migration estimates of the U.S. Census Bureau are based in significant part on Internal Revenue Service data that track the residence of federal tax filers. So, it is not surprising that there has been a growing net outflow of federal tax filers and their dependents from New Jersey. The number of exemptions—the sum total of federal tax filers and their dependents—serves as a proxy for net population flows. The annual net outflow of federal tax returns and the associated net change in the total number of exemptions (population) for New Jersey are given below.

Year	Net Outflow of Federal Tax Returns	Exemptions
2000	-12,575	-18,370
2001	-12,027	-18,992
2002	-15,557	-26,429
2003	-20,755	-38,598
2004	-24,952	-49,654
2005	-28,900	-58,633

- The net outflow of federal tax returns more than doubled between 2001 and 2005, increasing from 12,027 filers in 2001 to 28,900 filers in 2005.

The net outflow of exemptions more than tripled, increasing from 18,992 in 2001 to 58,633 in 2005.

- Because of the loss of these taxpayers, New Jersey's annual direct loss of aggregate adjusted gross income as defined by the Internal Revenue Service is substantial and has been growing steadily since 2001.²

Year	Net Aggregate Adjusted Gross Income
2000	-\$1,442,487,000
2001	-688,615,000
2002	-855,387,000
2003	-1,112,615,000
2004	-1,802,033,000
2005	-1,959,721,000

- The annual losses of net adjusted gross income nearly tripled from 2001 to 2005, increasing from \$689 million to \$1.96 billion.
- The *cumulative* income loss during the 2000 to 2005 period was \$7.9 billion. That means that the net outflow of taxpayers from 2000 to 2005 caused a reduction in the state's 2005 total adjusted gross income of \$7.9 billion.
- Although this loss is relatively small—3.3 percent of total adjusted gross income in 2005—it is a *permanent loss* that will persist (or increase) each year unless net out-migration is reduced or eliminated.
- Based on the U.S. Census estimates of a further increase in net out-migration in 2006 (-72,547 persons), the net outflow of taxpayers also increases, and is likely to have reduced the state's adjusted gross income in 2006 by over \$10 billion on a cumulative basis.

² The high net aggregate adjusted gross income loss (-\$1.4 billion) in 2000 may be partly the result of a difference in the long-term capital gains of New Jersey out-migrants versus those of in-migrants. Nationally, long-term capital gains increased from \$185.1 billion in 1995 to a then record high of \$640.6 billion in 2000. The large net income loss could result if out-migrating New Jersey taxpayers carried more capital gains elsewhere compared with the capital gains brought into the state in that year.

Economic Impact

- ❑ If the state had retained the \$7.9 billion in adjusted gross income that was lost in 2005 because of the net outflow of taxpayers between 2000 and 2005, the yield of New Jersey's Gross Income Tax in 2005 would have been \$236 million higher.
- ❑ Similarly, the yield of the New Jersey Sales and Use Tax in 2005 would have been \$217.5 million higher.
- ❑ The loss of \$7.9 billion in income and *the related reduction in consumer expenditures* from the additional income and jobs that would have existed if that income was retained in New Jersey resulted in lower employment (38,810 jobs), lower annual Gross Domestic Product (\$2.76 billion), and an additional reduction in annual state sales and income tax revenues (\$85.4 million).
- ❑ Accordingly, the total annual state tax loss in 2005 attributable to the cumulative effects of net out-migration this decade is \$538.9 million. While this is relatively small in terms of total state tax revenues (approximately 2 percent in 2005), it is a significant loss in absolute size. Moreover, it is a *permanent* loss and continues (or increases) each year unless net out-migration is reduced or eliminated in the future.
- ❑ Based on 2006 population out-migration data, these tax losses are estimated to have increased to \$680 million in 2006.

Where Are They Going?

The top three *destination* states for New Jersey out-migrants from 2000 to 2005 were New York (190,702), Florida (188,704), and Pennsylvania (183,885).

- ❑ Seven of the top ten destination states of New Jersey out-migrants were in the South and West: Florida (188,704), California (55,431), North Carolina (50,913), Virginia (48,454), Georgia (38,581), Texas (33,895), and Maryland (31,449). These states accounted for 41 percent of all New Jersey out-migration during the period.

- ❑ New Jersey had a *positive net* migration balance with New York, but a *negative, and accelerating* net migration balance with Pennsylvania. It also had a net migration loss with all of the remaining top-ten destination states.

Where Are They Coming From?

- ❑ New York is, far and away, the top state of *origin* for the inflow of people into New Jersey. During the 2000 to 2005 period, 339,240 people moved from New York to New Jersey, representing nearly half of all the inflow of people into New Jersey from the top ten states.
- ❑ Pennsylvania (141,426 people) and Florida (64,120 people) were the next highest states in terms of population inflows to New Jersey.

A Mobile Society

- ❑ Between 2000 and 2005, nearly 1.1 million (1,094,081) New Jerseyans moved to other states. In six years, approximately one in eight state residents left New Jersey! At the same time, they were replaced by 883,405 people coming to New Jersey from other states. Thus, the net migration loss of 210,676 people is the result of extensive population flows into and out of New Jersey. This reflects the enormous mobility of American society. Both the reality and the perception of an attractive versus an unattractive location can be quickly embodied in decisions to move.

Income Profiles

- ❑ The average adjusted gross income per tax return (\$65,319) of the outflow of federal tax filers in 2005 was slightly higher than the average income per return of the inflow of filers (\$64,425).
- ❑ The average adjusted gross income of filers moving from New York to New Jersey in 2005 (\$74,472) significantly exceeded the average income of tax filers moving from New Jersey to New York (\$63,025). This difference, plus a net inflow of tax filers from New York to New Jersey, added \$952

million in adjusted gross income to New Jersey in 2005. This was the only state in the top ten destination states with which New Jersey had a positive net income balance.

- ❑ Tax filers moving from New Jersey to Florida had a much higher average adjusted gross income (\$74,106) than filers moving from Florida to New Jersey (\$43,954). This difference, plus a net outflow of 11,345 filers in 2005, led to a net loss of \$1 billion in adjusted gross income.
- ❑ New Jersey had positive net average income balances with California, Virginia, and Maryland. However, the net outflow of tax returns from New Jersey to each of these states resulted in net outflows of adjusted gross income.
- ❑ New Jersey had negative net average income balances *and* net outflows of tax returns with each of the remaining six states in the top ten destination states, leading to an overall net income outflow of \$1.96 billion in 2005.

Why Are They Going?

Future Trends and Policy Implications

- ❑ There is no definitive evidence as to the causes behind New Jersey's recent acceleration in net out-migration. However, improved relative economic opportunity elsewhere, New Jersey's high housing costs, and its high overall cost of living are possible explanations.
- ❑ The recent sharp slump in the housing market, with the potential for home price declines, may result in a short-term decrease in future New Jersey out-migration. Basically, if you can't sell your house, you can't move. Longer term, the increase in public costs, congestion, and the overall costs of living and doing business in many of the fast-growing destination states may lead to a decline in their attractiveness to New Jerseyans over time.
- ❑ New Jersey's economy is strong and well-balanced. Its workforce is both highly educated and highly

productive. The state's high income levels and attractive quality of life in its many municipalities are enormous incentives for businesses and individuals to locate, live, and work here. However, in the current decade there has been a sustained loss of population and income due to out-migration with still relatively small, but increasing, negative economic and fiscal impacts.

- ❑ Thus, policies to reduce property taxes, invest in science and technology-based economic growth, enhance infrastructure, and restore business confidence offer significant economic and fiscal benefits by retaining New Jersey's residents and businesses. Such policies are necessary complements to project-specific economic development initiatives.

Purpose and Organization

The purpose of this report is to examine the recent trend of increasing net internal out-migration from New Jersey and its economic and fiscal implications. It begins with an examination of the recent lag in New Jersey's population growth and compares New Jersey's experience with that of other slow- and fast-growing states. The report continues by placing this recent trend in the long-run context of the state's accelerating population growth in the 1950 to 1970 period and its subsequent slowdown in population growth since 1970. There is also an examination of the redistribution of population shares within the nation away from the Northeast and Midwest and to the South and the West. The components of New Jersey's recent population change are analyzed, leading to the conclusion that the slowdown in population growth in New Jersey is due to increasing numbers of people leaving the state.

The key analysis of the report is the use of Internal Revenue Service data on federal income tax returns to estimate the total inflow, total outflow,

and net change in New Jersey's population and income attributable to out-migration during the current decade. The report then estimates the economic and fiscal implications of the state's net out-migration. It concludes with a discussion of the possible causes of net out-migration, likely future trends, and policy implications.

Demographic Lag

During the first half of 2006, New Jersey dropped out of the top ten states in total population.³ North Carolina moved up to tenth place, while New Jersey fell to eleventh. Between 2000 and 2006, North Carolina gained 807,000 people, nearly triple the gain of New Jersey (310,000 people). The annual

population growth in the state since 2002 shows a distinctly downward trend (table 1). New Jersey's population increased by 79,184 persons in 2002, 63,144 persons in 2003, 56,467 persons in 2004, 32,759 persons in 2005, and 21,410 persons in 2006. A simple extrapolation suggests that by the end of 2008, the state would start to experience an absolute shrinkage in population.

