CHAPTER 1

The Fall from Grace

The Story of States 11 and the Income Tax Adopted

The mark of genuine science is that its explanations take the mystery out of things. Imposture dresses things up to seem more wonderful than they would be without the dress.

—Philip Ball, *Curiosity*

Foremost among the economic policies available to state and sometimes even local governments is the income tax. Today, 41 out of 50 states collect income taxes on so-called earned income. Of the nine states that have chosen not to tax earned income, two tax what is called unearned income. Thus, there are really only seven states where income of any sort is not taxed at either the state or local level. But this wasn't always the case.

The Implementation of an Income Tax—A Terrible Mistake

Immediately prior to 1960, there were 19 states where earned income was not taxed and 31 states where it was. Between 1960 and the present, 11 of those 19 states adopted an income tax, and one lone state—Alaska—got rid of its income tax.

The story of the 11 states that adopted an income tax summarizes the object lesson of this book. Here's their unabridged story:

The 11 states that adopted a state income tax in the past half century encompass a wide cross section of American life, but do not include any states from the South or Far West. As it so happens, there are only three states in the South without an earned income tax—Tennessee, Florida, and Texas—and there are four states in the Far West without income taxes—Nevada, Wyoming, Washington, and Alaska. The other two states without earned income taxes are South Dakota and New Hampshire.

The 11 states that deserted the no-income-tax team are Maine, Rhode Island, Connecticut, New Jersey, Pennsylvania, West Virginia, Ohio, Indiana, Illinois, Michigan, and Nebraska. At the time the income tax was adopted, each of these states believed the economic damage done by the income tax would be minimal and that the increase in public services would be considerable. They were dead wrong!

Table 1.1 shows exactly what happened to the primary economic metrics of the 11 states once they adopted an earned income tax. Because these states adopted income taxes in different years, we use the four years preceding the actual implementation of the income tax and the year of implementation itself as their pre–income tax era. We then compare their pre–income tax era to the most recent year's performance.

Comparing the 11 states to all 50 states introduces a measurement bias, in that the 11 states are double counted; that is, they would be part of the 11 as well as the 50. A preferable measure, and the one we've chosen to use in this chapter for evaluation purposes, is to compare the 11 states that adopted the income tax to the 39 remaining states. While comparing the 11 states to all 50 states creates a bias in the magnitudes, the conclusions would be minimally affected because the directions of change all remain the same. Qualitatively, whether comparing the 11 states to all 50 states or only to the 39 remaining states, the results are basically the same. Quantitatively, they are significantly different.

TABLE 1.1

Metrics of the 11 States That Adopted an Income Tax Post-1960 versus the Percentage of 39 Remaining States*

				Shares of 39 Remaining States								
		Maximum Tax Rate*		Population			GSP			Total State and Local Tax Revenue		
States	**First Year of Tax**	Initial	Current	5 Years Before	2012	% Change	5 Years Before	2012	% Change	5 Years Before	2011	% Change
Connecticut	1991	1.50%	6.70%	1.81%	1.49%	(18)	2.39%	1.92%	(20)	2.35%	2.25%	(4)
New Jersey	1976	2.50	8.97	4.94	3.68	(26)	5.38	4.25	(21)	5.40	5.25	(3)
Ohio	1972	3.50	5.93	7.59	4.79	(37)	8.03	4.27	(47)	6.07	4.46	(27)
Rhode Island	1971	5.25	5.99	0.68	0.44	(36)	0.64	0.43	(33)	0.65	0.50	(22)
Pennsylvania	1971	2.30	3.07	8.51	5.29	(38)	8.49	5.03	(41)	7.66	5.51	(28)
Maine	1969	6.00	7.95	0.74	0.55	(25)	0.58	0.45	(23)	0.60	0.60	(0.2)
Illinois	1969	2.50	5.00	8.08	5.34	(34)	9.82	5.82	(41)	7.77	5.89	(24)
Nebraska	1968	2.60	6.84	1.10	0.77	(30)	1.03	0.83	(19)	0.93	0.77	(17)
Michigan	1967	2.00	4.25	6.33	4.10	(35)	7.86	3.35	(57)	6.62	3.57	(46)
Indiana†	1963	2.00	3.40	3.80	2.71	(29)	3.81	2.36	(38)	3.37	2.29	(32)
West Virginia†	1961	5.40‡	6.50	1.54	0.77	(50)	1.19	0.63	(47)	1.09	0.69	(37)

*State tax rate only (i.e., does not include any additional local taxes).
†Due to data limitations, shares of personal income have been substituted for Indiana and West Virginia's shares of GSP.
‡Statutory rate was 6.0% of U.S. tax liability applied to a top U.S. rate of 91%.

Source: U.S. Census Bureau, Bureau of Economic Analysis, Laffer Associates.

