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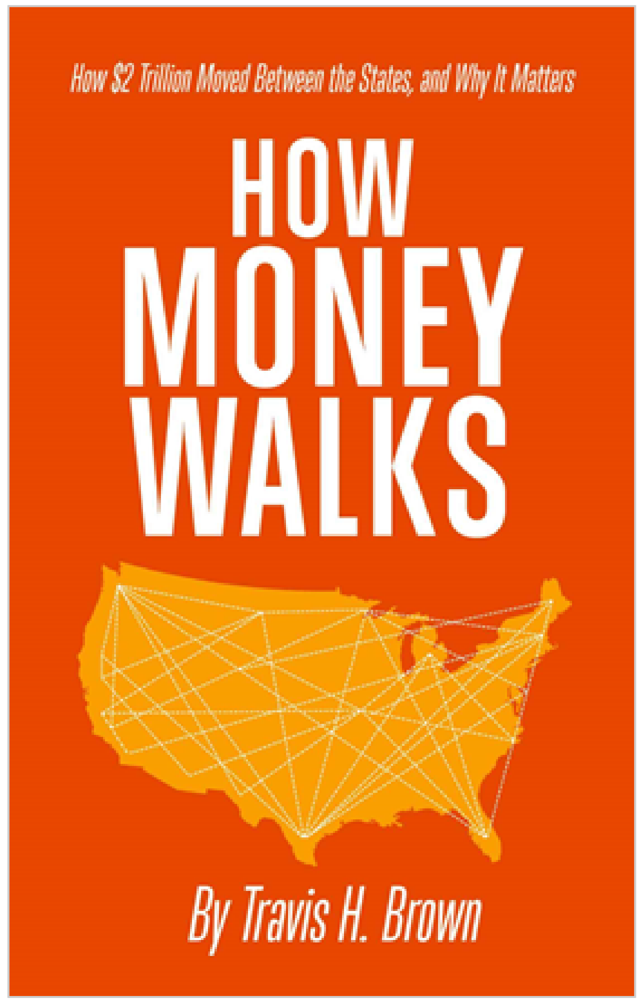
Money walks, money talks: why it travels from state to state, and what it means for states and you

How Money Walks: How $2 Trillion Moved Between the States, and Why It Matters. By Travis H. Brown, St. Louis, MO: Travis H. Brown, Pelopidas, LLC, 256 pp., $14.95 paperback.



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The author of this book, Travis H. Brown, is an entrepreneur from St. Louis, Missouri who cofounded the public affairs and advocacy firm Pelopidas, LLC, in 2007. He has a passion for helping cities and states grow through the use of smart tax policies, so this book was a natural outcome of his work in that area. The subtitle of the book, "How $2 Trillion Moved Between the States, and Why It Matters," indicates the seriousness of the situation he is confronting. To paraphrase former Senator Everett Dirksen of Illinois, "A trillion here, a trillion there, and pretty soon you are talking about real money." Using official statistics from the Internal Revenue Service (IRS), Brown was able to determine that $2 trillion of adjusted gross income (AGI) passed from states with a high income tax rate to states with a low income tax rate during the period from 1995 to 2010. He also was able to identify the states that saw the greatest gains and losses as citizens migrated. Several times in the book, Brown asserts that taxes may be only one of a number of reasons that people leave one state for another, but the data he presents make a very persuasive argument for taxes being the primary motivation.

Because the withholding in a person's paycheck is composed of federal, state, and local income taxes, along with Medicare and Social Security contributions and possibly some other things, such as health insurance premiums, it is not easy to see how much a person's state and local tax burden is. Furthermore, it is not readily evident how much money a person could save by living

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elsewhere in the country. That is one reason this is an important book. Also, it is the reason Dr. Arthur Laffer (he of the Laffer curve) could write in the foreword that, when he read the book, he thought, “It’s about time.” The book lays bare migration patterns within the United States and can aid a reader who wants to estimate how much money he or she will save by moving to another part of the country. The savings can be huge. In an early chapter, Brown provides a hypothetical illustration. He contrasts the Smith family of California with the Millers of Miami, Florida. Both families have wages of $250,000, but the Smiths face a marginal income tax rate of 9.3 percent while the Millers have no state income tax, so the Millers will be able to keep $17,772 more of their earnings than the Smiths will every year. All else being equal, who wouldn’t move for a savings like that? Another big problem for states with a high income tax rate is that those people most likely to move are the ones with the highest incomes—probably the most productive workers in the state. If a state then tries to compensate for its loss of tax revenue by raising its income tax rate, the result could be a vicious cycle or “death spiral.”

Much of the book consists of tables with data for states and Metropolitan Statistical Areas (MSAs). Brown points out the nine states with no personal income tax and shows how much they gained (or lost) in AGI; cumulatively, the sum amounted to a $146.2 billion gain. By contrast, the nine states with the highest marginal income tax rates lost a combined $107.4 billion. Similarly, the 10 states with the lowest state and local tax burdens per capita gained $69.9 billion in AGI, whereas the 10 states with the highest state and local tax burdens per capita lost $139 billion. For each of the 10 states with the greatest net gain in AGI, Brown provides a table that shows (1) the amount of that net gain, (2) the top five states that contributed to the gain, (3) the state’s cumulative population gain, (4) the top income tax rate in the state, (5) the state and local tax burdens in the state, (6) the amount of taxes per capita in the state, and (7) the state’s national tax burden ranking. Florida had the greatest net gain in AGI: $86.4 billion. Similar tables show the 10 states that saw the greatest net loss in AGI; New York led, with a net loss of $58.6 billion.