To put the 2002–2006 data in perspective, the average annual population growth in New Jersey was 68,419 people between 1990 and 2000. The population growth in 2005 (32,759 people) was less than half of that, while growth in 2006 (21,410 persons) was less than one-third of the 1990 to 2000 average.

For many New Jerseyans, slower population growth or an actual decline may be an attractive development, given the state's endemic congestion and crowding.

TABLE 1
Components of New Jersey's Population Change: 2002–2006

Total Population Change = Net Natural Increase + Net Migration

Net Natural Increase = Births minus Deaths

Net Migration = Net International Migration + Net Internal Migration

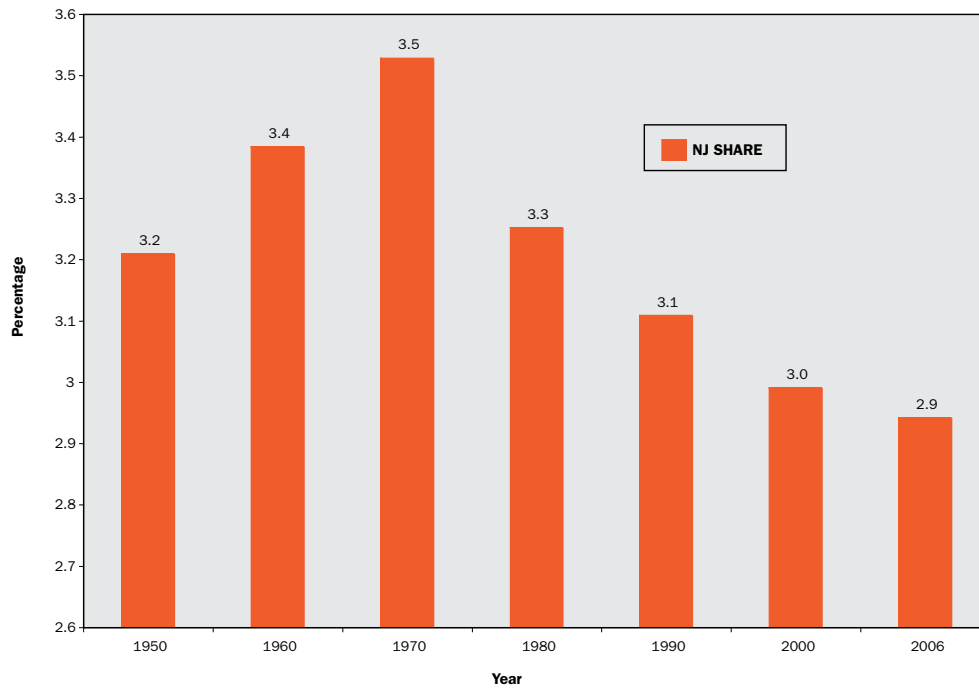
Year	Total Population	Total Population Change	Natural Increase			Net Migration		
			Total	Births	Deaths	Total	Net International Migration	Net Internal Migration
2002	8,577,514	79,184	40,163	115,529	75,366	39,054	62,813	-23,759
2003	8,632,553	63,144	38,000	114,525	76,525	25,842	59,067	-33,225
2004	8,675,879	56,467	44,874	118,843	73,969	11,220	56,265	-45,045
2005	8,703,150	32,759	42,341	115,428	73,087	-9,597	47,392	-56,989
2006	8,724,560	21,410	39,190	108,939	69,749	-18,489	54,058	-72,547
Total		252,964	204,568	573,264	368,696	48,030	279,595	-231,565

Note: The Total Population Change is approximately equivalent to the sum of the Natural Increase and Net Migration but is adjusted according to a population control applied by the Census Bureau.

Source: U.S. Census Bureau.

³The U.S. Census Bureau is the source of all data in this section.

⁴To put this in perspective, the population density of Japan is 835 people per square mile, while that of India is 914 people per square mile.

FIGURE 1. New Jersey Share of U.S. Population, 1950–2006

Source: U.S. Census Bureau

New Jersey is the most densely populated state in the United States, a distinction it has held since 1970. New Jersey is the only state with more than 1,000 people per square mile, a status achieved in 1982. The state's current density is 1,165 people per square mile.⁴ But slower population growth, or even decline, can have serious long-term economic and fiscal implications.

Between 2005 and 2006, New Jersey's population growth was 0.2 percent. That puts the state among the ten slowest-growing states in the nation. Growing slower than New Jersey were hurricane-damaged Louisiana (−4.9 percent), Rhode Island (−0.6 percent), Michigan (−0.1 percent), New York (0.0 percent), Connecticut (0.1 percent), Massachusetts (0.1 percent), Mississippi (0.1 percent), and Ohio (0.1 percent). Growing at the same rate as New Jersey were West Virginia (0.2 percent), North Dakota (0.2 percent), and Vermont (0.2 percent). The top ten fastest-growing states were Arizona (3.6 percent), Nevada (3.5 percent), Idaho (2.6 percent), Georgia (2.5 percent), Texas (2.5 percent), Utah (2.4 percent), North Carolina (2.1 percent), Colorado (1.9 percent), Florida (1.8 percent), and South Carolina (1.7 percent).

Long-Term Perspective

The sharp slowdown in population growth starting in 2002 represents an acceleration of the general post-1970 trend. As shown in figure 1, New Jersey accounted for 3.2 percent of the nation's population in 1950. But tract-house suburbanization engulfed the state over the next 20 years, driven by sustained urban deconcentration, particularly the flow of middle-class, family-raising households out of New York City and Philadelphia and into New Jersey. As a result, the state's population growth accelerated markedly: its share of the nation's population increased to 3.4 percent by 1960 and to 3.5 percent by 1970. But then a demographic slowdown began, as the nation's population and job growth increasingly shifted to the Sunbelt states of the South and West. By 1990, the state's population share had declined to 3.1 percent, falling below its 1950 level. In the next decade (1990–2000), the state's share fell by 0.1 percentage point to 3.0 percent. During the following six years (2000–2006), New Jersey's population share fell by another 0.1 percentage point to 2.9 percent.

TABLE 2
United States Resident Population by Region:
1970–2006
 (Population in thousands)

Region	1970 (April 1)		2006 (July 1)	
	Total	Distribution (%)	Total	Distribution (%)
United States	203,212	100.0	299,398	100.0
Northeast	49,041	24.1	54,741	18.3
New England	11,842	5.8	14,270	4.8
Middle Atlantic	37,199	18.3	40,471	13.5
Midwest	56,572	27.8	66,218	22.1
South	62,795	30.9	109,084	36.4
West	34,804	17.1	69,356	23.2

Source: U.S. Census Bureau.

The impact of shifting state and regional growth patterns is revealed in table 2. In 1970, the Northeast Region contained 24.1 percent of the nation's population, while the Middle Atlantic Division—consisting of New Jersey, New York, and Pennsylvania—accounted for 18.3 percent. By 2006, the region's share fell to 18.3 percent while the division's share fell to 13.5 percent. The “winners” of this demographic repositioning have been the South and West. In 1970, the Northeast and Midwest together still had a slight majority of the nation's population (51.9 percent), while the South and West had a slight minority (48.1 percent). By 2006, the population share of the South and West had soared to an overwhelming majority (59.6 percent), while the share of population of the Northeast and Midwest combined was reduced to a clear minority status (40.4 percent).

Components of Population Change

New Jersey's annual population change is due to the three components detailed in table 1: births

minus deaths (net natural increase), the number of people moving out of the state, and the number of people moving into it.⁵ The reduction of New Jersey's growth to a virtual crawl is principally due to growing *negative net internal migration* surpassing *positive net international migration*. Net internal migration consists of the difference between the number of people moving from New Jersey to the balance of the nation and the number of people moving into New Jersey from the balance of the nation.

In the last five years (2002–2006), New Jersey had a cumulative net migration loss of 231,565 people to other states. Moreover, the exodus has been accelerating. In 2002, 23,759 more people moved out of the state to other parts of the country than moved into it from elsewhere in the United States. For the next four years, the outflow steadily increased. The net migration loss grew to 33,225 persons in 2003, to 45,045 persons in 2004, to 56,989 persons in 2005, and to 72,547 persons in 2006. A simple extrapolation of this trend suggests that New Jersey would have a net migration loss of over 100,000 persons in 2009.

⁵The *natural rate of population increase* is the number of births minus the number of deaths. Moves into and moves out of the state are total *net migration*, comprising net *internal migration* plus net *international migration*.

In 2005, the state's *total* net migration (internal plus international) turned negative (−9,597 persons). The loss then widened in 2006 (−18,489 persons).

In 2006, New Jersey's net migration loss (72,547 persons) was exceeded by only three states: California (287,684 persons), Louisiana (241,201 persons), and New York (225,766 persons). Interestingly, New Jersey's migration losses were greater than those of Illinois (68,661 persons), Michigan (65,123 persons), and Ohio (48,153 persons), industrial heartland states severely impacted by both the nation's manufacturing employment hemorrhage in general, and by the large cutbacks of America's automakers, in particular. In contrast, North Carolina, one of New Jersey's key economic competitors, had a net migration gain of more than 100,000 persons in 2006.⁶

The data in table 1 also reveal the *importance of international immigration to New Jersey*. The total net natural increase (births minus deaths) between 2002 and 2006 was 204,568 people. This is *less* than the net internal migration loss (231,565 persons). Thus, in the absence of positive net international migration (279,595 persons), New Jersey would have had a net population loss of 26,997 persons between 2002 and 2006.

