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BLUMER: Cato gives Kasich a B — Is this the best he can get?

By Tom Blumer - October 10, 2012

The Cato Institute, a leading liberty-driven Washington, D.C.-based think tank, has just released its 2012 "Fiscal Policy Report Card on America's Governors," its 11th such biennial effort. The report's findings merit further attention, especially the B grade given to Ohio Gov. John Kasich. Barring a major change in course, the Kasich administration's current direction virtually guarantees that the governor's grade will not improve during the second half of his current term or a possible second one — and could easily backslide.

The criteria report author Chris Edwards used in evaluating 48 of the nation's 50 governors — Mississippi and Alaska were excluded for technical reasons — included "seven variables: two for spending, one for revenue, and four for tax rates." Each governor's score was the average of the three categories.

Edwards had to grade the governors on a curve. Four of them, all Republicans, were awarded an A, even though their scores on a scale of 1 to 100 ranged from 65 to 69. The five governors who received an F, all Democrats, had scores ranging from 16 to 38.

Cynics who still believe there is no difference between the country's two major parties also should note that the 27 Republican governors evaluated turned in an average score of 56.7, a solid B, while taking 15 of the top 16 positions. Meanwhile, the 21 Democratic governors, including Rhode Island independent Lincoln Chafee, who might as well be a Democrat, averaged 43.2, a definite D, occupying 10 out of the 11 lowest spots.

Kasich, a Republican, achieved a score of 58 and was tied with two other governors for ninth place overall. This was a vast improvement over Democratic gubernatorial predecessor Ted Strickland's 2010 D grade.

The report's narrative on Kasich's performance contained several compliments, including these:

Governor Kasich has held state spending down the last two years, and he has pursued a variety of tax reforms. In 2011 he signed a repeal of the Ohio estate tax, which had been one of the most onerous estate taxes in the nation.

Unfortunately, certain aspects of Kasich's tenure have been far from stellar. Edwards notes that he signed off on a hospital tax increase last year and has been pushing a 400 percent hike in the severance tax on oil and gas extracted from Ohio's drilling sites, a tax which threatens to hold back the expansion of the state's most promising avenue for economic growth.

More crucially, the Kasich administration inherited a particularly odious form of taxation found in very few other states, and the governor has expressed no visible interest in doing anything about it. That tax, known in general terms as a gross receipts tax, is called the Commercial Activities Tax in the Buckeye State. Edwards cites the Tax Foundation's Joe Henchman, who persuasively argues that "this pernicious tax hits the receipts of profitable and unprofitable companies alike, and pyramids through the chain of production, distorting price signals."

Kasich claims to believe in supporting entrepreneurship, but Edwards, in light of CAT's presence, accurately writes that "Ohio is far from a tax-friendly place for entrepreneurs right now." That's because CAT forces start-up and emerging businesses to pay taxes even in their usually money-losing early years. The governor should be working to kill CAT. Instead, by lobbying for the severance tax increase, he is really pushing for its de facto industry-specific expansion. At this rate, Kasich can forget about ever getting an A from Cato; if the severance tax increase ever becomes law, he'll richly deserve a C.

Unfortunately, CAT has the strong support of Secretary of State Jon Husted, who championed it when he was a legislator. Husted, heaven help us, has designs on the Governor's Mansion after Kasich leaves public life, and appears to have the GOP establishment's backing. If Kasich doesn't act to kill the CAT while he's in office, Ohioans may be doomed to its continued existence and the economic mediocrity which will accompany it well into the next decade.