That Giant Sucking Sound Is People, Output, and Tax Revenue Fleeing Income Taxes

In Table 1.1, we list each of the 11 states that has adopted an income tax over the past 50-plus years and, for each state, the year in which the income tax was adopted, the highest income tax rate when the tax was adopted, the current highest income tax rate, the percentage of each state's population to the total population of the 39 states in the five years prior to and including the year of adopting the income tax, the percentage of each state's population to the total of the 39 states in 2012, the percentage of the total of the 39-state gross domestic product (or gross state product [GSP]) for each of the 11 states in the five years preceding and including the adoption year of the income tax, the percentage of total 39-state GSP in 2012 for each of the 11 states, total state and local tax revenues as a share of the total of the 39 states' state and local taxes in the five years prior to adopting an income tax, and, finally, each state's share of total 39-state state and local taxes in 2011.[1] Pay close attention. The results are dramatic.

Economic Malaise

In terms of population, every single one of the 11 states that introduced the income tax over the past 50-plus years declined in relation to the total of the 39 remaining states. West Virginia, the first state in the modern era to adopt the income tax, reduced its share of the population of the 39 remaining states by a full 50 percent. West Virginia went from a population of 1.83 million in 1961 to 1.86 million in 2012. While no other of the 11 states was able to match West Virginia's precipitous decline in relative population, each and every one of the 11 states reduced its percentage of the remaining 39 states. Especially hard-hit were the industrial giants Pennsylvania, Ohio, Michigan, and Illinois.

Compared to the 39 remaining states since the inception of the income tax, Pennsylvania's population has fallen by 38 percent, Ohio's population by 37 percent, Michigan's population by 35 percent, and Illinois's population by 34 percent.

The whole reason for adopting an income tax by each of the 11 states was, of course, to increase tax revenues. But not one state of the 11 experienced a rise in revenues relative to the other 39 states. It makes you wonder just how much consideration the politicians in these 11 states gave to the welfare of their citizens. It's clear what many of the citizens thought—they left.

In terms of state gross domestic product, each state that introduced an income tax since 1960 has also declined as a share of the 39 remaining states. The differences vary in size, but the change in each state's GSP relative to the remaining 39 states' GSP is universally negative. Michigan's results are especially devastating, with a fall in GSP of 57 percent relative to the 39 remaining states.

Table 1.2 really says it all when it comes to the economic consequences of adopting an income tax. We have listed all 50 states' population growth over the past decade from highest to lowest. Just look at the highlighted rankings of those 11 states that have adopted an income tax since 1960. Each of those 11 states is in the bottom half of the U.S. rankings; nine are in the worst 13 states, and three are the worst three states.

The long-term debilitating consequences of adopting an income tax just keep on getting worse. Like a bad case of poison ivy, the state income tax is the gift that just keeps on giving.

But as dramatic as these results are, they don't tell the whole story by any means. The human condition is more than just dollars and cents.

Misleading Measures

As if primed to corroborate our earlier admonition to avoid measures such as average income (income per capita), while each of the 11 states declined as a share of the 39 remaining states in both population and income, five of the 11 states experienced increases in income per capita relative to the rest of the nation, and six had declines in income per

TABLE 1.2

Ten-Year Population Growth by State: Percentage Change, 2002 to 2012 (ranked highest to lowest)

Rank	State	% Change	Rank	State	% Change
1	Nevada	26.92	26	Maryland	8.16
2	Utah	22.82	27	Alabama	7.63
3	Arizona	21.44	28	Nebraska	7.36
4	Texas	20.14	29	Minnesota	7.18
5	Idaho	19.05	30	Kentucky	7.10
6	North Carolina	17.13	31	Kansas	6.35
7	Georgia	16.59	32	Indiana	6.20
8	Florida	15.75	33	Missouri	6.12
9	Colorado	15.53	34	Wisconsin	5.16
10	Wyoming	15.28	35	Iowa	4.77
11	South Carolina	14.99	36	Mississippi	4.42
12	Washington	13.96	37	New Hampshire	4.07
13	Alaska	13.87	38	Connecticut	3.80
14	Delaware	13.76	39	New Jersey	3.65
15	New Mexico	12.41	40	Massachusetts	3.57
16	Virginia	12.34	41	Pennsylvania	3.51
17	Hawaii	12.32	42	Illinois	2.79
18	Tennessee	11.39	43	West Virginia	2.77
19	Oregon	10.98	44	Maine	2.56
20	Montana	10.25	45	Louisiana	2.33
21	South Dakota	9.65	46	New York	2.26
22	North Dakota	9.63	47	Vermont	1.72
23	Oklahoma	9.34	48	Ohio	1.20
24	California	9.09	49	Michigan	–1.32
25	Arkansas	8.99	50	Rhode Island	–1.47

Source: U.S. Census Bureau.

capita. While each of these 11 states was a loser in the competition of all states, six were bigger losers in changes in GSP than they were in population, and five were bigger losers in changes in population than they were in changes in GSP.

Our critics point to the fact that almost half of the 11 states that adopted an income tax since 1960 had increases in average income (i.e., income per capita relative to the rest of the nation) as proof positive that adopting an income tax has no measureable effect on the prosperity of a state. We know better. They're all losers!