FLOWS OF TAXPAYERS AND INCOME

The data used in this analysis are taken from the State-to-State Migration Data compiled by the Statistics of Income Division of the Internal Revenue

Service (IRS). These data track the movement of federal tax filers by matching federal tax returns each year with those in the previous year according to the social security number of the primary filer. For each pair of consecutive "matching" years, the IRS data provide information on the inflow and outflow of federal returns for the states.⁷

For example, the 2004–2005 State-to-State Migration Data comprises an "inflow" file and an "outflow" file for each of the 50 states and for Washington, D.C. Thus, the inflow file for New Jersey lists the number of returns filed from New Jersey in 2005 by taxpayers who had filed their 2004 federal returns from another state. These data are provided on a state-by-state basis, so that it is possible to determine the state of origin of the inflow of returns. The data also include the aggregate number of filers who had filed from a foreign location the previous year, and the total number of non-migrants—i.e., those that filed from New Jersey in both years.⁸ In addition to the number of returns, the file also provides the number of total exemptions associated with those returns and the total amount of adjusted gross income (AGI) on the returns.⁹ The outflow files are organized in the same way. For New Jersey, the outflow file for 2004–2005 provides, on a state-by-state basis, the number of returns (with associated exemptions and AGI) filed from each of the other 49 states and Washington, D.C., in 2005 by taxpayers who had filed from New Jersey in 2004.

The IRS data described above offers comprehensive and consistently measured information on the movement of federal tax filers within the United States over time. The IRS data have been used frequently by researchers to study population dynamics and to

⁶United Van Lines, the nation's largest moving carrier, ranked North Carolina first in 2006 in terms of a destination state: 64 percent of North Carolina's total moves were inbound. In contrast, New Jersey was ranked as the third-highest outbound state, with 60.9 percent of its total moves going out of state.

⁷The IRS data are based on the address of the tax filer at the time of filing. Therefore, it is possible that a filer may have worked in one state while filing his/her tax return in another. There is no reason to expect that the distribution of such cases differs by state. Thus, we expect no systematic effects of this possibility on the measures of inflows or outflows to and from New Jersey.

⁸The "foreign" category covers Army Post Office and Fleet Post Office addresses, Puerto Rico, Virgin Islands, and other foreign locations.

⁹As defined by the IRS, adjusted gross income includes taxable income from all sources, including wages and salaries, taxable interest, dividend income, taxable refunds from state or local governments, alimony, business income or losses, capital gains, taxable pensions and annuities, rents and royalties, farm income or losses, unemployment compensation, and taxable portions of Social Security payments. These amounts are then subject to the following adjustments (subtractions): IRA deductions, moving expenses, self-employment tax, self-employment health insurance, Keogh deductions, penalties on early withdrawal of savings, and alimony paid.

identify the effects of demographic, economic, and public policy variables on the decision of individuals to migrate.¹⁰ The following sections use the IRS data to examine recent *internal* (within the United States) migration patterns for New Jersey.

Inflow and Outflow of Tax Returns and Income

Table 3 presents annual data on the inflow, outflow, and net change in internal migration for New Jersey based on *federal tax returns* for the period 2000 to 2005. The data indicate that the annual inflow of federal tax returns to New Jersey has been relatively constant during this period (column 2). These are tax returns filed in New Jersey by taxpayers who filed in another state in the *previous* year. There was a pattern of somewhat lower flows of tax returns into New Jersey from 2001 to 2003, a period of recession and slow economic recovery. Inflows of tax returns then increased in the next two years, rising to 80,561 returns in 2005 from a low of 77,667 returns in 2003. But the number of returns filed in 2005 was still below those of 2000 and 2001. For the entire 2000–2005 period, there was a total inflow of 480,221 federal tax returns.

However, for each year of the 2000 to 2005 period there was a steady increase in the outflow of federal tax returns (column 3). These are tax returns filed in New Jersey by taxpayers in the previous year, but in a *different state in the current year*. In 2000, there was an outflow of 94,149 federal tax returns from New Jersey. Subsequently, the total annual outflow of federal returns increased every year thereafter. By 2005, the total outflow of tax returns was 109,461, representing a 16.3 percent increase in the annual outflow of tax returns over the period. The cumulative outflow of federal tax returns from New Jersey to other states for the six-year period was 594,987 returns.

The *net flow of federal tax returns* (inflows minus outflows) is listed in the final column of table 3. It

TABLE 3
Flows of Federal Tax Returns
into and out of New Jersey
2000–2005

Year	Inflow	Outflow	Net Flow
2000	81,574	94,149	-12,575
2001	82,308	94,335	-12,027
2002	79,049	94,606	-15,557
2003	77,667	98,422	-20,755
2004	79,062	104,014	-24,952
2005	80,561	109,461	-28,900
Total	480,221	594,987	-114,766

Notes:

The **Inflow** for each year represents taxpayers who filed federal returns from a different state in the year indicated, but from New Jersey in the subsequent year. Thus, for example, the Inflow of 81,574 tax returns for the year 2000 represents taxpayers who filed tax returns from a different state in the year 2000 (i.e., for the 1999 tax year), but filed from New Jersey in 2001 (i.e., for the 2000 tax year).

The **Outflow** for each year represents taxpayers who filed federal returns from New Jersey in the year indicated, but from a different state in the subsequent year. Thus, for example, the Outflow of 94,149 tax returns for the year 2000 represents taxpayers who filed tax returns from New Jersey in the year 2000 (i.e., for the 1999 tax year), but filed from a different state in 2001 (i.e., for the 2000 tax year).

The **Net Flow** is the difference between the Inflow and the Outflow for each year. If the Inflow is greater than the Outflow, the Net Flow will be positive. If the Outflow is greater than the Inflow, the Net Flow will be negative. Thus, for example, in the year 2000, 12,575 fewer federal tax returns (for the tax year 1999) were filed in New Jersey as a result of the domestic outflow of 94,149 returns and a domestic inflow of 81,574 returns.

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

¹⁰See, for example, G.H. Miller, "Dynamics of the U.S. Interstate Migration System, 1975-1992," *Growth and Change* 26 (Winter 1995): 139-160, and P. S. Davies et al., "A Conditional Logit Approach to U.S. State-to-State Migration," *Journal of Regional Science* 41, 2 (2001): 337-360.

indicates a steadily increasing net loss throughout the period, rising from 12,575 returns in 2000 to 28,900 returns in 2005. Thus, during the current decade, there has been a rising net outflow of federal taxpayers from New Jersey to other states in the nation. This is due to the steady annual increases in total outflows of federal income tax filers from New Jersey along with a relatively constant annual level of total inflows into New Jersey. The cumulative net loss over the six years is 114,766 federal tax returns. Thus, in 2005, the state had 114,766 fewer federal tax filers because of out-migration to other states.

Table 4 examines the implications of this increasing net loss in federal taxpayers in terms of the accompanying aggregate adjusted gross income (AGI) flows.¹¹ The IRS data provide information on aggregate AGI for the total number of federal tax returns flowing into and out of the state. Thus, estimates of the *net* aggregate AGI flow into and out of New Jersey can be made.

The implications of this net loss in federal taxpayers for the New Jersey economy are significant. The net loss in aggregate AGI (i.e., the total aggregate AGI resulting from the inflow of federal tax returns to New Jersey from other states minus the total aggregate AGI of the outflow of federal tax returns from New Jersey to other states) is presented in the last column of table 4. While the annual net loss declined between 2000 (\$1.44 billion) and 2001 (\$689 million), it increased steadily each year thereafter.¹² In 2005, the net loss of aggregate AGI in New Jersey was \$1.96 billion. The cumulative loss for the entire period was \$7.86 billion. Thus, because of net out-

TABLE 4
Flows of Income
into and out of New Jersey
2000–2005

Year	Aggregate Adjusted Gross Income (\$ 000)		
	Inflow	Outflow	Net Flow
2000	5,271,005	6,713,492	-1,442,487
2001	5,119,710	5,808,325	-688,615
2002	4,591,525	5,446,912	-855,387
2003	4,613,696	5,726,311	-1,112,615
2004	4,859,034	6,661,067	-1,802,033
2005	5,190,136	7,149,857	-1,959,721
Total	29,645,106	37,505,964	-7,860,858^a

Note: a. Based on 2006 population out-migration data, the cumulative net adjusted gross income (AGI) outflow reached \$10 billion in 2006.

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

migration between 2000 and 2005, the state's 2005 aggregate AGI was reduced by \$7.86 billion. Based on further population out-migration data (see table A-1), the income loss exceeded \$10 billion in 2006.¹³ It should be noted that this is a *permanent*, not a one-time, loss of income in New Jersey. It is subject to reversal only if the annual net flow of federal taxpayers and incomes becomes positive for the state in the future.

