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Would Sacramento raise taxes when economic growth is needed the most?

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The pandemic lockdown not only was a lethal financial contagion for many Californians, it deprived the state government of so much revenue that Sacramento now has a $54 billion budget deficit.

How will lawmakers bridge the gap? By coincidence, they were already thinking about nearly $66 billion in new taxes and fees. Thanks to the coronavirus recession, they can now more easily justify the additional financial burden.

Politicians are more like bank robber Willie Sutton than they would like to admit. He stole from banks, supposedly saying because that's where the money is. Lawmakers plunder taxpayers because that's where the money is. But maybe this time the money won't be there. Tax hikes will choke any nascent recovery.

The latest data show the state is struggling. Unemployment hit a record high 15.5 percent in April 2020, more than two percentage points higher than the 12.3 percent peak recorded three times during the Great Recession.

Last month, Gov. Gavin Newsom was convinced the rate would reach 20 percent and believed it was very likely moving toward "22, 23, 24, 25 percent."

Meanwhile, payroll jobs plunged from 17.4 million in March to 15.05 million in April. It did not take long after the lockdown began for the number of jobless claims to reach 5 million, which is more than twice the unemployed during the rockiest months of the Great Recession.

In late May, the New York Times reported the California economy was in a free fall and "debilitating financial costs are mounting every day." Though the state "has a hugely diversified economy ... many of the industries that have made it so strong are also the ones getting hit the hardest."

Comerica Bank analysts Robert Dye and Daniel Sanabria say that even "after posting a solid year of economic growth in 2019, the California economy will fall into recession in 2020 due to the global pandemic."

And California's own Legislative Analyst's Office said, "After many years of favorable budgetary conditions, the state is suddenly facing a recession and a severely negative budgetary outlook."

While they expect to see some improvement in third quarter GDP after the historic slide through the second quarter, in which the state GDP fell 29.3 percent, they do not expect to see a complete near-term rebound in the state economy, or a so-called V-shaped recovery.

It’s under these miserable economic conditions that lawmakers are considering $65.9 billion in new taxes and fees. The California Taxpayers Association says it has identified 42 bills and constitutional amendments that contain higher costs. It’s possible the true figure is even higher, because costs cannot yet be quantified for 27 of the measures.

The known costs include “taxes on hiring workers during the worst periods of unemployment since the Great Depression,” and an increased tax burden on businesses “developing a treatment and cure for COVID-19.” The worst offender is “a $53.3 billion value-added tax increase to pay for a California universal basic income program.”

Another particularly egregious revenue raiser is a $1.6 billion tax on energy production. The costs will eventually be borne by ratepayers who need to keep their lights on and their homes warmed in winter, cooled in summer. Then there is a billion here from businesses based on employee pay, and a billion there by eliminating under some circumstances the property tax exclusion on inherited residences. We’re talking about real money.

We’re also talking about the potential for extending the recession.

“Tax increases (measured by total tax receipts as a percentage of gross national product) have led to slowdowns in economic growth, and often to recessions,” the Cato Institute says.

More recent research confirmed that nearly 30-year-old study:

“An exogenous tax increase of 1 percent of GDP lowers real GDP by roughly 3 percent,” say Christina (who at one time chaired the Obama Council of Economic Advisers) and David Romer.

As it turns out, “scores of peer-reviewed studies” confirm that “hikes in marginal tax rates discourage business start-ups and investment and reduce labor supply,” economist Robert Murphy says.

But an economics education is not necessary to see the folly of hiking taxes during a recession or to close a budget deficit. Even voters in Deep Blue California recognize how senseless tax increases would be under present conditions. Results of a Public Policy Institute of California poll released earlier this month found that “solid majorities (60 percent of both adults and likely voters) say that tax increases should not have been included,” in Newsom’s May budget revision. “Only one-third of Californians (32 percent adults, 34 percent likely voters) say he should have.”

A poll taken of the Legislature would likely yield an opposite result. Gazing lustfully at other people’s money is just business as usual in Sacramento.