To see just how far off track so-called experts can be, just take a look at the following quote by Professor Mickey Hepner, Dean of the University of Central Oklahoma's College of Business, in a debate with Dr. Laffer:

> Now, I'll be honest with you, as an economist I am a floored and shocked that I would ever hear an economist say that average income is not a viable measure or a valid measure for a state's well-being, which I heard just a few minutes ago.[2]

And of course the reason Professor Hepner is "floored and shocked" is simply because he has a hard time grasping the concept that income and people are equally mobile among the states. Sometimes low-performance states repel population faster than they repel income, and income per capita rises. And sometimes low-performance states repel income faster than they repel population, and income per capita falls. In either case, the simple fact is that in both cases these are low-performance states.

Ohio

One of the authors of this book (Laffer) is a Buckeye through and through, tracing most of his family to their northeastern Ohio roots in the very early 1800s. On one of his recent family visits to Cleveland's Lakeview Cemetery, he surveyed the Cleveland where he had been raised. Today, Ohio in general and Cleveland specifically are hollowed-out, crushed shadows of their former selves. The only enterprises prospering are tax-exempt entities such as the Cleveland Clinic and Cleveland State University. In Youngstown, where he was born, a city ordinance requiring abandoned houses to be torn down and grass planted where they once stood has transformed Youngstown from a thriving steel town into an abandoned farm.

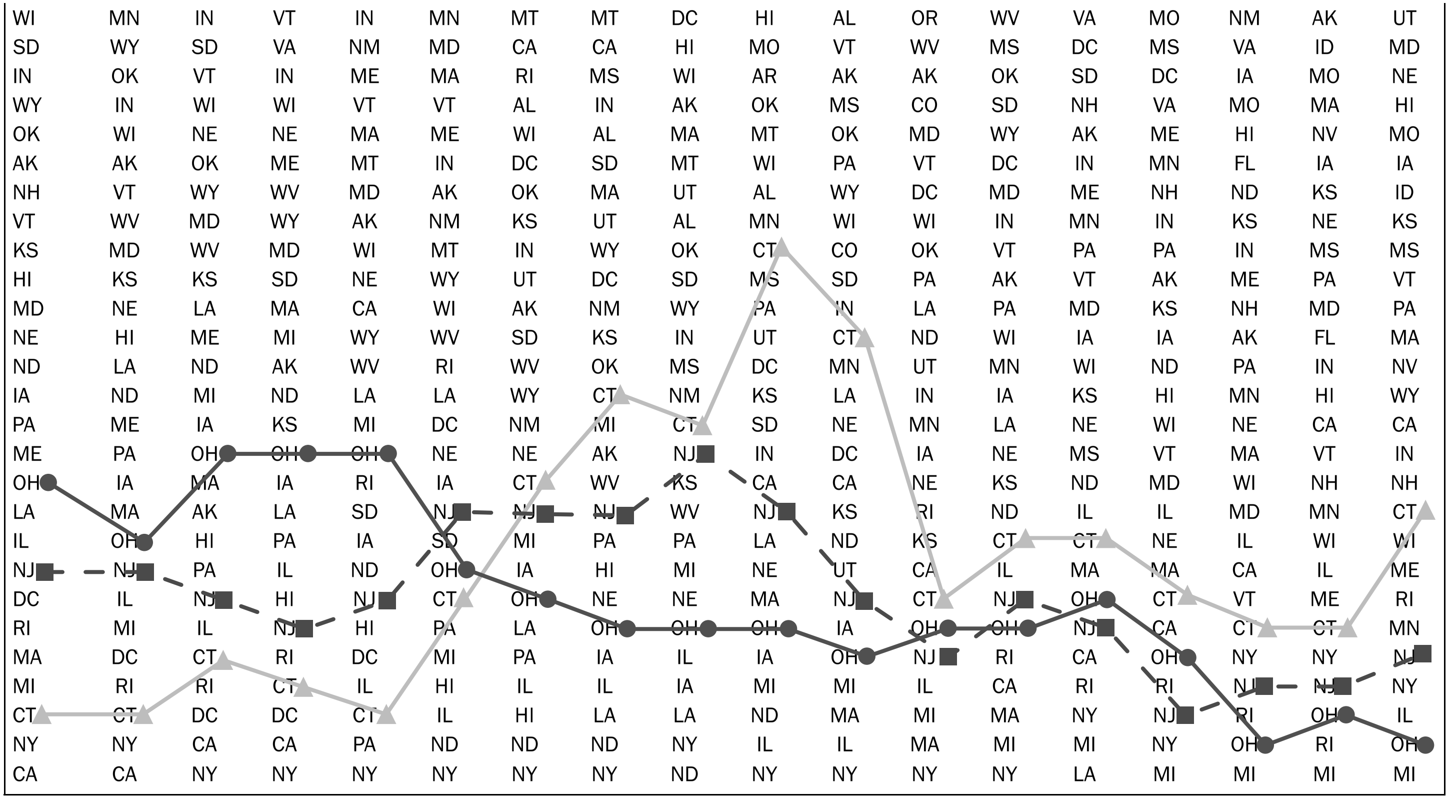
Legend has it that in years past, the then mayor of Youngstown blurted out, referring to the river that runs through Youngstown, "The Mahoning River is for jobs, not for fishes." Today, both jobs and fishes are gone.