¹¹An estimate of the annual net population change can also be made using IRS data on the number of exemptions claimed on the tax return inflows and outflows. According to IRS data on the number of exemptions claimed, the annual net outflow of people from New Jersey grew from 18,370 in 2000 to 58,633 in 2005, an increase of more than threefold. This trend in net out-migration from New Jersey is consistent with that reported by the U.S. Census Bureau. In fact, the Census estimates of domestic migration draw upon the annual IRS tax return data. IRS data for 2006 were not yet available as this report was being prepared. For a comparison between the IRS and Census data, see table A-1 in the Appendix for the IRS data on net filers and net exemptions and the Census estimates for net internal migration.

¹²The high 2000 net outflow is partially explained by then record capital gains recorded at the peak of the stock market bubble. As the stock market tumbled in 2001 and 2002, aggregate AGI losses declined in these two years.

¹³While currently available IRS data end in the 2005 tax year, the U.S. Census Bureau data indicate that a further net domestic out-migration of 72,547 people occurred in 2006 (see table 1), an increase of 27.3 percent over the loss of 56,989 people in 2005. Accordingly, the net loss in AGI for 2006 is likely to have exceeded \$2.1 billion. This would make the cumulative net loss in AGI through 2006 approach \$10 billion.

Economic Implications of Net Federal Tax Filer Outflows

Recent total personal income and gross income tax (GIT) revenue data for New Jersey indicate steady, and at times even strong, growth. Total personal income, as reported by the U.S. Bureau of Economic Analysis, grew by a robust 6.1 percent for the latest year of available data, and state income tax revenues have recorded significant gains in recent years.¹⁴ The combination of solid annual income increases coming from the existing employment base; recent strong, if volatile, income gains in the financial sector; and slow but positive changes in total employment in New Jersey have resulted in increases in total personal income and GIT revenues.

The loss of \$7.86 billion in total adjusted gross income in 2005 in New Jersey due to net out-migration between 2000 and 2005 is subsumed in the overall performance of total personal income and GIT revenues in New Jersey. The magnitude of the net loss is relatively small. Total adjusted gross income in New Jersey in 2005 was \$236.76 billion.¹⁵ Thus, the loss in 2005 of \$7.86 billion in aggregate AGI represents only 3.3 percent of total AGI in New Jersey in 2005. However, the key point is that *if* net out-migration of federal taxpayers from New Jersey and the associated loss in income were eliminated, or reduced, total income, total employment, and total state tax revenues

in New Jersey would have been even higher than the observed amounts. An analysis of the economic and fiscal implications of the net loss of \$7.86 billion in adjusted gross income follows.

The latest *calendar*-year data available for state GIT revenues is 2004. In that year, the adjusted gross income in New Jersey was \$228.31 billion, which yielded \$7.1 billion in New Jersey gross income tax revenues in 2004.¹⁶ This implies that the effective average New Jersey gross income tax rate was 3.0 percent *on the basis of adjusted gross income*. If, at the extreme, *all* the net outflow of \$7.86 billion in AGI in 2005 resulting from 2000 to 2005 migration losses had been retained in New Jersey, then New Jersey revenues in 2005 would have been an estimated \$235.8 million higher.¹⁷

Similarly, the New Jersey Sales and Use Tax yielded \$6.56 billion in fiscal year 2005 for an effective tax rate of 2.77 percent *on the basis of* \$236.76 billion in AGI in that year. Thus, if the \$7.86 billion AGI outflow had all been retained, New Jersey sales tax revenues in 2005 would have been an estimated \$217.7 million higher.

Accordingly, there was an estimated direct total tax loss of \$453.5 million (from both income and sales taxes) in 2005.¹⁸ While this amount is relatively small compared with total state tax revenues (it represents approximately 2 percent of all state tax revenues in

¹⁴Total personal income increased by 5 percent in 2005, 6 percent in 2006, and by 6.1 percent between the first quarter of 2006 and the first quarter of 2007, the latest available data from the U.S. Bureau of Economic Analysis. Revenues from the New Jersey Gross Income Tax rose by 28.9 percent in state FY 2005 and by 10.2 percent in fiscal year 2006. The large increase in revenues in FY 2005 was mostly attributable to a higher marginal tax rate on incomes above \$500,000, while the increase in FY 2006 was linked to a surging stock market and record corporate profits.

¹⁵This amount is based on the total federal tax returns filed in New Jersey that year (both non-migrant returns and returns filed in the "inflows" category).

¹⁶See "Statistics of Income" 2004, Division of Taxation, New Jersey Department of Treasury, Trenton, New Jersey. The 2004 calendar year included the effects of the 8.97 percent marginal tax rate on incomes above \$500,000. Calendar-year state income tax revenue data are used in order to align with the IRS adjusted income data, which are also measured on a calendar year.

¹⁷That is, this analysis *assumes* that inflows and outflows of population and income in New Jersey were roughly balanced over the six-year period instead of the net \$7.86 billion outflow that actually occurred.

¹⁸In fact, there were tax losses in each of the years of the six-year period due to the annual net outflow of income each year. We have taken the end year of the data to indicate the cumulative loss in the last year of the period. The total fiscal loss over the six years is considerably higher since there is an increasing loss in each year, leading to the estimated loss of \$453.5 million in income and sales tax revenues in 2005.

2005), the loss is permanent. In fact, it will increase each year if the net out-migration of people and income from New Jersey continues.¹⁹ No estimates have been made of other New Jersey tax losses (e.g., realty transfer tax, alcohol tax, cigarette tax, and so on) as a result of the loss of \$7.86 billion in AGI in 2005. Thus, the \$453.5 million tax loss in 2005 is likely to underestimate the fiscal opportunity costs to New Jersey of the net outflow of people and income.

In addition to the direct fiscal impact of the loss of \$7.86 billion in adjusted gross income, the associated reduction in consumer expenditures in New Jersey results in further indirect losses in economic activity. Based on data from the U.S. Bureau of Labor Statistics' Consumer Expenditure Survey, it is estimated that the average New Jersey household spends approximately 74 percent of its pre-tax income, with the remainder going to taxes and savings. This suggests that, if the \$7.86 billion AGI loss remained in New Jersey in 2005, there would have been approximately \$5.8 billion in disposable income available to be spent on goods and services. Using Rutgers' R/ECON™ Input-Output Model of the New Jersey economy, it is possible to estimate the benefits to the state economy that *do not occur* due to the AGI outflow.

It is estimated that of the \$5.8 billion in disposable income that would be spent in New Jersey, approximately \$4.38 billion would remain in the New Jersey economy.²⁰ This \$4.38 billion in consumer expenditures would have generated approximately \$2.76 billion in annual Gross Domestic Product

(GDP) in New Jersey and would have supported an additional 38,810 jobs earning a combined annual income of approximately \$1.48 billion, or \$38,119 per job. Approximately 49 percent of the additional jobs would have been in wholesale and retail trade, and another 10 percent would have been in services. The estimated 38,810 jobs represents 0.9 percent of actual total payroll employment in New Jersey in 2005. The forgone GDP of \$2.76 billion represents 0.6 percent of total nominal GDP in the state in 2005. Thus, both of these effects are relatively small. However, they are also *permanent* effects and, in fact, will increase in absolute size over time if net out-migration continues. It should also be noted that these impacts are *separate from and in addition to* those stemming from the \$7.86 billion loss in direct AGI.

There would be additional *fiscal* losses resulting from the reduction in jobs and accompanying income and spending. The indirect loss of the \$1.48 billion in annual income translates into an estimated \$44.4 million in forgone state income tax revenue and \$41 million in forgone state sales tax revenue annually.²¹ Thus, the combined direct annual state tax revenue loss of \$453.5 million on the \$7.86 billion AGI loss stemming from net out-migration and the additional loss of \$85.4 million on the \$1.48 billion in indirect income that the \$7.86 billion loss would have generated is \$538.9 million.²² New Jersey, therefore, lost nearly \$539 million in state tax revenues because of the increasing flow of people moving from New Jersey to other states in 2005 and \$680 million in 2006 based on further population out-migration.

¹⁹The U.S. Census Bureau, as noted in table 1, reported that net domestic out-migration from New Jersey increased to 72,547 in 2006 from 56,989 in 2005. Although IRS data are not yet available for 2006, it is highly likely, based on this 27 percent increase in net out-migration, that the cumulative total net outflow of income from 2000 through 2006 is approaching \$10 billion. Thus, the annual tax loss to New Jersey in 2006 was also highly likely to have exceeded the \$453.5 million estimated for 2005.

²⁰The difference between the \$5.8 billion and the \$4.38 billion is mostly due to the manufacturing share of durable goods purchases, which largely flow out of state and out of the country.

²¹The estimates are derived using the effective income and sales tax rates calculated earlier but applied to the \$1.48 billion in indirect income from the 38,810 jobs that are not generated because of the loss of the \$7.86 billion in direct income due to out-migration.

²²Given that the U.S. Census has already reported a net outflow of 72,547 people in 2006, the cumulative state tax loss in 2006 is likely to have approached \$680 million (IRS data are not yet available for 2006).

WHERE ARE THEY GOING?

