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Leaving Illinois for Wisconsin

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By Mark J. Perry



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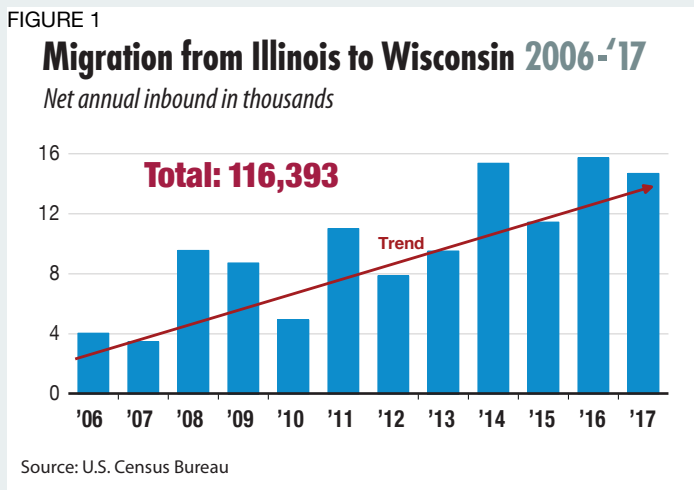
An analysis of the accelerating outbound migration across the border to the Badger State

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Introduction & Background

The No. 1 U.S. state for outbound migration in 2017 was Illinois, moving up from No. 2 in the previous year. And Wisconsin is one of the top beneficiaries of this migration pattern.

There were 534,527 moves in 2017 for Illinois — 339,435 outbound moves (63.5% of the total) and 195,092 inbound moves (36.5% of the total), for a -27.0% net outflow. That put the Prairie State far ahead of No. 2 New York at -22.7% net outflow and No. 3 New Jersey at -19.3%. This is based on a recent analysis of the U.S. Census Bureau’s annual “State-to-State Migration Flows” database for 2017 that I did for a report titled “[Top 10 Inbound vs. Top 10 Outbound U.S. States in 2017: How Do They Compare on a Variety of Tax Burden, Business Climate, Fiscal Health and Economic Measures?](#)”



When compared on a variety of 10 measures of tax burdens for individuals and businesses, business climate, state fiscal health, labor market robustness and economic growth, the migration patterns of U.S. households (and businesses) followed some predictable patterns.

There is strong empirical evidence that Americans “vote with their feet” and are moving from high-tax states that are fiscally unhealthy, economically stagnant and unfriendly toward businesses to fiscally sound states that are more economically vibrant, dynamic and business-friendly, with lower tax and regulatory burdens and that offer more economic and job opportunities.

No surprise there. And no surprise that Illinois led the country in outbound migration in 2017 given its poor rankings on most of the 10 measures of business friendliness, tax burden and economic dynamism. In addition, the Mercatus Center ranks Illinois No. 50 for state fiscal condition, mostly due to its large (\$446 billion) and growing unfunded pension liabilities.

Where are the outbound households and businesses from the Land of Lincoln moving? One increasingly popular destination is across the northern border into Wisconsin.

In 2017, nearly 27,000 people left Illinois for Wisconsin, compared with fewer than 13,000 moving in the opposite direction — for a net inflow to Wisconsin of nearly 15,000 people. That followed a record net inflow of nearly 16,000 in 2016, 11,500 in 2015 and 15,370 in 2014 (Figure 1).

There has been a net outflow from Illinois to Wisconsin of more than 116,000 residents between 2006 and 2017 (Figure 2). About half of that net gain has taken place in the past four years at an **average net gain for Wisconsin of nearly 40 residents moving from Illinois every day between 2014 and 2017.**

Illinois vs. Wisconsin Comparison

To help explain why so many Illinois residents and businesses are finding Wisconsin such an attractive destination, **Figure 3** compares the two neighboring states on 14 different measures of labor market conditions, economic growth, tax burdens, state fiscal health and business climate. A state-to-state comparison for each of those 14 variables is discussed below.