To see just how bad Ohio's performance over the past 20 or so years has been, we have listed and plotted in Table 1.3 the number of federal

TABLE 1.3

Net In-Migrant Returns as a Percentage of Gross Returns (Returns In + Returns Out) (ranked highest to lowest)

92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07	07/08	08/09	09/10
ID	NV	NV	NV	NV	NV	NV	NV	NV	FL	NV	NV	AZ	AZ	SC	SC	TX	TX
NV	AZ	AZ	AZ	AZ	AZ	AZ	AZ	FL	NV	FL	FL	FL	NV	NC	NC	SC	DC
CO	ID	NC	NC	NC	NC	CO	GA	AZ	AZ	AZ	AZ	NV	TX	NV	TX	NC	CO
OR	GA	GA	GA	FL	FL	GA	FL	CO	OR	ME	DE	ID	NC	AZ	CO	CO	OK
AZ	NC	OR	OR	GA	GA	NC	CO	GA	ME	DE	NC	NC	GA	GA	OR	WY	LA
MT	CO	TN	TN	CO	CO	SC	NC	NC	DE	SC	ID	SC	SC	TN	AZ	WA	SC
WA	TN	ID	FL	OR	SC	FL	DE	NH	NC	ID	SC	TN	ID	TX	WA	DC	ND
GA	FL	CO	CO	SC	OR	DE	NH	OR	GA	OR	GA	DE	OR	ID	GA	OK	NC
UT	OR	FL	ID	WA	TX	NH	SC	DE	SC	VA	TN	OR	TN	OR	UT	OR	AK
NC	UT	MT	AR	TN	TN	TN	VA	WA	NH	GA	MT	GA	FL	UT	TN	LA	WV
TN	MT	AR	WA	ID	DE	ID	ME	ME	MD	TN	VA	AR	AL	WY	NV	TN	NM
FL	NM	WA	SC	DE	WA	OR	TN	TX	TX	NC	ME	WA	WA	CO	ID	WV	VA
AR	AR	UT	UT	UT	ID	TX	ID	SC	CO	MT	AR	MT	AR	WA	WY	AL	SD
NM	WA	NM	DE	TX	NH	VA	MN	VA	VA	NH	NM	AL	DE	MT	MT	AR	FL
AL	TX	DE	NH	NH	KY	WA	TX	ID	TN	NM	WA	TX	CO	DE	DE	AZ	KY
DE	DE	MO	TX	AL	AL	MN	AR	MD	ID	KY	HI	NM	UT	LA	AL	GA	TN
TX	MS	SC	MO	MO	VA	KY	OR	TN	RI	AR	AL	KY	MT	AL	LA	DE	AZ
MN	KY	NH	MT	KY	AR	ME	VT	RI	WA	HI	KY	VA	NM	KY	AR	UT	DE
KY	AL	TX	NM	AR	MS	MO	RI	CA	NM	WV	TX	CO	WY	AR	KY	NM	AR
WV	MO	MS	KY	VA	OK	AR	WA	MN	WY	TX	MS	HI	OK	OK	SD	ND	OR
MO	SC	KY	MN	MS	MO	MS	KY	VT	KY	RI	SD	MO	KY	NM	WV	KY	AL
SC	SD	AL	MS	OK	KS	MD	MD	MO	AK	MD	NH	ME	MO	FL	OK	SD	WA
MS	NH	VA	OK	MN	UT	VT	MO	KY	VT	MO	MO	UT	HI	WV	DC	VA	GA
VA	VA	MN	AL	KS	CA	MA	WI	AR	WV	WA	WY	NH	WV	SD	MS	MT	MT



Source: Internal Revenue Service, Laffer Associates tax returns moving into Ohio less the number of federal tax returns leaving Ohio as a share of the sum of both. The state of Ohio has gone from very bad to even worse. In the tax/file year 2009/2010, Ohio is second from the bottom, only to be subordinated by Michigan.

The Story of New Jersey—A Colorful Example of Opportunity Wasted

In 1965, New Jersey had neither an income tax nor a sales tax. It was one of the fastest-growing states in the nation, and people were moving from everywhere into New Jersey. To top it off, New Jersey circa 1965 was on sound budgetary footing. Then, in 1966, New Jersey adopted the sales tax, and in 1976 the income tax. Fast-forward.

In 2009, Jon Corzine was New Jersey's governor, and the state had been through years of tax increases, welfare expansion, and regulatory overreach. New Jersey had the third highest property taxes in the nation, the fifth highest personal income tax rates, the third most progressive tax structure, and one of the highest corporate tax rates in the nation. People were leaving the state in droves, and the budget was deeply in the red.

As we did for Ohio in Table 1.3, we have calculated the net federal income tax returns moving into New Jersey divided by the sum of both inflows and outflows. New Jersey sort of hovers at the bottom of the barrel, ending up in 2009/2010 as fifth from the bottom.