Table 5 lists the cumulative *total out-migration* from New Jersey for the 2000 to 2005 period in terms of population (tax filers and their dependents) and their aggregate AGI to the top ten destination states.²³ The states are ordered from highest to lowest in terms of the number of out-migrants from New Jersey. The ten states account for approximately 78 percent of the estimated total outflow (848,913 of 1,094,081 out-migrants) from New Jersey to the rest of the country over the six-year period.

New York received the largest number of New Jersey movers (190,702 people). New York was also the source of the largest number of people moving *into* New Jersey (339,240; see table A-2 in the appendix). Thus, New Jersey had a *net positive* migration balance with New York (148,538 persons).²⁴ However, this was the *only* state in the top ten destination states with which New Jersey had a net positive balance.²⁵ Florida was the second-highest destination state (188,704 persons) followed by Pennsylvania (183,885 persons).²⁶ All but one (Massachusetts) of the seven remaining destination states were located in the South and West: California, North Carolina, Virginia, Georgia, Texas, and Maryland. These six states, plus Florida, account for approximately 39 percent of the estimated total out-migration from New Jersey for the period.

The total cumulative AGI outflow from New Jersey to the ten states was \$29.0 billion, or 77 percent of the total outflow of \$37.5 billion. The largest outflows went to New York (\$7.4 billion), Florida

Rank	Destination State	Population (Exemptions)	Aggregate Adjusted Gross Income (\$ 000)
1	New York	190,702	7,355,901
2	Florida	188,704	6,772,554
3	Pennsylvania	183,885	5,422,882
4	California	55,431	2,343,553
5	North Carolina	50,913	1,361,631
6	Virginia	48,454	1,439,856
7	Georgia	38,581	971,230
8	Texas	33,895	1,126,509
9	Maryland	31,449	1,004,248
10	Massachusetts	26,899	1,178,658
Total		848,913	28,977,022
Total (50 States + D.C.)		1,094,081	37,505,954
Top Ten States' Share:		78%	77%

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

(\$6.8 billion), and Pennsylvania (\$5.4 billion). After accounting for inflows of income, New Jersey had a positive net income flow only with New York (\$5.1 billion). The net income flows to the other nine top destination states were negative.

²³Note that the data in table 5 are *total*, not net, outflows. Estimates of population in table 5 are based on the number of exemptions associated with the total outflow of federal tax returns.

²⁴The migration flow from New Jersey to New York had a lower average number of exemptions per return (1.6) than the migration flow from New York to New Jersey (1.9). This suggests that the population flow from New Jersey to New York consisted more of single taxpayers and empty-nesters, and the flow from New York to New Jersey was more likely to be of families with children.

²⁵See tables A-2 to A-4 in the Appendix for the cumulative inflow from (A-2), outflow to (A-3), and the net difference (A-4), for the number of federal tax returns, population (based on exemptions), and aggregate adjusted gross income between New Jersey and each of the other 49 states and the District of Columbia.

²⁶The estimated annual flow of out-migrants from New Jersey to Pennsylvania accelerated steadily during the six-year period, from 25,942 in 2000 to 34,947 in 2005, an increase of 34.7 percent. Over the six-year period New Jersey had a net internal migration loss of 42,459 people to Pennsylvania.

WHERE ARE THEY COMING FROM?

While many more people are moving out of New Jersey than moving in, there are still substantial inflows of population to the Garden State from the balance of the country. Where are they coming from? Table 6 lists the cumulative inflow for the 2000 to 2005 period to New Jersey of tax filers and their dependents by the top ten states of origin and the associated inflow of aggregate AGI. These ten states accounted for 81 percent of the total population inflow and 82 percent of the total income inflow from all 50 states and the District of Columbia.

New York, by far, is the top state of origin, with 339,240 people moving to New Jersey over the six-year period. Thus, New York accounts for nearly half (47.3 percent) of the total population inflow from the top ten states and for more than half (51 percent) of the inflow of AGI. As noted previously, it is the only state of the top-ten destination states with which New Jersey had a positive balance: more people and income moved to New Jersey than New Jersey sent to New York. There are two key reasons for this. First, New Jersey has traditionally been one of the major destinations of family-raising households from the New York area seeking good school districts and more living space.²⁷ The second reason is the extraordinarily high cost of housing in New York City, particularly in Manhattan. These costs have shifted housing demand to New Jersey, particularly for Manhattan-accessible locations on the Hudson River waterfront. Despite New Jersey's general affordability problem, the state's housing remains far more affordable than Manhattan.

Pennsylvania ranks second as a source of in-migrants and for the inflow of adjusted gross income. Similar to New York, young Philadelphia family-raising households traditionally sought good school systems in South Jersey, and this flow continues. However, while 141,426 people from Pennsylvania

TABLE 6
Population (Exemptions) and
Income Inflow into New Jersey:
Top Ten States of Origin
2000–2005 (Cumulative)

Rank	State of Origin	Population (Exemptions)	Aggregate Adjusted Gross Income (\$ 000)
1	New York	339,240	12,452,223
2	Pennsylvania	141,426	4,247,042
3	Florida	64,120	1,676,779
4	California	41,178	1,635,496
5	Virginia	26,099	746,952
6	Massachusetts	22,621	877,932
7	Texas	22,769	799,775
8	Maryland	20,754	677,828
9	North Carolina	21,110	508,164
10	Connecticut	18,441	815,768
Total		717,758	24,437,959
Total (50 States + D.C.)		883,405	29,645,105
Top Ten States' Share:		81%	82%

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

moved to New Jersey in the 2000 to 2005 period, 183,885 people moved to Pennsylvania from New Jersey (see table 5).

Florida ranks third as an origination state for New Jersey inflows. However, while 64,120 Floridians moved to New Jersey, 188,704 New Jerseyans moved to Florida (table 6). Thus, the population outflow from New Jersey to Florida was nearly triple the inflow from Florida. The population movement into New Jersey from the remaining seven states accounted for less than a quarter (24.1 percent) of the total inflow from the top ten origination states.

²⁷As noted in footnote 24, there is a difference in the average number of exemptions per return of the inflows (1.9) from New York compared to the outflows to New York (1.6).

INCOME PROFILES

The IRS data can provide estimates of the income profiles of the migration flows into and out of New Jersey. Table 7 lists the *average* AGI per tax return of the filers moving into and out of New Jersey in 2005 for the top ten origin and destination states and for all states. It also lists the net change in tax returns between New Jersey and each state and the associated net change in total AGI.

In terms of all migrants, in 2005, the average AGI of the out-movers was \$65,319, or \$894 (1.4 percent) *greater* than the average AGI (\$64,425) of the in-movers. Thus, the average income of the out-movers exceeds that of the in-movers, but the two are relatively close. However, there was a net outflow from New Jersey of 28,900 tax filers to all the states and an associated loss of \$1.96 billion in AGI from New Jersey to elsewhere in the nation in 2005.

New Jersey had a sizeable advantage in the average AGI with respect to migrating taxpayers from New York to New Jersey (\$74,472) compared with the average income of the taxpayers moving from New Jersey to New York (\$63,025). New York was the only state of the top ten with which New Jersey also had a net inflow of taxpayers (9,722 net tax returns). Hence, there was a large net positive inflow of \$952.5 million in AGI from New York to New Jersey.

New Jersey also had a positive balance with respect to the average AGI for its migration flows with California, Virginia, and Maryland. However, for

all these states, the net outflow of taxpayers (returns) from New Jersey more than offset the average income advantage of the inflow of taxpayers; therefore, there was a net loss in total AGI with each of these states.

For each of the other six top ten states, the average AGI of the out-migrating taxpayers from New Jersey exceeded the average income of the in-migrating tax filers *and* there was also a net outflow of taxpayers. Thus, for these states the two effects reinforced each other, resulting in a net outflow of AGI from New Jersey to each of these states.

Particularly noteworthy is the state's very large average income difference compared with Florida. Out-migrating taxpayers from New Jersey to Florida had an AGI of \$74,106.²⁸ This was \$30,152 (or 69 percent) higher than the average AGI of the in-migrating taxpayers from New Jersey to Florida.²⁹ This average income difference, along with the net flow of 11,345 taxpayers to Florida, resulted in a loss of over \$1 billion in AGI from New Jersey to Florida in 2005.³⁰ The high income profile of the out-migrants suggests the attraction of a low-tax, retirement-oriented state such as Florida.

Also noteworthy is the average income difference compared with North Carolina. The average AGI of the out-migrating taxpayers from New Jersey is \$55,522 compared with the average income of \$44,223 of the in-migrating taxpayers from North Carolina to New Jersey. This difference, plus the net outflow of 3,887 returns (the third highest net outflow among the top ten destination states), led to a loss of \$236 million in AGI in 2005.

²⁸This was the second highest average adjusted gross income of the outflow of New Jersey taxpayers. Out-migrant taxpayers from New Jersey to Texas had the highest average income (\$80,321) of all top ten destination states.

²⁹It is also 13.4 percent above the average income of all out-migrating taxpayers from New Jersey in 2005.

