



## California Is the Canary in the Class-Warfare Coal Mine

**Daniel J. Mitchell**

President Obama's fiscal policy is a dismal mixture. On spending, he wants a European-style welfare state. On taxes, he is fixated on [class-warfare tax policy](#).

If we want to know the consequences of that approach, we can look at the ongoing collapse of Greece. Or, if we don't like overseas examples, we can look at California.

If the (formerly) Golden State is any example, it turns out that having high tax rates doesn't necessarily [translate into high tax revenues](#). Here's a blurb from an [editorial in today's Wall Street Journal](#).

*California Controller John Chiang reported last week that April tax collections were a gigantic 20.2%, or \$2.44 billion, below 2012-13 budget projections. ...Among the biggest surprises is a 21.5% or nearly \$2 billion decline in personal income tax payments from what Governor Jerry Brown had anticipated. This reinforces the point that when states rely too heavily on the top 1% of taxpayers to pay the bills, fiscal policy is a roller coaster ride. California is suffering this tax drought even as most other states enjoy a revenue rebound. State tax collections were up nationally by 8.9% last year, according to the Census Bureau, and this year revenues are up by double digits in many states. The state comptroller reports that Texas is enjoying 10.9% growth in its sales taxes (it has no income tax), while California can't seem to keep up despite one of the highest tax rates in the land.*

The WSJ editorial suggests a supply-side response, but you won't be surprised to learn that the state's kleptomaniac governor is pushing an Obama-style soak-the-rich tax hike.

*This would seem to suggest that California should try cutting tax rates to keep more people and business in the state, but Sacramento is intent on raising them again. Governor Brown and the public-employee unions are sponsoring a ballot initiative in November to raise the state sales tax by a quarter point to 7.5% and to raise the top marginal income-tax rate to 13.3% from 10.3%. This will make the state even more reliant on the fickle revenue streams provided by the rich. Meanwhile, an analysis by Joseph Vranich, who studies migration of businesses from one state to another, finds that since 2009 the flight of businesses out of California "has increased fivefold due to high taxes and regulatory costs."*

I'll be very curious to see what happens this November when the people of California vote in the referendum. Will they be like the morons in Oregon, who [approved a class-warfare tax hike](#)? Or will they be like the [voters of Switzerland and reject class warfare](#)?

Sadly, I suspect Oregon will be their role model – even though that [decision hurt the Beaver State's economy](#).

But while voters can impose higher taxes, they can't repeal the laws of economics. So if California voters do the wrong thing, they will learn a [hard lesson about the Laffer Curve](#).

And then, as [this cartoon demonstrates](#), they'll learn the ultimate lesson about [not biting the hand that you mooch from](#).

### [Revolt of the Italian Tax Slaves](#)

I wrote last year about a [tax protest in Ireland](#), and I wrote earlier this year about a [tax revolt in Greece](#).

But Irish and Greek taxpayers are wimps compared to their Italian compatriots. When Italians decide to have a tax revolt, they don't kid around. Here are some [remarkable details from the UK-based Telegraph](#).

*In the last six months there has been a wave of countrywide attacks on offices of Equitalia, the agency which handles tax collection, with the most recent on Saturday night when a branch was hit with two petrol bombs. Staff have also expressed fears over their personal safety with increasing numbers calling in sick and with one unidentified employee telling Italian TV: "I have told my son not to say where I work or tell anyone what I do for a living."*

As much as I despise high taxes, I don't think petrol bombs are the answer. But I am glad that at least some of the bureaucrats feels shame about their jobs.

Not surprisingly, the political elite wants people to be deferential to predatory government.

*Annamaria Cancellieri, the interior minister, said she was considering calling in the army in a bid to quell the rising social tensions. "There have been several attacks on the offices of Equitalia in recent weeks. I want to remind people that attacking Equitalia is the equivalent of attacking the State," she said in an interview with La Repubblica newspaper.*

Here's some advice for Ms. Cancellieri: Maybe people will be less likely to attack "the State" if "the State" stops attacking the people.

But don't expect that to happen. The Prime Minister also demands obedience to "the State" and there's rhetoric about "paying taxes is a duty" from other high-level government officials.

*Saturday night's attack took place on the Equitalia office in Livorno and the front of the building was left severely damaged by fire after the bombs exploded. The phrases "Thieves" and "Death to Equitalia" were sprayed onto outside walls. It came just 24 hours after more*

*than 200 people had been involved in running battles with police outside a branch in Naples which left a dozen protesters and officers hurt. ... There has also been a striking increase in suicides with people leaving notes directly blaming Equitalia and tax demands. Paola Severino, the Justice minister, said: "The economic situation has produced unease but paying taxes is a duty. On one side there is anger and the problem of paying when the resources are scarce but on the other side is the fact that they must be paid." ... Mr Monti has vowed to press on even harder this year to recover the lost money. He is due to have a meeting with Equitalia chief Attilio Befera to discuss the situation and he has already said: "We are not going to take a step back, there will be no giving in to those who have declared war against the revenue and therefore the State. We will not be intimidated."*

Keep in mind, by the way, that this is the government that supposedly is being run by brilliant technocrats, yet they are so incompetent that [they appoint the wrong people to posts](#). But the real problem is that [government is far too big](#), consuming one-half of Italy's economic output.

If Italy's political class wants to improve tax compliance, they should [listen to the IMF](#) and [academic economists](#), both of whom point out that lower tax rates reduce incentives for evasion and avoidance.

It also would help to shrink the burden of the public sector. Unfortunately, as is [the case with most other European nations](#), "austerity" in Italy mostly means higher taxes, not less spending