Lower Tax Revenue

When people learn that high tax rates are so often associated with budget deficits, while low tax rates accompany fiscal solvency, they ask, "How is that possible?" The only answer is: You can't balance a budget on the backs of the unemployed or collect tax revenues from people who leave your state. High tax rates are a double-edged sword. You collect more, of course, per dollar of income, but you get less income. Each and every one of the 11 states that imposed an income tax saw a decline in its share of the total of the remaining 39 states' state and local tax revenues. Michigan, for example, had total tax revenues fall from 6.62 percent of the remaining 39 states to 3.57 percent.

What also turns out to be a fascinating regularity arising out of the experiences had by these 11 states is that the decline in gross state product (GSP) relative to the remaining 39 states has been greater in each and every case than the decline in tax revenues relative to the 39 remaining states. Higher taxes kill prosperity and often don't even produce more tax revenues.

There's a curve relating tax rates to tax revenues. And there's a corollary to that curve, which postulates that the longer the tax is in place, the greater will be the fall in income relative to what it would have been, and the more likely a tax rate increase will lead to revenue declines relative to what they would have been. The sensitivity of either income or tax revenues to tax changes depends on the ease and expense by which people are able to find available alternatives to their previous actions.

The obvious fact that a state with no taxes will have no public services does not mean that higher tax rates mean more public services. Think about it for a second. If zero taxes means zero public services, what do 100 percent taxes do for public services? Nothing! And as if to hammer the point home, it appears highly likely that in today's world, given enough time, higher tax rates reduce a state's ability to provide quality public services for one and all.

The Rhetoric Surrounding Tax Revenue and the Decline in Public Services

While many a state has had a negative experience with the primary metrics of economic performance following adoption of the income tax, as we have shown, there are other reasons for adopting an income tax. Many people describe a trade-off between economic growth and the quality of life, where introducing an income tax may slow growth, but it's worth it in terms of the quality of life that enhanced public services will have on the state's residents. And this is exactly the so-called logic used to convince state residents that they would benefit from an income tax. Almost never do you find a ballot measure with a tax increase that doesn't have a dedicated purpose for the funds raised.

The logic goes something like this: Introducing an income tax may slow growth, but it does raise state and local tax revenues, which allow the branches of government closest to the people to provide additional services that the people want and need. Therefore, the growth-focused people may not like an income tax, but the quality-of-life-focused people appreciate a new revenue source dedicated to schools, roads, police protection, hospitals, higher income supplements for the most disadvantaged, and so on. Our favorite quote exemplifying this logic comes once again from Dean Mickey Hepner, arguing against an income tax rate cut in Oklahoma in a debate put on by the State Chamber of Commerce of Oklahoma:

> But we could also cut government spending, and this is a concern to me. As an educator, I know that what really matters for business vocation is the ability of us to train the workforce, the ability of us to provide the necessary services that the companies need. It's hard for me to imagine a successful economy that's populated with unhealthy, uneducated individuals who often have to travel down dirt roads populated with criminals.[3]

Dean Hepner's quote does encapsulate a mind-set of trade-offs between growth and quality of life. And, as facetious as his statement is, it is equally wrong, wrong, wrong. Higher tax rates don't provide more and better public services, but they do create the very poverty that necessitates higher welfare spending.

The Case of the Disappearing Tax Revenue

Before we dig further into measures of the provision of public services in each of the 11 states, we need to have a rough overview of the change in the fiscal constraints each of these states faced after they introduced the personal income tax. What is very clear is that each of the 11 states that adopted a state income tax had projected much higher tax revenues, which didn't even come close to materializing. Each of these states also forecast a significant mitigation of fiscal constraints, which did not happen. But what they didn't forecast was how these fiscal constraints would ease. To the extent that the fiscal constraints eased, it owed far more to declines in population and reductions in public services than to increases in tax receipts.

The first predicted effect when an income tax is introduced assumes nothing else changes and tax revenues both absolutely and per capita increase pari passu. Without supply-side responses, income would be the same, governments would collect more of it, and the private sector would have less left over. And that would be that. More for the government would mean guaranteed mitigation of fiscal pressures. Most politicians and all but a very few economists stop their analysis right here.

But we all should know the story doesn't stop at static tax revenue increases. Some people and businesses react to higher tax rates by moving to lower-tax jurisdictions to reduce their tax burden, some by changing the composition of their income to reduce their tax burden, some by changing the timing of income to change their tax burden, and, last, some by changing the volume of their income. Once an income tax is adopted, all sorts of parts start moving, but all with one objective in mind—to reduce the static tax burden of the newly initiated hike in tax rates. It's pretty straightforward.

And then there are the economic consequences of an income tax. All of these machinations and goings-on ultimately result in changes in population, changes in participation rates, changes in employment rates, changes in output, changes in the distribution of income, and changes in tax revenues. In the context of the United States as a whole, all of these changes are easily placed in a state context relative to other states. As an example, let's look at Connecticut, the most recent state to introduce an income tax.