1. Labor Market and Economic Growth

Right to work. In the national study of state-to-state migration flows in 2017, six of the top 10 inbound states are right-to-work (RTW) states, while eight of the top 10 outbound states are forced unionism states. According to many studies, such as “Right-to-Work Laws: The Economic Evidence” by American Enterprise Institute scholar Jeffrey A. Eisenach (emphasis is mine):

There is a large body of rigorous economic research on the effects of RTW laws on economic performance. Overall, that research suggests that **RTW laws have a positive impact on economic growth, employment, investment and innovation, both directly and indirectly.**

In 2015, Wisconsin joined neighboring and nearby states Iowa, Michigan and Indiana as a RTW state. Meanwhile, Illinois remains solidly with the forced unionism, high-tax, low-growth states concentrated in the Northeast, such as New York, New Jersey, Connecticut and Massachusetts. Those were all among the top 10 outbound states in 2017.

State minimum wage. The state minimum wage in Illinois is currently \$8.25 an hour and is scheduled to increase twice next year — to \$9.25 on Jan. 1 and to \$10 on July 1. It will then increase to \$11 an hour on Jan. 1, 2020. Subsequent annual \$1 an hour increases every Jan. 1 will bring the state’s minimum wage to \$15 an hour in 2025. Those scheduled increases will raise Illinois’ minimum wage by 82% over the next six years.

Wisconsin’s minimum wage is \$7.25 an hour, matching the current federal minimum wage, along with 20 other states, with no scheduled increases at this time. The current 14% higher minimum wage in Illinois compared with Wisconsin, scheduled to be 100% higher by 2025 unless the federal minimum wage is increased, provides the Badger State with a significant labor cost advantage for employers and retailers as

they make expansion and location decisions.

Unemployment rate. Reflecting Wisconsin’s relatively more dynamic labor market as a RTW state and with a lower minimum wage, its unemployment rate averaged 3% last year compared with the 4.3% average in Illinois and 3.9% national average. Wisconsin’s jobless rate has been consistently below the national rate by about one percentage point during the past decade, while Illinois’ rate has been consistently above the national rate by nearly a percentage point. In April 2019, Wisconsin ranked No. 5 at 2.8% for the lowest state monthly jobless rate (top 10%), while Illinois ranked No. 43 at 4.4% (bottom 20%).

Employment growth. From 2017 to 2018, employment grew in Wisconsin by 1.13%, which was below the national job growth of 1.67% but was still higher than the job growth of only 0.89% in Illinois. Among neighboring states, Wisconsin’s job growth was slightly higher than the 1.01% in Iowa and 1.08% in Minnesota, and slightly lower than the 1.28% in Michigan. Of those five Midwestern states, Illinois had the lowest rate of job creation last year.

Real GDP growth rate. In 2018, the Wisconsin economy grew by 2.5% measured by inflation-adjusted gross domestic product (GDP) compared with economic growth of 2.1% for Illinois. Since 1997, Wisconsin’s economy has consistently outperformed that of Illinois. Real GDP growth in Wisconsin was higher than

in Illinois in 16 of the last 21 years from 1998 to 2018 and averaged 1.74% annually compared to 1.3% in Illinois.

2. Tax Burden

Overall state tax burden. A recent analysis titled “Tax Burden by State” by WalletHub ranked states by overall tax burden based on Tax Policy Center data on each state’s property taxes, individual income taxes, and total sales and excise taxes — all measured as a share of each state’s personal income. In 2018, the overall tax burden in Illinois was 10.08%, ranking the state No. 8 for highest overall state tax burden. In contrast, Wisconsin ranked No. 16 with an overall state tax burden of 9.26%. Wisconsin had a lower tax burden than Illinois in property taxes (3.52% vs. 4.11%) and sales/excise taxes (3.07% vs. 3.53%) but had a slightly higher income tax burden (2.67% vs. 2.44%).

