'Static cling' in Sacramento: Jon Coupal

By Jon Coupal

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What is it with progressive politicians who believe that taxpayers won't change their behavior because of tax policy? One would think that repeatedly seeing pie-in-the-sky revenue projections from big tax hikes that fall way short of reality would be a wake-up call.

In trying to project the impact of tax hikes on government revenues, the failure to account for predictable changes in behavior is called "static scoring." And since many progressives mindlessly hew to this method of analysis, let's call it "static cling."

Static scoring is different from "dynamic scoring." Dynamic scoring simply means taking into account predictable changes in behavior that result from tax increases (or tax cuts) to accurately project the amount of money that will be raised.

Let's look at a recent, very stark example of how this plays out. Last summer, Philadelphia imposed a huge "soda tax" on sugary drinks that amounted to a cent-and-a-half per ounce of beverage. This could, in many cases, result in an effective 50 percent tax on some products. After the tax was imposed, the politicians and bureaucrats waited eagerly for the revenue to come pouring in.

But something went wrong on the Philadelphia road to tax-receipt utopia: According to Philly.com reports, after two months of the tax, supermarkets as well as the distributors reported a 30 percent to 50 percent drop in drink sales and thus had to start laying off employees. And while city officials knew there would be some drop-off in sales, the impact on the city's economy looks to be much more negative than positive.

Conservative economists, including the late Milton Friedman, have always stated that if you want more of something, tax it less, and if you want less of something, tax it more. It is doubtful that any government entity sets out to reduce economic growth, but that is precisely what they get if they increase taxes on those who generate economic growth.

This happens a lot with cigarette taxes. It is true that higher tobacco taxes make the habit more expensive and might reduce smoking. But tobacco taxes that are too high result in other tax avoidance behavior including increasing the importation of bootleg (unstamped) cigarettes. Again, it is doubtful that government sets out to help organized crime syndicates when they raise taxes, but that is a predictable result.

California's highest-in-the-nation income tax rate has led to huge outflow of high-wealth individuals as well as many members of the middle class. Countless entertainers and professional athletes have migrated to low- or no-tax states like Texas and Florida where, just by moving, they give themselves a 13 percent increase in their income. (Luckily, California replaces many of the millionaires who move out with new, high-tech millionaires, but the question is always how long will they stay.)

While tax increases can have a dramatic negative effect, tax reductions can have wonderful positive results. During the 1978 campaign fight over Proposition 13, a noted UCLA economist appeared in a TV ad intoning that Prop. 13 would immediately plunge California into recession. Of course, the early '80s proved to be a period that saw some of the greatest gains in the California economy ever. Much of that was due to the fact that homeowners and businesses had a lot more money to spend that wasn't going to the tax man.

The lesson here is that, if our state is to prosper, it is better to engage in dynamic thinking than to suffer from static cling.

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