Connecticut

In 1991, under Governor Lowell P. Weiker Jr., Connecticut adopted an income tax with the highest tax rate set at 1.5 percent; it now stands at 6.7 percent. By 2012 Connecticut's population had fallen from the five-year average preceding the adoption of the income tax of 1.81 percent of the remaining 39 states to 1.49 percent in the latest year. In percentage terms, this is a relative decline of 18 percent. Connecticut's tax revenues also fell from 2.35 percent of the remaining 39 states' state and local tax revenues to 2.25 percent in 2011, or by 4 percent.[4]

Connecticut, like the other 10 states that adopted an income tax, has also driven a lot of people from their residences in Connecticut to other destinations. These out-migrants have been pushed out of Connecticut to fend for themselves in other states in exchange for the promise of higher welfare and nonwelfare public service inputs in Connecticut. Those ex-residents of Connecticut also fled the state to enjoy their free-and-clear after-tax income. If "revealed preferences" mean anything, these expatriate Connecticut residents prefer their new domiciles' taxes and provisions of public services to those in Connecticut.

As we described earlier for Ohio and New Jersey and as is shown in Table 1.3, we have calculated the net inflow of tax returns into Connecticut as a share of both inflows and outflows of federal tax returns. Connecticut in the years immediately after the introduction of an income tax had a huge out-migration of tax returns. Things got a little better around 2000/2001, but then sank again. It was never as high as the 20th worst state and usually ranked in the bottom 10.

Additionally, when Connecticut's share of the total U.S. population falls, other states' shares of U.S. population have to increase. Where those expatriate Connecticut residents ultimately settle down is also the place where they take their incomes and skills. The expatriates will have a corresponding impact on their destination states just as their departure had on Connecticut. In this case, what's bad for the goose is actually good for the gander.

In Table 1.3 we have displayed, for each of the 50 states plus D.C. and for each year of available Internal Revenue Service (IRS) migration data, the number of net in-migrant tax returns in a given state as a share of the gross number of migrant tax returns for that same state. We have ranked each column by highest to lowest net in-migrant returns as a share of gross migrant returns, thus showing the magnitude and direction of how tax returns have migrated into or out of a state over time. We have then plotted Connecticut, Ohio, and New Jersey for each year to demonstrate just how many tax returns Connecticut, Ohio, and New Jersey have lost each year due to citizens voting with their feet. You'd have to look far and wide to find three bigger losers than these three states.

The stakes have been wagered, and the game is on in the never-ending competition among the 50 states. The one thing we can feel good about is that as long as people are free to choose, this competition will inure to the betterment of all. Connecticut, along with Ohio and New Jersey, is one big loser of a state.

The exodus of relative population from the 11 states that have introduced an income tax has created political changes for their state of origin as it has solved economic challenges for the emigrants. People who have left a state may be financially better off because they don't have to pay that state's income taxes anymore. Unfortunately, they no longer vote in that state and therefore have abandoned those who are left behind to the vagaries of the political process. Assuming those who left the introduced income tax state were generally more opposed to the income tax than those who remained, the tax-increasing politicians would feel emboldened. As long as population falls faster than tax revenues, and tax revenues per capita rise for the remaining population—who do vote—there's an ever-increasing incentive for elected officials to continue this antisocial behavior. It's called political predation—but it can't last forever. It soon morphs into a race to the bottom. Too many politicians, like too many wolves, soon deplete their food source (tax base) and the game ends. In the words of New York City Mayor Michael Bloomberg:

> The more a city spends on wages and benefits for employees over what the marketplace determines is necessary for recruitment, retention, and experience, the less a city can invest in benefits for all residents.
>
> The less it invests in things that benefit all residents, the less attractive a place it is to live [in] and visit. And suddenly, the virtuous cycle I mentioned a moment ago comes grinding to a halt—or worse, goes spinning in reverse.[5]

To summarize the results for all 11 states that have introduced an income tax over the past 50-plus years, each and every one of those states lost tax revenues relative to the 39 remaining states, and each state's gross state product share of the remaining 39 states shrank. Tax burdens rose in each state, and each state's economy underperformed.

No Bang for the Buck—How Costly Tax Increases Fail to Result in Better Provision of Public Services

As we discuss what sort of public service improvements the states have attempted to buy with their anti-growth new income tax, we will be using two conceptually different measures of success for their provision of public services. Where possible, we use outside objective measures to gauge the levels and changes in the levels of public services provided in our 11-state group. Where these objective outside measures are lacking, we use the markedly inferior alternative measure of the increase in inputs, such as full-time equivalent employees per 10,000 of population.

Education Results for the 11 States That Adopted the Income Tax

For example, the U.S. Department of Education evaluates the quality of K–12 education for each state by administering uniform tests across all states in a wide range of subjects and has done so for years and years. There are several revisions of and exclusions to these data from time to time, as we will note. The primary tests are in reading and math. In Table 1.4, we list the national rankings of each of the 11 states from the date of testing closest to when that state introduced its income tax to the most recent date. Judge for yourself whether you think the imposition of the income tax was worth it when it comes to education.

Of the 10 states that introduced an income tax over the past 50-plus years for which we have data (we don't have fourth grade reading or fourth grade math data for Illinois), three increased their fourth grade reading score rankings by a small amount, four fell by a small amount, and three fell in the rankings by over 2 percent. Nothing to write home about here, and hardly poster children for the benefits of initiating an income tax. Performance got worse, not better.

