Guess which states are suffering least

Michael Costello

Saturday, April 25, 2009
Trib Biz Directory

I came across an interesting graphic last week. It displayed, in varying shades of blue, the state-by-state unemployment rates. The darker the shade of blue on the map, the higher was the unemployment rate. It occurred to me that I had seen a similar map. In fact, it looked a lot like last November's electoral map.

So I tracked down a map that showed which states voted for which candidate in last year's presidential election and, sure enough, with a few exceptions, those states with the worst unemployment were Obama's states.

I checked another site that rated states as blue (Democratic) versus red (Republican) and found that the correlation, though, not quite as good, still matched pretty well.

That great swath of middle America, from the Dakotas to Texas, from the Mississippi to the intermountain West, is suffering far less pain during this recession than the mostly blue West Coast, Great Lakes states and the Northeast.

Another bit of information I came across correlated unemployment rates with income tax levels and union membership. And once again, those states with high income taxes and/or high union membership were suffering the highest rates of unemployment in the nation.

The six states with the highest unemployment are: 1) Michigan, 12.6 percent; 2) Oregon, 12.1 percent; South Carolina, 11.4 percent; California, 11.2 percent and rising; North Carolina, 10.5 percent; and Rhode Island, 10.2 percent.

The Carolinas are not highly unionized, but have relatively high marginal income tax rates. Michigan's tax rate is moderate, but it is highly unionized. Oregon, Rhode Island and California are both highly taxed and highly unionized states. Five of the six cast their electoral votes for Barack Obama. Only South Carolina voted Republican.

The states with the lowest unemployment are: 1) North Dakota, 4.2 percent; 2) Wyoming, 4.5 percent; 3) Nebraska, 4.6 percent; 4) South Dakota, 4.9 percent; 5) Utah, 5.2 percent; and 6) Iowa, 5.2 percent. Of these states, only Iowa voted for Obama.

As a one-time Californian, I have watched Sacramento deal with that state's budget deficit and economic difficulties almost as closely as I followed Olympia deal with Washington's. And as an academic exercise, I have also watched New York, because so much of its tax revenue derives from the financial sector and the federal government has declared open war on investment banks. And New York is also interesting because so much of the tax burden falls on so few people that it would not take many voting with their feet to send the state into a death spiral.

Of the three, only Washington has resisted the urge to worsen its economic climate with higher taxes - sort of. Washingtonians will be asked to raise their sales tax. At least one legislator predicted that if Washingtonians don't raise their own taxes, old folks will perish.

Of course Washington is already a high-tax state, with an onerous business-and-occupation tax that smothers new enterprises in the crib. In addition, the state dances like a marionette with unions pulling the strings. Many analysts predict that Boeing has lost patience with labor strikes and will be looking to move its manufacturing out of Washington to a right-to-work state within 10 years.

California's response to disappointing revenue forecasts has been to cut spending a little and raise taxes a lot. This, along with an assumption that adding higher taxes and sharply increased environmental regulation to California's already toxic business climate will not drive more revenue-generating business out of the state, is supposed to cure the state's ills. The more likely response will be that the flow of productive people out of California will accelerate, while the flow of nonproductive people into the state will persist.

California used to boast that, if it were an independent country, it would have the world's sixth largest economy. It now has an outstanding chance of becoming a failed Third World state.

Is there a lesson here? Well, yes there is. Simply put, unions, taxes and interventionist government are bad for the economy. Free markets generate jobs and resist recession. But when confronted with the necessity of balancing their budgets, the only solution that many state governments can imagine only exacerbates their problems. But even though we have supposedly evolved into an era when facts and science rather than ideology will inform public policy decisions, I don't have much hope that this lesson will be learned or that politicians will change.

Costello is a research technician at Washington State University.
His e-mail address is
kozmocostello@hotmail.com.