Income tax. According to the Tax Foundation’s report on

FIGURE 2



FIGURE 3

Comparison of neighboring states on 14 measures

ILLINOIS vs. WISCONSIN	ILLINOIS	WISCONSIN	WINNER
Right to work	No	Yes	Wisconsin
State minimum wage (per hour)	\$8.25 (\$9.25 on 1/1/2020 and \$10 on 7/1/2020)	\$7.25	Wisconsin
Unemployment rate, 2018	4.3%	3%	Wisconsin
Employment growth, 2017 to 2018	0.89%	1.13%	Wisconsin
Real GDP growth rate, 2018	2.1%	2.5%	Wisconsin
Total taxes paid as percent of income	10.08%	9.26%	Wisconsin
Top state individual income tax rate	4.95%	7.65%	Illinois
Top corporate tax rate	9.5%	7.9%	Wisconsin
Average state and local sales tax rate	8.74%	5.44%	Wisconsin
Gas tax (per gallon)	37.5 cents	32.9 cents	Wisconsin
Forbes' "Best States for Business" rankings, 2018	39th	32nd	Wisconsin
Tax Foundation's State Business Tax Climate rankings	36th	32nd	Wisconsin
Mercatus state rankings for fiscal condition	50th (last)	26th	Wisconsin
Credit rating (Standard and Poor's)	BBB-	AA	Wisconsin

State Individual Income Tax Rates and Brackets for 2018, Illinois has a flat state tax rate of 4.95% on individual income, while Wisconsin has a progressive state income tax system with four tax rates starting at 4% and reaching a maximum rate of 7.65% on taxable income above \$247,350 for individuals. While Wisconsin's 7.65% maximum rate on individual income is higher than Illinois' rate, it's lower than the 9.85% top rate in neighboring Minnesota and 8.98% in Iowa.

For corporate income tax rates in 2018, the Tax Foundation reports that Illinois' rate of 9.5% is one of the highest in the country, compared with Wisconsin's 7.9%. Iowa and Minnesota have higher corporate income tax rates than even Illinois at 12% and 9.8%, respectively.

Corporate tax climate. Every year, the Tax Foundation creates a State Business Tax Climate Index based on each state's corporate income taxes, individual income taxes, sales taxes, property taxes and unemployment insurance taxes. For 2019, Illinois ranks No. 36 for the highest state tax climate, while Wisconsin ranks slightly better at No. 32. On the five different measures of tax burden described above, Wisconsin ranks lower than Illinois on each except the individual income tax rate.

Sales tax. Also based on data from the Tax Foundation, the combined state and average local sales tax rate in Illinois

this year is 8.74%, ranking it as the seventh-highest in the nation. In contrast, Wisconsin ranks No. 43 with one of the lowest sales tax rates in the country at 5.44%. That difference translates into savings of \$1,650 for every \$50,000 spent on taxable goods and services in Wisconsin rather than Illinois.

Gas tax. Wisconsin's gas tax is 32.9 cents per gallon, while Illinois' is 37.5 cents per gallon, or 14% higher.

3. Business Climate

Based on Forbes' annual "Best States for Business" report that ranks each state on six business categories — business costs, labor supply, regulatory environment, economic climate, growth prospects and quality of life — North Carolina ranked as the No. 1 state for business in 2018. Wisconsin ranked No. 32, ahead of Illinois at No. 39. The slightly better ranking for Wisconsin was largely due to one key measure of business friendliness: regulatory environment. On that measure, Wisconsin ranked No. 22, putting it in the top half. Illinois ranked No. 39, putting it in the bottom quarter.

4. State Fiscal Condition

Fiscal health rating. The Mercatus Center at George Mason University annually ranks each state's financial health based on short- and long-term debt and other key fiscal obligations, such as unfunded pensions and health care benefits. According to the Mercatus Center, "The fiscal health of America's states affects

all its citizens. Indicators of fiscal health come in a variety of forms — from a state’s ability to attract businesses and how much it taxes to what services it provides and how well it keeps its promises to public-sector employees.”