In fourth grade math, three of the states improved, seven got worse, and, of the seven that got worse, four virtually collapsed after adopting an income tax. This is what is meant by dumbing-down.

TABLE 1.4

NAEP Scores* (ranked from biggest improvement to least improvement)

4th Grade Reading	Ratio to U.S., 1992	Ratio to U.S., 2013	% Change
Connecticut	1.03	1.04	0.85
Ohio	1.01	1.01	0.27
Rhode Island	1.01	1.01	0.13
Pennsylvania	1.03	1.03	–0.13
New Jersey	1.04	1.04	–0.14
Indiana	1.03	1.02	–0.81
Nebraska	1.03	1.01	–1.73
Michigan	1.01	0.99	–2.05
West Virginia	1.00	0.97	–3.04
Maine	1.06	1.02	–3.50
Illinois†	N/A	0.99	N/A

4th Grade Math	Ratio to U.S., 1992	Ratio to U.S., 2013	% Change
Indiana	1.01	1.03	1.93
Ohio	1.00	1.02	1.75
Rhode Island	0.99	1.00	1.55
West Virginia	0.98	0.98	–0.03
Pennsylvania	1.03	1.01	–1.41
New Jersey	1.04	1.02	–1.50
Nebraska	1.03	1.01	–2.20
Michigan	1.01	0.98	–2.39
Connecticut	1.04	1.01	–2.72
Maine	1.06	1.02	–3.81
Illinois†	N/A	0.99	N/A

8th Grade Math	Ratio to U.S., 1990	Ratio to U.S., 2013	% Change
New Jersey	1.03	1.04	1.32
Ohio	1.01	1.02	1.22
Illinois	1.00	1.00	0.91
Rhode Island	0.99	1.00	0.82
Pennsylvania	1.02	1.02	0.35
Indiana	1.02	1.01	–0.63
West Virginia	0.98	0.97	–1.03
Michigan	1.01	0.99	–2.22
Connecticut	1.03	1.01	–2.45
Maine‡	1.04	1.02	–2.49
Nebraska	1.05	1.01	–4.57

*While the NAEP is now frequently and widely administered across the United States, this is the case only as of late. For this reason, we weren't able to take the data back any further than 1990. We have selected these grade levels (fourth and eighth grade) and subjects (math and reading) because they provide the greatest amount of available data.
†According to the Department of Education, 1992 NAEP scores for fourth grade math and reading in Illinois are "Not Available."
‡According to the Department of Education, 1990 NAEP scores for eighth grade math are "Not Available." We have substituted Maine's 1992 (the next available date) ratio to the U.S. in its stead.

Source: U.S. Department of Education National Assessment of Educational Progress, Laffer Associates.

For eighth grade mathematics scores, the story isn't any better—of the 11 states, seven states' scores fell relative to the United States as a whole. The most astounding change was that of Nebraska, which fell 4.57 percent! Five of the 11 states' rankings rose, with New Jersey's 1.3 percent increase as the largest. Again, there is nothing here to write home about.

As you can readily see from the educational test scores, if anything, those states that adopted an income tax have performed more poorly after the tax was adopted. Whatever the specifics, there is no case to be made that student test scores improved. The income tax was a failure for education.

Health and Hospital Services

Our next category of services is the category of health and hospital employees. Because we haven't been able to find an acceptable state-by-state objective measure of the quality of health and hospital services, we have developed a measure of health and hospital public service inputs, which is the number of full-time equivalent employees (FTEEs) per 10,000 of population.

Let's take a careful look at health and hospital personnel per 10,000 of population relative to the nation before the state's income tax was adopted to the present for the 11 states. In Table 1.5, we show

TABLE 1.5

Health and Hospital FTEEs per 10,000 Population (ranked from largest increase to smallest increase)

State	Year of Tax Introduction	Ratio to U.S. in Year of Tax Introduction	Ratio to U.S. in 2011	% Change
Ohio	1972	0.72	0.90	23.9
Nebraska	1968	0.98	1.19	21.6
Indiana	1963	1.00	1.08	8.5
West Virginia	1961	0.76	0.76	0.7
New Jersey	1976	0.75	0.71	–4.6
Michigan	1967	1.07	0.91	–15.7
Connecticut	1991	0.88	0.72	–17.7
Maine	1969	0.59	0.41	–31.2
Illinois	1969	0.88	0.55	–37.5
Pennsylvania	1971	0.71	0.34	–51.4
Rhode Island	1971	0.84	0.39	–53.9

Source: U.S. Census Bureau, Laffer Associates.

health and hospital personnel per 10,000 population before the adoption of the income tax and today. Only four states of the 11 actually had more health and hospital personnel per 10,000 of population following the imposition of the income tax relative to the United States as a whole, and seven had less. Four of those seven had huge drops in their FTEEs in hospital and health services relative to the nation as a whole. Again, the newly adopted income tax states failed their citizens.