³⁰New Jersey's gross income tax has steeply progressive rates applied to a very broad definition of income. As a result, tax revenues are very dependent on high-income taxpayers (an estimated 80 percent of state income tax revenues in fiscal year 2005 came from the top 5 percent of tax filers). A net outflow of high-income taxpayers, such as the flow to Florida documented in table 7, suggests significant tax revenue losses to New Jersey.

TABLE 7
Average Adjusted Gross Income (AGI),
Net Returns, and Net Aggregate AGI
New Jersey and Selected States, 2005

State	Average AGI per Return (\$)			Net Returns	Net Aggregate AGI (\$ 000)
	Into New Jersey	Out from New Jersey	In-Out		
New York	74,472	63,025	11,447	9,722	952,534
Florida	43,954	74,106	-30,152	-11,345	-1,028,363
Pennsylvania	55,029	58,574	-3,546	-4,324	-302,053
California	75,694	70,047	5,647	-1,962	-116,420
North Carolina	44,223	55,522	-11,299	-3,887	-236,570
Virginia	57,892	56,304	1,588	-1,904	-103,312
Georgia	52,274	54,816	-2,542	-2,570	-144,412
Texas	71,781	80,321	-8,540	-1,613	-145,990
Maryland	62,478	59,054	3,424	-1,037	-54,329
Massachusetts	66,237	73,452	-7,215	-470	-50,187
All 50 States	64,425	65,319	-894	-28,900	-1,959,721

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

WHY ARE THEY GOING?

Accelerating internal out-migration from New Jersey is a clear and definitive trend. Why is this happening? Decisions to move are complex, based on individual circumstances and affected by many factors. Unfortunately, specific demographic profiles of those leaving New Jersey are not available on a comprehensive basis. However, there are some general factors that can be identified that probably influence the decision to move, *although we cannot say* that these are the definitive, systematic causes of the recent acceleration in net out-migration from New Jersey.

Economic Opportunity

New Jersey has an advanced leading-edge, knowledge-based economy, with above-average concentrations of jobs in information, financial activities, and professional and business services. However, other states have been adding equivalent jobs at a much faster pace and are becoming stronger economic competitors. Table 8 lists the annual growth rates for *private service-providing* employment for New Jersey, the nation, and the top ten destination states of New Jersey out-migrants. Over the past three years, New Jersey has trailed the nation and each of the top ten destination states, with only a few

TABLE 8
Private Service-Providing Employment Growth Rates
United States, New Jersey, and Selected States
2000–2006

(Annual averages, not seasonally adjusted)

Year	United States	New Jersey	New York	Florida	Pennsylvania	California
2000	2.5	2.8	2.7	3.9	2.2	3.7
2001	0.6	0.0	-0.1	1.5	0.7	0.8
2002	-0.6	0.2	-1.5	0.3	0.3	-0.6
2003	0.4	0.2	-0.1	1.3	0.4	0.3
2004	1.5	0.5	1.2	3.5	1.3	1.4
2005	2.0	1.3	1.3	3.9	1.6	2.2
2006	2.1	1.0	1.3	2.5	1.3	2.2

Year	North Carolina	Virginia	Georgia	Texas	Maryland	Massachusetts
2000	2.8	3.7	3.8	3.5	3.1	2.9
2001	0.9	0.5	0.6	1.2	0.6	0.4
2002	0.3	-0.2	-1.7	-0.6	0.7	-1.6
2003	0.2	0.6	-0.4	0.0	1.0	-1.0
2004	2.3	2.8	2.0	2.1	1.6	0.5
2005	2.8	2.5	3.1	2.8	1.7	0.8
2006	3.8	2.0	2.3	3.1	1.4	1.4

Source: U.S. Bureau of Labor Statistics.

exceptions.³¹ Thus, improved relative employment opportunities elsewhere may be one reason behind the net out-migration from New Jersey.³² Moreover, the new competitor states, like New Jersey, also offer, and can attract, well-educated and productive work

forces, but they are doing so in significantly lower-cost-of-business and lower-cost-of-living locations. Even high-cost, high-tax states with which New Jersey had a net outflow of tax filers may be attracting New Jersey out-migrants due to sustained investments

³¹Massachusetts had the same growth rate as New Jersey in 2004 and lagged in 2005, while New York had the same growth rate as New Jersey in 2005.

³²A regression analysis was conducted using the annual level of net out-migration from New Jersey as the dependent variable and the difference between the private-sector employment growth rate in New Jersey and that in the United States as the independent variable for the period 1995 to 2005. It yielded a statistically significant and negative coefficient ($t = 4.7$, adjusted R-squared = .68). This result suggests that increases in the underperformance of New Jersey's private-sector employment growth versus that of the nation are associated with increased net out-migration from New Jersey.

in the research capacity of public universities (California), or excellent private research universities (Massachusetts), which attract private-sector science and technology investment and jobs.

Housing Affordability

New Jersey ranks second among the 50 states in median household income (\$64,470) according to the Census Bureau's 2006 American Community Survey. The state's median income is one-third higher than that of the nation (\$48,451). New Jersey also ranks second in housing costs. The state's median monthly housing costs (for owner-occupied homes with a mortgage) are 52 percent higher than those of the nation.³³ So, while New Jersey's income is 33 percent higher than that of the nation, its housing costs are approximately 52 percent higher. Thus, a substantial part of the state's income advantage is consumed by much higher housing costs.

Not only does the problem of housing affordability provide an incentive for New Jerseyans to seek more affordable housing in other states, it also inhibits in-migration to New Jersey. Housing price "sticker shock" frequently confronts people elsewhere in the country that potentially would move into New Jersey, but who reside in much more affordable housing locations.

Cost of Living

Linked to housing affordability, another potential accompanying reason for growing out-migration is the high cost of living in New Jersey. The "high cost of living" has become a catchall phrase for a variety of factors that typically include home prices, property taxes, state income and sales taxes, and

energy costs. Cost-of-living concerns have coalesced in New Jersey into an all-consuming and perhaps implausible quest to alleviate property tax costs *without* reducing high-quality services, raising other taxes, compromising local municipal control, and diminishing the appealing quality of life in New Jersey's 566 municipalities and 616 school districts (both supported by extensive state aid). The Tax Foundation's analysis of state and local tax burdens ranks New Jersey tenth in the nation in terms of the amount of state and local taxes paid as a percentage of income.³⁴ At the same time, New Jersey has the highest absolute level of property taxes in the country.³⁵

High-income, high-wealth individuals should certainly be able to bear such high general costs of living in New Jersey. However, the state's "half-millionaire's" tax provides a powerful incentive to establish residence in lower-income tax states, such as Florida (no income tax) and Pennsylvania (3.07 percent flat rate).³⁶

A Mature State

New Jersey is a dense, congested, mature, and costly-to-build-in environment. Much of the state's infrastructure and housing stock is relatively old. For example, according to the 2005 American Community Survey, 20.3 percent of New Jersey's housing was built in 1939 or earlier, compared with 14.7 percent for the nation and 6.8 percent for North Carolina! This makes the upcoming growth areas of the country look fresh and new, along with their lower costs, better housing affordability, and competitive economic opportunities.

³³Housing costs in New Jersey, according to this measure, were \$2,130 per month compared to \$1,402 for the nation as a whole (U.S. Census Bureau, American Community Survey, 2006). To put New Jersey's relative housing costs into further perspective, median monthly housing costs in North Carolina—one of New Jersey out-migrants' top ten destination states and a major economic competitor—were \$1,144, or 18 percent lower than those of the nation.

³⁴See Tax Foundation, *Special Report*, No. 153 (Washington, D.C., April 2007).

³⁵Ibid.

³⁶New Jersey's gross income tax rate is 8.97 percent on incomes exceeding \$500,000 (for married couples filing jointly).

A POTENTIAL SLOWDOWN IN OUT-MIGRATION?

However, trends do not last forever, and there are several reasons that could lead to a slowdown in the scale of New Jersey's out-migration. In the short term, the current housing downturn has slowed home sales dramatically, and home prices have fallen in many of the state's housing markets. The subprime mortgage debacle has pushed up mortgage costs and constrained mortgage availability. Consequently, there may be increasing numbers of New Jerseyans who had been considering moving out-of-state who now find themselves financially locked into their current residence. As a result of the sharp slowdown in the housing market, it would not be surprising to see net out-migration stabilize or even decline in 2007 and 2008.

In the longer term, the effect of the housing bust is more complicated and depends on how long it lasts and how home-price movements in New Jersey compare with those in other states. For example, although a price downturn may reduce equity in the New Jersey residence of a potential out-migrant, it may be more than counterbalanced by even larger price declines in the destination states. The relative ease or difficulty of selling and buying in New Jersey compared with other states will also likely affect migration decisions.

Also in the longer term, some of the top destination states for New Jersey out-migrants may start to lose part of their allure. Eventually, these states will confront problems similar to those that have affected New Jersey—rising public-sector costs and taxes as a consequence of growth, accelerating congestion and crowding, escalating costs of living and costs of doing business, and increasing resistance to growth.³⁷ Thus, the very flows of people that may have been motivated, in part, by cost differentials across states are likely to create conditions that will tend to equalize such costs over time, thereby reducing the initial cost advantages that were partly responsible for the out-migration.

