CALIFORNIA PROGRESS REPORT

The Mythmakers Strike Again

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By Peter Schrag

Among perennial myths about California is the one about how the politicians' free-spending habits have run us into our chronic fiscal problems – that we're already a high tax state whose legislators don't know how to stop.

The other day, in a piece headed "California Still Doesn't get It," a Forbes magazine columnist named Todd Ganos gave us yet another installment. The Ganos column relied principally on an old report from the libertarian Cato Institute contending that since the passage of Proposition 13, "State spending had increased 25 percent more than the State's economy grew during the same period."

That "orgy of spending occurred under both Democratic and Republican leadership. Beginning in 2008, the State has experienced significant budget challenges each year."

What the piece doesn't say is that the state also faced significant "budget challenges" in 1967, when Ronald Reagan signed the biggest tax increase in the state's history, or in the Depression of the 1930s, or in the recession of the early 1990s.

Nor does it tell us whether that 25 percent increase includes the hundreds of millions of additional dollars the state devotes annually to bailing out the schools and local governments whose property taxes were cut by nearly 60 percent when Proposition 13 passed. Indeed the Ganos piece doesn't mention those tax cuts at all.

Nor does it account for the fact that the labor-intensive programs that the state funds – health care and education particularly – have risen much faster than the overall cost of living. Nor does he recognize that, as the liberal California Budget Project observed two years ago, "Tax cuts enacted over the past two decades have taken a large bite out of the budget and [that] recently enacted reductions further widen state budget gaps." Cuts enacted since 1993, according to CBP figures, cost the state some $11 billion a year.

Like a lot of other budgetary palaver, the piece assumes that California is a high tax state. “What can the State afford?” Ganos asks. “A line needs to be drawn. The State’s economy can only support so much taxation and so much spending.”

But by any serious measure – state and local taxes in relation to personal income – California falls somewhere around 18th in the nation, depending on the year and what you count. In its 2010 report, the Budget Project ranked California 19th among the states, with a tax burden just slightly higher than the national average.

As a share of the state’s economy, California spending in 2010 was at its lowest level since the 1970s – and is almost certainly still lower now. In every major category except corrections, state spending is far below what the state’s Legislative Analyst projected in 2004.

Yes, we’re high in taxes per capita, but that would put us through the roof compared to Bangladesh or Zimbabwe or even Alabama. It’s not a standard most Californians (or most Americans for that matter) would like.

The high tax argument – reflecting the equally tendentious arguments that the United States is a high tax nation -- plays comfortably into the contention that our high taxes are driving businesses and jobs to more favorable business climates – to Nevada, Arizona, and especially Texas.

There are plenty of stories that seem to confirm it. Labor is cheaper and housing and land costs are lower almost everywhere else. But as has been famously said, the plural of anecdote is not necessarily evidence.

Millionaires are not fleeing Malibu and Santa Barbara for the invigorating climes of El Paso and Houston. We have many more now than we did the last time taxes for the rich went up. California still leads the nation in venture capital investments; the coastal regions – high tech, export-related businesses, entertainment, even manufacturing -- are leading the state’s recovery.

Two years ago, a presentation by Jed Kolko of the fiercely non-partisan Public Policy Institute of California concluded, “ {Business} relocation contributes little to job gains or losses.”

Kolko also pointed out that business climate rankings downgrading California, which focus on taxes, regulations and labor costs, overlook the advantages: the availability of skilled workers; the state's venture capital and innovation culture; its large local market and, as ever, its natural amenities: climate and topography. Compared with the U.S., Kolko said, the average California worker earns 12 percent more and produces 13 percent more.

California has plenty of problems in governing itself and managing its budgets. Among them: the supermajorities required to raise taxes, but not to lower them; the auto-pilot criminal sentencing formula that's stuffed the prisons and fattened the prison guards' union; the ballot box budgeting that invites voters to approve appealing billion-dollar items without the unpleasant need to identify the revenue sources to pay for them; the voters' preference to put major water and highway projects on the credit card rather requiring the beneficiaries to pay for them.

And yes, we have a dysfunctional over-politicized legislature, but even that is often attributable to an initiative process that invites irresponsibility and makes governance nearly impossible. And beyond that we have political culture that for three decades has asked for generous services at little or no cost. When Ganos says "California – rather its legislators – still don't get it," he's got it only half right, or maybe not even half.

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Peter Schrag, whose exclusive weekly column appears every Monday in the California Progress Report, is the former editorial page editor and columnist of the Sacramento Bee. He is the author of Paradise Lost: California's Experience, America's Future and California: America's High Stakes Experiment. His newest book, Not Fit for Our Society: Nativism, Eugenics, Immigration is now on sale. View his past work on California Progress Report here.
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