In the 2018 Mercatus report, *Ranking the States by Fiscal Condition*, Illinois ranked No. 50 as the state with the worst fiscal condition in the nation based on five separate solvency categories — cash, budget, long-run, service-level and trust fund solvency. Total unfunded pension liabilities in Illinois that are guaranteed to be paid have swollen to \$446 billion, or 67% of state personal income. In comparison, total unfunded pension liabilities are only \$70.63 billion in Wisconsin, or 26% of state personal income. Compared with Illinois’ bottom ranking, Wisconsin ranks No. 26, suggesting that the state’s fiscal condition is about average for U.S.

states and much better than the fiscal condition across the border in Illinois.

It’s also important to note that the fiscal condition of Illinois has been declining in recent years, dropping from No. 47 in 2016 to No. 49 in 2018 to No. 50 last year. Meanwhile, Wisconsin’s fiscal condition ranking by Mercatus has improved slightly from No. 29 in both 2016 and 2017 to No. 26 last year.

Credit rating. Reflecting the seriousness of Illinois’ deteriorating fiscal condition, the state had the lowest credit rating from Standard and Poor’s of any state in 2017, following a series of five downgrades that brought its credit rating from AA in 2008 down to BBB- in 2017. In contrast, Wisconsin has maintained a stable AA rating for the past decade, following an upgrade from AA- in 2008.

Summary

On 14 different measures of labor market dynamism, economic growth, various tax burdens, business climate and fiscal health, Wisconsin comes out ahead of neighboring Illinois on all but one of those measures — state individual income tax rate. Taken together, these results suggest that compared with Illinois, Wisconsin is a relatively more pro-growth and fiscally sound state, a more economically vibrant and business-friendly state, with a lower tax and regulatory burden for businesses and a more robust labor market.

Overall, the Badger State offers citizens, workers and businesses greater economic and job opportunities, with greater future prospects for economic growth than the Prairie State. Reflecting the greater relative degree of economic vibrancy and business friendliness in Wisconsin compared with Illinois, residents and businesses are increasingly leaving the Land of Lincoln for brighter economic opportunities across its northern border.

The state-to-state migration flow patterns that exist at the national level are consistent with what is happening between Wisconsin and Illinois at a local level, summarized as follows: Residents and businesses in Illinois are increasingly “voting with their feet” and escaping across the northern border to Wisconsin — at a net rate of 40 every day — from a relatively stagnant, high-tax, fiscally unhealthy, business-unfriendly state to a fiscally sound state that is more economically vibrant and business-friendly with greater economic prospects for residents, businesses and workers.

One key takeaway from this analysis is that it’s relatively easy to attract a net inflow of residents and businesses from a fiscally insolvent neighboring state with a struggling economy like Illinois, and Wisconsin is certainly doing that and deserves

credit for doing so. To maintain that inflow from Illinois and to attract migration from elsewhere, Wisconsin should pursue the proven formula for states to attract those inflows: low tax burdens, less regulation, greater fiscal stability, right-to-work laws, resisting calls for higher minimum wages and creating business-friendly climates. Wisconsin is doing very well on many of those measures, especially compared with its neighbor to the south.

Further improvements in the Badger State’s attractiveness to residents, workers and businesses will pay off in the same way that it’s now working to attract large and increasing inbound migration from Illinois. One improvement would be to reduce the state income tax burden as is currently being proposed and which is the one measure out of the 14 discussed above that gives Illinois a competitive advantage. And Wisconsin should keep its labor costs for low-skilled workers at a competitive level and resist the political pressure to follow Illinois’ lead with a 100% hike in the minimum wage to a job-killing level of \$15 per hour.



About the author

Mark J. Perry is a scholar at the American Enterprise Institute and a professor of economics at the University of Michigan in Flint.