

Buffetting California

Arnold Schwarzenegger has said that one of his priorities as Governor would be to "bring business back to California." This shows he understands the root of the state's current problems, but his tapping of Warren Buffett for advice is a sign that he doesn't yet understand the solutions.

How the state's tax-and-regulate political culture has damaged its economy.

claim in California to be 33% above the median. The report by the Workers' Compensation Research Institute also noted that the "Average per-claim expenses for medical cost containment services, defense attorneys, and medical-legal expenses are higher [in California] than in most study states."

Mr. Buffett is a wonderful stock picker but his politics lean toward tax and spend. Last week he opined that California's problem may be that it is undertaxed. He specifically cited Proposition 13, which limits property tax increases to 2% a year. It seems the billionaire is vexed that he pays less in property taxes on a more expensive home in California than he does back in Omaha. No doubt the non-billionaires in Chico will appreciate Mr. Buffett's generosity with their cash flow.

And don't forget the state's steeply progressive tax code, a major cause of its current fiscal woes. The state is overly dependent on rich folk for tax revenues. In 2000, Californians paid \$40 billion in income taxes, and 54% of that came from taxpayers who earned \$300,000 or more. Almost 38% was paid by millionaires, who file less than one-third of 1% of tax returns. It's no surprise that when the stock bubble burst so did California's tax coffers.

The Buffett diagnosis misses entirely that California's main problem is its high-tax, high-regulation government. The \$38 billion budget deficit is merely a symptom of the fact that the state's liberal political culture is driving entrepreneurs and job-creating businesses out of the state. A new Census report says that were it not for Latino immigration, California's population would be *falling*. Between 1995 and 2000, more than 600,000 of its residents moved out of what was once America's promised land.



Warren Buffett

In the percentage of income taken by state and local taxes, California was eighth highest in the nation this year at 10.6% (fourth highest if you calculate the interaction of state levies with federal taxes). The Tax Foundation ranked California second-worst in the nation (after Mississippi) in a May study of state business tax climates. Among other reasons, the report notes "multiple-rate corporate and individual tax codes that impose above-average tax rates" and "high overall state/local tax burdens that have grown faster than taxpayers' incomes." Mr. Davis and the liberal legislature used this to grow state government employment by 13.6% from 1997 to 2001, or twice as fast as state population growth.

This takes some doing, considering the state's weather and lifestyle. But the liberal Democrats who now dominate Sacramento have piled mandate upon regulation upon new tax in recent years in an attempt to pay off their trial-lawyer, public-employee union and environmentalist backers. Governor Gray Davis tried to keep them in check for a year or so, but after the energy debacle he let the inmates start running things in return for their re-election support. His appeasement has now bought him the humiliation of a recall vote.

All of these are ripe targets for a gubernatorial candidate who wants to run on revitalizing the state economy. Mr. Davis's inability to do this is already on the record. The most important Democrat bidding to replace him, Lieutenant Governor Cruz Bustamante, has been one of those leading the tax-and-regulate charge. As Mr. Davis falls in the polls, the same public-sector interests that brought him low are now swinging to Mr. Bustamante. They realize that as Governor he's likely to be Gray Davis without the backbone.

The Chamber of Commerce in Sacramento compiles a list of the new job-killing burdens on business and ultimately on worker/taxpayers: an eight-hour workday overtime rule unique to California that is far less flexible than federal law and opens employers to lawsuits; paid family leave of up to six weeks, the first such law in the country; and limits on greenhouse gas emissions, also the first in the country, that will raise prices on cars.

The two conservative Republicans in the race, businessman Bill Simon and state senator Tom McClintock, are putting the economy front and center. Mr. Simon is reprising his sound proposal from the last campaign to cut the state's capital gains tax to 5% from 9.3%. That would help both entrepreneurship and state revenue. Mr. McClintock has long fought to lower the state tax burden.

High workers' compensation premiums are also a huge disincentive for start-ups and business expansion. A recent study of 12 large states found the average cost of a workers'

If Arnold wants to grow his army and become Governor, he's going to need proposals that give Republicans and independents in particular a reason to believe that he knows how to revive the economy of that once-great engine of American growth. Mr. Buffett's tax-hike musings aren't the ticket.