Brown then moves from the state level to that of MSAs. MSAs can encompass areas in more than one state, so it is interesting (and probably not a coincidence) that each of the 10 MSAs that gained the most AGI covers an area that lies entirely within just one state. As one might expect, those 10 MSAs are all in states with low state and local tax burdens, whereas the reverse holds for the 10 with the greatest loss. The Phoenix–Mesa–Scottsdale, Arizona, MSA experienced the greatest gain in both AGI ($17.1 billion) and population (326,653), while the New York City–Northern New Jersey MSA had the greatest corresponding loss: $66.1 billion and 781,417 people. (*Monthly Labor Review* readers may be especially interested in knowing that the Washington, DC, MSA, which includes parts of Maryland, Virginia, and West Virginia, ranked sixth worst, with losses of $11.3 billion in AGI and 55,424 in population.)

Because Florida was the state with the greatest net gain in AGI, Brown then drills down further and lists the top 10 U.S. counties from which people moved to Florida. Most of them came from the New York City area. He provides similar information for each of the following Florida MSAs: Miami–Fort Lauderdale–Pompano Beach, Naples–Marco Island, Tampa–St. Petersburg–Clearwater, Cape Coral–Fort Myers, and North Port–Bradenton–Sarasota. Then, because New York was the state with the greatest net loss in AGI, Brown lists the top 10 counties to which the New York City MSA lost AGI and population. As one might expect, Florida MSAs show up often on both New York City lists. In a chapter titled “East Coast Blues,” Brown lists the counties to which AGI and people migrated from the Boston, Philadelphia, and Washington, DC, MSAs.

For much of the 20th century, California saw massive inflows of people drawn by the golden sunshine, majestic mountains, beautiful beaches, great universities, and Hollywood. As a result, it easily became the nation’s most populous state. However, during the 1995–2010 period that the book examines, the state actually saw a net decline in population and it came in second to New York in net loss in AGI. The two nearby states of Nevada and Arizona (both with a low tax burden) were the primary beneficiaries of California’s misfortune. For each of four large California MSAs, Brown lists the top 10 U.S. counties that gained from those MSAs’ losses, along with their dollar gain. Because so many Californians left for Nevada and Arizona, Brown looks at these two states next—especially the Phoenix and Las Vegas MSAs—to see which other states and MSAs were on the losing end of migration to them.

The chapter “Midwest Blues” considers the 12 Midwest states, 9 of which are in the top half of the 50 states in terms of state and local tax burdens. As with the top 10 AGI-losing states, Brown presents information on the Midwest states’ net loss or gain in AGI, top personal income tax rate, taxes paid per capita, etc. Finally, he has a chapter on Texas and Georgia, two big beneficiaries of AGI and population migration from other states.

Readers of book reviews invariably want more than anything else an answer to the question “Should I read this book?” For *How Money Walks*, my answer would be both “It depends on what you are looking for” and “Yes, with reservations.” By “It depends,” I mean that you must be a person who likes to look at numbers and tables. My second answer means that, even if you are the type of person who would enjoy the book, it has several problems that will diminish that enjoyment and any other benefits you receive from reading it. The chief problem is that much of the book consists of top-10 or top-5 lists and most of the narrative simply describes and discusses the ramifications of the content of those lists. Second, even though this is not a long book, there is a lot of repetition in it; after a while, one might tire of reading, for example, that Florida had a net gain of $86.4 billion in AGI. Brown came up with all of his statistics on the movement of AGI from one state to another from IRS taxpayer data files. Does this mean that he was able to obtain individual tax returns? I thought that that information was confidential, but if he was not looking at individual returns, I’m not sure how he was able to determine that a person who moved from one state or MSA to another had a certain AGI. Fortunately, he does state that he obtained the information on cumulative population gain and loss from the Census Bureau, and he says that he got the top state income tax rates, the state and local tax burdens, and the taxes per capita from the Washington, DC, based Tax Foundation’s annual report and rankings, and the rankings are based on the state and local tax burdens. I would have appreciated it if he had clearly stated how the state and local tax burden was calculated. Is it simply the tax revenues received divided by the cumulative AGI? It’s never said.

The author mentions in a single paragraph that corporations make decisions on where to locate on the basis of tax rates, but the tax rates he cites are personal tax rates rather than corporate tax rates. Because companies sometimes move from one state to another in order to be subject to a lower corporate tax rate, many of their employees will be forced to move also. The book could have devoted a chapter to this subject as well. A final shortcoming of the book is that it could have been better proofread. Three factual errors are illustrative. First, immediately after a table showing that four of the nine states with the highest personal income tax rates showed (admittedly small) gains in AGI, the accompanying text states that only three of them did. Second, on the bottom of one page the narrative says that the worst 10 MSAs lost $186 billion in AGI, yet at the top of the next page it says that the worst *5* MSAs did. Third, in his discussion of Boston and Massachusetts, Brown writes, “Heck, it’s where it all began,” forgetting about the Jamestown colony in Virginia, established 13 years before the Pilgrims landed at Plymouth. I won’t go into the several other mistakes that exist in the book.

Having listed some of the book’s drawbacks, I don’t want to leave the reader of this review with the impression that I would not recommend the book. To the contrary, *How Money Walks* is a short work that can be read quickly, so you can read it to obtain the gist of the author’s argument, along with information that is important and perhaps relevant to your personal situation, without spending a lot of time poring over some of the other details. However, don’t expect the book to be a page-turner that you can’t put down.