Police Protection

The official Federal Bureau of Investigation (FBI) measures of violent crimes (Table 1.6) and property crimes (Table 1.7) do not show any systematic changes in relative rankings for the states that adopted an income tax. In terms of the violent crime rate (again, all of these metrics are relative to the United States as a whole), only three of the 11 states managed to reduce their violent crime rate, whereas the violent crime rate increased in each of the other eight states. As for the

TABLE 1.6

Violent Crime Rate (ranked from largest reduction in crime rate to least reduction in crime rate)

State	Year of Tax Introduction	Ratio to U.S. in Year of Tax Introduction	Ratio to U.S. in 2012	% Change
Michigan	1967	1.54	1.17	–24
Illinois	1969	1.36	1.07	–21
New Jersey	1976	0.85	0.75	–12
Connecticut	1991	0.71	0.73	3
Ohio	1972	0.75	0.77	4
Rhode Island	1971	0.56	0.65	16
Pennsylvania	1971	0.68	0.90	33
Nebraska	1968	0.49	0.67	37
Maine	1969	0.23	0.32	39
Indiana	1963	0.61	0.89	46
West Virginia	1961	0.40	0.82	105

Source: FBI Uniform Crime Reporting Statistics, Laffer Associates.

TABLE 1.7

Property Crime Rate (ranked from largest reduction in crime rate to least reduction in crime rate)

State	Year of Tax Introduction	Ratio to U.S. in Year of Tax Introduction	Ratio to U.S. in 2012	% Change
Michigan	1967	1.34	0.89	–34
New Jersey	1976	1.04	0.72	–31
Rhode Island	1971	1.22	0.90	–26
Connecticut	1991	0.94	0.75	–20
Illinois	1969	0.90	0.90	0
Indiana	1963	0.97	1.06	9
Ohio	1972	0.88	1.09	24
Pennsylvania	1971	0.61	0.76	24
Nebraska	1968	0.74	0.96	31
Maine	1969	0.56	0.88	58
West Virginia	1961	0.34	0.83	141

Source: FBI Uniform Crime Reporting Statistics, Laffer Associates.

property crime rate, four of the 11 states showed a reduction in the rate of property crimes, one of the 11 states (Illinois) was unchanged, and six of the 11 states showed an increase in property crime rates. It's a crime what the adoption of the income tax has done to the citizens of those states.

Welfare

When it comes to poverty relative to the nation as a whole, only three of the 11 states actually showed reductions in their state poverty rates (see Table 1.8). The other eight states had increases in their relative poverty rates and, of those eight states, four showed very large increases in poverty.

If one of our quality-of-life measures is less poverty, as it should be for any civilized people, then the official measures of poverty weigh against adopting a personal income tax. Given what the income tax does to output, employment, and tax revenues, we really shouldn't be surprised by this result. Whoever heard of a state being taxed into prosperity? Now we know it's the reverse.

TABLE 1.8

Poverty Rate (ranked from biggest improvement to least improvement)

State	Year of Tax Introduction	Ratio of State Poverty Rate to U.S. Poverty Rate in Year of Tax Introduction or First Year Before Tax 1959	1969	1991	Ratio of State Poverty Rate to U.S. Poverty Rate in 2012 2012	% Change
West Virginia	1961	1.57			1.12	–29
Nebraska	1968	1.01			0.82	–19
Maine	1969		1.00		0.86	–14
New Jersey	1976		0.60		0.62	5
Rhode Island	1971		0.81		0.91	13
Illinois	1969		0.75		0.84	13
Connecticut	1991			0.60	0.69	14
Pennsylvania	1971		0.78		0.93	19
Michigan	1967	0.72			0.91	27
Indiana	1963	0.79			1.01	28
Ohio	1972	0.73			1.03	41

Source: U.S. Census Bureau, Laffer Associates.

Highways

As a pièce de résistance, we took the Reason Foundation's overall 50-state performance rank from its annual report on the performance of state highway systems for the 11 states that introduced an income tax in the past 50-plus years (see Table 1.9).

As fate would have it, five of the 11 states improved their relative rankings, and six states' rankings fell. And to make matters worse, those six states that declined individually in their rankings declined by more than those five states where rankings improved.

It's hard to see an improvement in public services from the imposition of an income tax from these data. In fact, it's hard to see an improvement in anything from these data. The adoption of the income tax led to (1) population exodus, (2) income exodus, (3) less tax revenue, (4) more poverty, and (5) reduced public services. Thanks but no thanks, income tax.

TABLE 1.9

State Highway System (ranked from biggest improvement in overall performance rank to least improvement in overall performance rank)

State	Rank in 1984	Rank in 1990	Rank in 2009	Change in Rank from Previous Period to 2009
Michigan	44		30	▲ 14
Ohio	31		25	▲ 6
Illinois	38		34	▲ 4
New Jersey	50		46	▲ 4
Connecticut		46	44	▲ 2
Rhode Island	46		49	▼ 3
Nebraska	2		6	▼ 4
West Virginia	26		32	▼ 6
Indiana	13		22	▼ 9
Pennsylvania	28		39	▼ 11
Maine	12		29	▼ 17

Source: Reason Foundation Annual Highway Report.