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Washington state voters send anti-tax message to DC

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Voters in Washington state sent a clear signal to Congress, if only the latter will listen: Tax hikes, even “just on the rich,” remain unpopular.

The Washington State Constitution features what amounts to a ban on state income taxes , but the Legislature and governor instituted a dubious workaround this year by creating a new, 7% capital gains tax while misleadingly categorizing it as an excise tax rather than one on income. The tax, a classic “soak the rich” levy, applies only to gains above $250,000.

An unusual feature of Washington’s government is that it requires a nonbinding public referendum to be held on any tax created or increased by the state Legislature. The voting public can’t actually repeal the tax hike in question, but it effectively can send a warning shot across the bow of lawmakers who voted for it.

Note that Washington is a liberal state. Its people have voted for the Democratic nominee for president for the last nine elections, last year in a 58% landslide. And this tax fits right in with the national Democrats’ strategy of boosting the capital gains tax to help “pay for” their big spending plans, for which they cite polls purporting to show the approach is popular. It’s always interesting to see, though, how often real voters don’t do what mere opinion surveys predict they will.

So it was in this case. Even in a prototypically liberal state, 63% of Washington state voters rejected the new capital gains tax — again, even though it was designed to apply only to the wealthy. It seems, as Cato Institute economist Dan Mitchell put it, that most voters “realize that they'll be collateral damage " from such a tax hike — because of course the actual costs get passed on to poorer people in myriad ways .

In general, taxes on businesses or business earnings are quite inefficient anyway, which is one reason some of us long have advocated imposing no direct tax on corporate income at all. Mitchell gets credit here for noting that President Joe Biden's plans to help finance his massive spending boondoggle almost certainly would slow economic growth so much as to add very little actual new revenue to federal coffers. Mitchell also showed the logical obverse is also true: Cutting corporate taxes can boost the economy so much that surprisingly little federal revenue is actually lost.

While the Paul Ryan-Donald Trump corporate income tax cut in 2017 didn't actually "pay for itself," Mitchell reported, corporate tax revenues after the tax cut came very close to matching the revenues projected at the higher rate, before the cut. Corporate tax cuts may not be truly "self-financing," he wrote, but in many instances, they can come reasonably close. Likewise, corporate tax hikes, such as the one in Washington state, can be almost entirely self-defeating, in terms of their yield for government treasuries and for the economy as a whole.

Nobody is saying the majority of Washington state voters would cite economic charts to justify their advisory vote against the tax increase. Still, most voters intuitively grasp the basic idea that "taxing the rich" usually ends up causing negative consequences for all income groups while justifying bigger government in ways voters might not want government to grow.

In the other Washington, the nation's capital, Democratic politicians counting on public support for their own tax hikes on the wealthy may find they, too, aren't treated so well at real-life ballot boxes.