

## It's time to save the golden goose



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— Jason Clemens  
San Francisco Chronicle



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## California's tax tactics undermine prosperity

By Jason Clemens

California's bond rating is the country's lowest. The state faces near unprecedented unemployment and underemployment. State government and most counties face deficits for the foreseeable future. The solution to this predicament, some Sacramento politicians believe, is more taxes.

The underlying assumption of such an approach is that taxes don't have much impact on economic performance and that tax competition among states is irrelevant. But both matter a great deal and lie at the heart of why the state's economy is struggling.

The first faulty premise pervading Sacramento is that taxes don't influence economic decisions and performance. Volumes of research show how taxes change behavior and how they affect the economy.

When we tax something, we get less of it. In other words, much of the foundation for a prosperous society, like work effort, savings, investment and entrepreneurship, is influenced by taxes. Unfortunately, California has gone out of its way to tax these very things.

California imposes America's fourth-highest top marginal personal income tax rate, behind only Hawaii, Oregon and New Jersey. Progressivity of our personal income taxes is the nation's third steepest. That is, when Californians are successful and begin to earn more income, they face higher rates both absolutely and compared to other states.

Our corporate income tax is the country's eighth highest; our sales tax the highest. Perhaps even more disconcerting for Californians, given Prop. 13, is that there are 16 states with lower property tax burdens (compared to the overall economy) than California. That's in part why we continue to lose productive residents and businesses to other states.

A second faulty premise is that tax competition doesn't matter. In reality, people and businesses make decisions not only about their opportunities in California but also in other states.

This is a particular problem for California because, on most major taxes, we are not competitive with our neighbors. The starkest contrast is Nevada, which has no personal or corporate income taxes. Its state sales tax is 6.85 percent - lower than California's 8.25 percent.

Arizona beats California in every major tax category. Its top personal income tax rate is 4.5 percent, compared to California's 10.55 percent. Arizona ranks 18th in the country for its progressivity in income taxes - meaning workers and investors are punished less through higher tax rates as they earn more. Arizona's corporate income tax rate is 7 percent, compared to 8.8 percent in California. And its sales tax rate is just 5.6 percent.

Or consider Utah. Its top personal income tax rate is 5 percent - a flat rate, so there is no punishment for increased productivity. Utah's 5 percent corporate income tax is markedly lower than ours, and its sales tax rate is a little under 6 percent.

Research tells us that taxes matter and that tax competition is real. Our high taxes have not solved our fiscal predicament and, indeed, have made it worse by retarding economic growth.

This should be unacceptable to Californians given the state's economic potential. The solution is fairly straightforward: To restore prosperity we need lower, competitive taxes - and we need them now.

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