CONCLUSION

New Jersey's economy is strong and well-balanced. Its workforce is both highly educated and highly productive. The state's high income levels and attractive quality of life in its many municipalities are enormous incentives for businesses and individuals to locate, live, and work here. Yet, in this current decade, New Jersey has experienced accelerating outflows of residents, who have been either *pushed out* or *pulled to* elsewhere in the country—pushed by high costs of living (especially housing), high taxes, and congestion, or pulled by greater private-sector job opportunities and lower housing and living costs in other states. In a state with the highest population

³⁷In fact, "Northeast-type" fiscal problems, as well as rising congestion, are already and increasingly being experienced in numerous destination states.

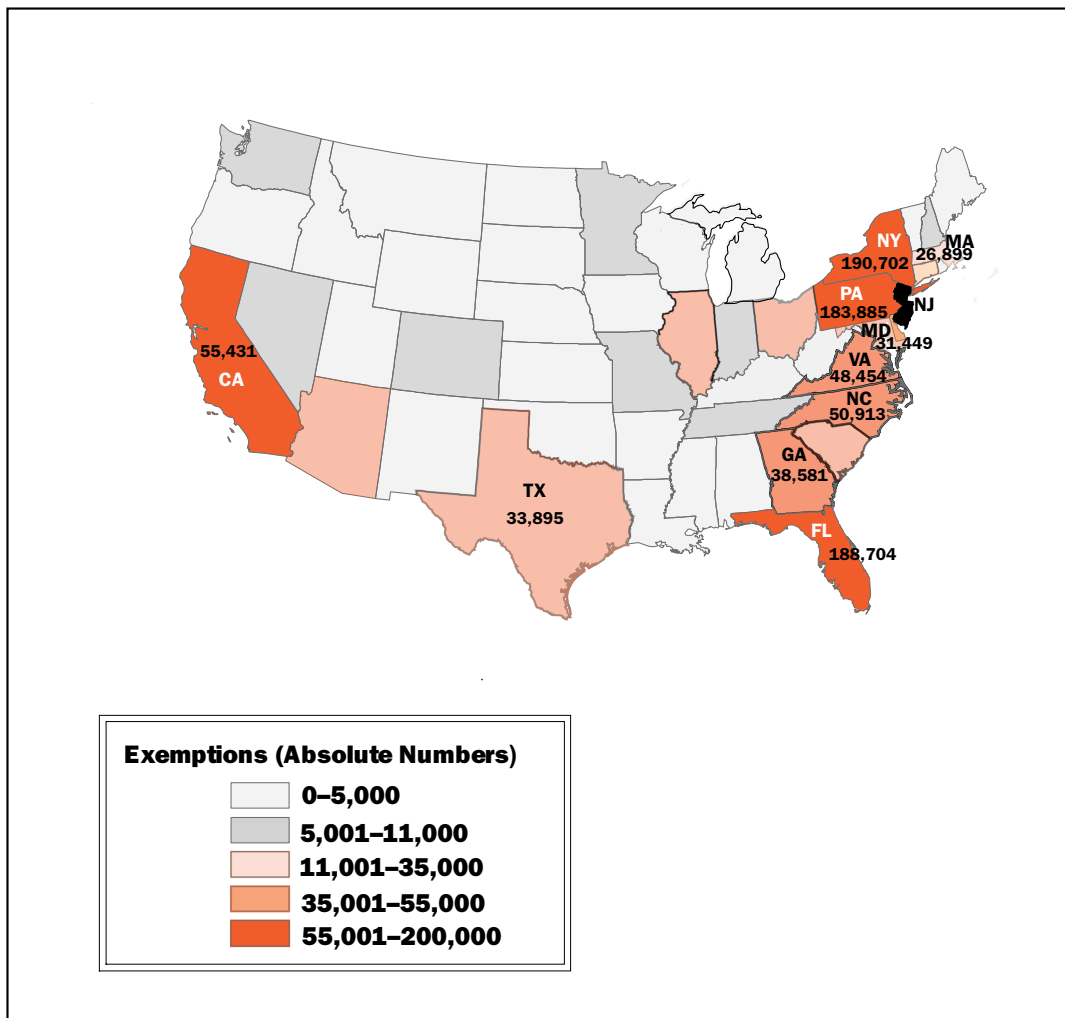
density in the country, this relatively small net loss of domestic out-migrants in a still rising total population may not be seen as a problem, and perhaps may even be welcomed by many as a step toward a less-congested future with fewer pressures for sprawl.

However, the accelerating net out-migration has sizeable and growing economic and fiscal implications. Beyond this, it may be a fundamental symptom of the relative decline in the attractiveness of the state for future economic growth. Both of these conditions merit serious policy attention.

Thus, the emphasis of current state public policies to grow the New Jersey economy, control property taxes, invest in science and technology, improve the state's transportation infrastructure, and restore business confidence is highly appropriate. But these policies have yet to significantly impact the trends in force because they have only recently been implemented. Nonetheless, the analysis of this report suggests that if current and additional policies can reduce migration outflows, people and their dollars will remain in-state, and significant economic and fiscal benefits for New Jersey will result. ■

Population Outflows from New Jersey Top 10 Destination States 2000–2005

(Number of Exemptions)



Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

APPENDIX

The Appendix provides further detail on migration and income flows.

- ❑ Table A-1 gives the net flow of federal tax returns and exemptions from New Jersey from 2000 to 2005. It also provides, for comparison, the annual estimates by the U.S. Census Bureau of net internal migration from New Jersey from 2001 to 2006.
- ❑ Table A-2 gives the cumulative (2000–2005) inflow to New Jersey of the number of federal returns, the number of exemptions, and aggregate adjusted gross income from each state and the District of Columbia.
- ❑ Table A-3 provides the same information for the cumulative outflow from New Jersey to each state and the District of Columbia.
- ❑ Table A-4 lists the cumulative New Jersey net flows by state (table A-2 minus table A-3) for each state and the District of Columbia. Between 2000 and 2005, nearly 1.1 million (1,094,081) New Jerseyans moved to other states. In six years, approximately one in eight state residents left New Jersey! At the same time, they were replaced by 883,405 people coming to New Jersey from other states. Thus, the net migration loss of 210,676 people is the result of extensive population flows into and out of New Jersey. This reflects the enormous mobility of American society. Both the reality and the perception of an attractive versus an unattractive location can be quickly embodied in decisions to move.

APPENDIX TABLE A-1
Net Flow of New Jersey Federal Tax Returns, Exemptions, and Population 2000–2005

Year	IRS Data		Census Data
	Net Flow: Filers	Net Flow: Exemptions	Net Internal Migration
2000	-12,575	-18,370	— ^a
2001	-12,027	-18,992	-30,863
2002	-15,557	-26,429	-23,759
2003	-20,755	-38,598	-33,225
2004	-24,952	-49,654	-45,045
2005	-28,900	-58,633	-56,989
2006	—	—	-72,547

Note: a. The U.S. Census Bureau does not have Census 2000-adjusted components of population change for the years 1990–2000. Data on net internal migration for years 2001 through 2006 are from the U.S. Census Bureau.

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

APPENDIX TABLE A-2
Inflows to New Jersey by State, 2000–2005

Rank	State of Origin	Number of Returns		Number of Exemptions (Population)		Aggregate Adjusted Gross Income (\$ 000)	
		Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
1	New York	176,571	36.8	339,240	38.4	12,452,223	42.0
2	Pennsylvania	79,153	16.5	141,426	16.0	4,247,042	14.3
3	Florida	37,190	7.7	64,120	7.3	1,676,779	5.7
4	California	23,025	4.8	41,178	4.7	1,635,496	5.5
5	Virginia	14,367	3.0	26,099	3.0	746,952	2.5
6	Massachusetts	13,655	2.8	22,621	2.6	877,932	3.0
7	Texas	11,751	2.4	22,769	2.6	799,775	2.7
8	Maryland	11,603	2.4	20,754	2.3	677,828	2.3
9	North Carolina	11,490	2.4	21,110	2.4	508,164	1.7
10	Connecticut	10,063	2.1	18,441	2.1	815,768	2.8
11	Georgia	9,041	1.9	17,458	2.0	491,864	1.7
12	Illinois	8,816	1.8	17,101	1.9	752,913	2.5
13	Ohio	6,801	1.4	12,436	1.4	427,036	1.4
14	Delaware	5,520	1.1	9,862	1.1	295,239	1.0
15	Michigan	5,133	1.1	9,468	1.1	352,553	1.2
16	South Carolina	4,431	0.9	8,012	0.9	161,217	0.5
17	Arizona	4,173	0.9	7,251	0.8	225,590	0.8
18	Colorado	4,054	0.8	6,930	0.8	248,344	0.8
19	Washington	3,156	0.7	5,834	0.7	185,786	0.6
20	Tennessee	2,757	0.6	5,168	0.6	149,262	0.5
21	Indiana	2,590	0.5	4,643	0.5	155,523	0.5
22	Missouri	2,319	0.5	4,302	0.5	157,558	0.5
23	Rhode Island	2,082	0.4	3,358	0.4	100,237	0.3
24	Nevada	2,067	0.4	3,538	0.4	97,067	0.3
25	Minnesota	2,030	0.4	3,788	0.4	149,629	0.5
26	Louisiana	2,028	0.4	3,626	0.4	87,926	0.3
27	District of Columbia	1,834	0.4	2,439	0.3	103,149	0.3
28	New Hampshire	1,828	0.4	3,127	0.4	96,772	0.3
29	Alabama	1,654	0.3	3,203	0.4	69,409	0.2
30	Wisconsin	1,646	0.3	2,978	0.3	112,760	0.4
31	Kentucky	1,540	0.3	2,897	0.3	82,828	0.3
32	Kansas	1,518	0.3	3,039	0.3	105,688	0.4
33	Oklahoma	1,380	0.3	2,537	0.3	51,682	0.2
34	Maine	1,326	0.3	2,120	0.2	59,370	0.2
35	Oregon	1,267	0.3	2,070	0.2	62,565	0.2
36	Hawaii	1,252	0.3	2,217	0.3	48,675	0.2
37	Vermont	1,141	0.2	1,638	0.2	44,582	0.2
38	Utah	991	0.2	1,934	0.2	45,381	0.2
39	West Virginia	956	0.2	1,625	0.2	36,353	0.1
40	Mississippi	946	0.2	1,819	0.2	32,649	0.1
41	New Mexico	865	0.2	1,537	0.2	36,413	0.1
42	Iowa	848	0.2	1,450	0.2	41,780	0.1
43	Arkansas	727	0.2	1,415	0.2	39,412	0.1
44	Nebraska	650	0.1	1,211	0.1	30,983	0.1
45	Alaska	531	0.1	1,113	0.1	19,008	0.1
46	Montana	367	0.1	579	0.1	10,716	0.0
47	Idaho	363	0.1	656	0.1	14,442	0.0
48	North Dakota	257	0.1	469	0.1	8,292	0.0
49	South Dakota	255	0.1	434	0.0	9,587	0.0
50	Wyoming	213	0.0	365	0.0	6,906	0.0
	United States	480,221	100.0	883,405	100.0	29,645,105	100.0

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

APPENDIX TABLE A-3
Outflows from New Jersey by State, 2000–2005

Rank	Destination State	Number of Returns		Number of Exemptions (Population)		Aggregate Adjusted Gross Income (\$ 000)	
		Absolute	Percentage	Absolute	Percentage	Absolute	Percentage
1	New York	118,927	20.0	190,702	17.4	7,355,901	19.6
2	Pennsylvania	97,500	16.4	183,885	16.8	5,422,882	14.5
3	Florida	96,921	16.3	188,704	17.2	6,772,554	18.1
4	California	32,551	5.5	55,431	5.1	2,343,553	6.2
5	Virginia	25,446	4.3	48,454	4.4	1,439,856	3.8
6	North Carolina	24,932	4.2	50,913	4.7	1,361,631	3.6
7	Georgia	18,241	3.1	38,581	3.5	971,230	2.6
8	Maryland	17,942	3.0	31,449	2.9	1,004,248	2.7
9	Massachusetts	16,465	2.8	26,899	2.5	1,178,658	3.1
10	Texas	16,137	2.7	33,895	3.1	1,126,509	3.0
11	Connecticut	11,723	2.0	21,985	2.0	1,048,075	2.8
12	South Carolina	11,014	1.9	21,542	2.0	682,156	1.8
13	Delaware	9,758	1.6	18,225	1.7	632,846	1.7
14	Arizona	9,200	1.5	17,171	1.6	600,288	1.6
15	Illinois	8,910	1.5	17,392	1.6	736,644	2.0
16	Ohio	7,661	1.3	15,720	1.4	484,679	1.3
17	Colorado	5,991	1.0	10,189	0.9	388,622	1.0
18	Michigan	5,224	0.9	10,735	1.0	355,537	0.9
19	Nevada	4,997	0.8	8,896	0.8	295,225	0.8
20	Tennessee	4,516	0.8	9,128	0.8	269,721	0.7
21	Washington	4,456	0.7	8,194	0.7	371,309	1.0
22	Indiana	3,128	0.5	6,476	0.6	204,857	0.5
23	District of Columbia	2,985	0.5	3,602	0.3	154,386	0.4
24	New Hampshire	2,764	0.5	5,174	0.5	206,513	0.6
25	Minnesota	2,758	0.5	5,329	0.5	202,492	0.5
26	Missouri	2,679	0.5	5,250	0.5	155,334	0.4
27	Rhode Island	2,532	0.4	4,326	0.4	130,421	0.3
28	Maine	2,494	0.4	4,657	0.4	158,825	0.4
29	Alabama	2,363	0.4	4,826	0.4	103,132	0.3
30	Vermont	2,263	0.4	3,757	0.3	146,933	0.4
31	Kentucky	2,124	0.4	4,222	0.4	112,000	0.3
32	Wisconsin	2,084	0.4	4,171	0.4	156,954	0.4
33	Louisiana	1,910	0.3	3,538	0.3	91,000	0.2
34	Oregon	1,904	0.3	3,171	0.3	116,263	0.3
35	Hawaii	1,650	0.3	2,638	0.2	75,349	0.2
36	Kansas	1,414	0.2	3,026	0.3	93,659	0.2
37	West Virginia	1,402	0.2	2,696	0.2	60,705	0.2
38	New Mexico	1,379	0.2	2,401	0.2	72,691	0.2
39	Utah	1,287	0.2	2,642	0.2	67,359	0.2
40	Oklahoma	1,264	0.2	2,485	0.2	51,099	0.1
41	Mississippi	1,096	0.2	2,208	0.2	46,449	0.1
42	Arkansas	900	0.2	1,857	0.2	53,373	0.1
43	Iowa	855	0.1	1,649	0.2	50,908	0.1
44	Nebraska	671	0.1	1,279	0.1	36,708	0.1
45	Alaska	628	0.1	1,135	0.1	21,897	0.1
46	Montana	606	0.1	1,063	0.1	26,531	0.1
47	Idaho	499	0.1	993	0.1	25,948	0.1
48	Wyoming	325	0.1	520	0.0	18,803	0.1
49	South Dakota	277	0.0	484	0.0	15,222	0.0
50	North Dakota	234	0.0	416	0.0	8,019	0.0
	United States	594,987	100.0	1,094,081	100.0	37,505,954	100.0

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

APPENDIX TABLE A-4
New Jersey Net Flows by State, 2000–2005

Rank	State	Number of Returns	Number of Exemptions (Population)	Aggregate Adjusted Gross Income (\$ 000)
1	New York	57,644	148,538	5,096,322
2	Louisiana	118	88	-3,074
3	Oklahoma	116	52	583
4	Kansas	104	13	12,029
5	North Dakota	23	53	273
6	Iowa	-7	-199	-9,128
7	Nebraska	-21	-68	-5,725
8	South Dakota	-22	-50	-5,635
9	Michigan	-91	-1,267	-2,984
10	Illinois	-94	-291	16,269
11	Alaska	-97	-22	-2,889
12	Wyoming	-112	-155	-11,897
13	Idaho	-136	-337	-11,506
14	Mississippi	-150	-389	-13,800
15	Arkansas	-173	-442	-13,961
16	Montana	-239	-484	-15,815
17	Utah	-296	-708	-21,978
18	Missouri	-360	-948	2,224
19	Hawaii	-398	-421	-26,674
20	Wisconsin	-438	-1,193	-44,194
21	West Virginia	-446	-1,071	-24,352
22	Rhode Island	-450	-968	-30,184
23	New Mexico	-514	-864	-36,278
24	Indiana	-538	-1,833	-49,334
25	Kentucky	-584	-1,325	-29,172
26	Oregon	-637	-1,101	-53,698
27	Alabama	-709	-1,623	-33,723
28	Minnesota	-728	-1,541	-52,863
29	Ohio	-860	-3,284	-57,643
30	New Hampshire	-936	-2,047	-109,741
31	Vermont	-1,122	-2,119	-102,351
32	District of Columbia	-1,151	-1,163	-51,237
33	Maine	-1,168	-2,537	-99,455
34	Washington	-1,300	-2,360	-185,523
35	Connecticut	-1,660	-3,544	-232,307
36	Tennessee	-1,759	-3,960	-120,459
37	Colorado	-1,937	-3,259	-140,278
38	Massachusetts	-2,810	-4,278	-300,726
39	Nevada	-2,930	-5,358	-198,158
40	Delaware	-4,238	-8,363	-337,607
41	Texas	-4,386	-11,126	-326,734
42	Arizona	-5,027	-9,920	-374,698
43	Maryland	-6,339	-10,695	-326,420
44	South Carolina	-6,583	-13,530	-520,939
45	Georgia	-9,200	-21,123	-479,366
46	California	-9,526	-14,253	-708,057
47	Virginia	-11,079	-22,355	-692,904
48	North Carolina	-13,442	-29,803	-853,467
49	Pennsylvania	-18,347	-42,459	-1,175,840
50	Florida	-59,731	-124,584	-5,095,775
	United States	-114,766	-210,676	-7,860,849

Source: State-to-State Migration Data, Statistics of Income Division, Internal Revenue Service.

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Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey
33 Livingston Avenue, Suite 300
New Brunswick, New Jersey 08901-1981

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