

# Virginia Viewpoint

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## Virginia Has Its Own California Problem

By Stephen Moore

### Summary

There are those “leaders” in Virginia who would have us believe that we need to become more “progressive” in our spending and tax policies so that we can be more like other states.

Virginians don’t have the time or the patience for Governor Warner to learn that the Gray Davis school of economic thought won’t be any more successful here than it was in California.

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If you watched the recall of Governor Gray Davis and the elevation of Arnold Schwarzenegger in California, you know that the Golden State is in dire fiscal shape. This is a state that has taxed and spent itself into near oblivion. California is now drowning under \$14 billion of debt, has one of the highest unemployment rates of any state in the country, and has a bond rating barely above junk bond status.

How did this happen? As Arnold has said many times: “Our politicians have spent us into the poorhouse.”

And if Virginia doesn’t soon change its ways, it’s headed into the winds of the same fiscal storm that has ruined California. The similarities between the two states are frighteningly striking. California’s economic crisis stems from chronic overspending by the governor and state legislature, which saw the state government grow by more than 40% in just five years. But Virginia’s budget grew at an even more reckless pace than California’s. In Richmond the state budget expanded by 56% over the same time period. The chart below shows that in recent years both taxes and spending have increased at a faster pace in Virginia than in the once-Golden State.

### 1997-2002 Per Capita Budget Growth

	Spending	Taxes
California	42%	28%
Virginia	56%	37%

***Californians have learned that high tax rates don’t redistribute income, they redistribute people. If the politicians raise taxes on the rich, there will be fewer rich people in Virginia. That will also mean fewer jobs and fewer tax revenues.***

Virginia and California both benefited enormously from the high tech revolution of the 1990s. Northern Virginia has the most high tech companies of any area in the country outside Silicon Valley. During the technology sector’s boom years, the two states were awash in tax revenues. In fact both California and Virginia nearly doubled their tax intake in the 1990s. However, the tech bust of 2000 and 2001 left a big financing hole in each state’s budget.

To fill that hole Gray Davis refused to cut the state budget. Instead, he issued record levels of new debt and raised taxes. To make the tax system “fairer,” Governor Davis imposed tax hikes on the rich and on business. But California, like Virginia, already had a tax system where the “rich” shouldered

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a huge share of the tax burden. The richest 1% of Californians pay about one-third of all the state's income taxes. Virginia isn't quite that top heavy in taxes, but the rich do shoulder a disproportionate share of the burden.

Virginians should pay close attention. Higher taxes in California combined with a culture in Sacramento that is hostile to business led to the first major out-migration of wealthy individuals and businesses in the state's history. California's entrepreneurial community especially is uprooting itself and moving to Nevada, Washington, Idaho, Utah, and other neighboring states that have much lighter tax burdens.

Governor Mark Warner is now pursuing many of the same economically debilitating policies. Last year he tried to solve the transportation "crisis" by raising sales taxes. Fortunately, the voters sent a message, "Not only no, but ...." Now he is promoting a tax restructuring scheme that would make the tax system "more equitable." Guard your wallet. This sounds an awful lot like a stalking horse for increasing income tax rates on middle and higher income Virginians. But Californians have learned that high tax rates don't redistribute income, they redistribute people. People are repelled by high taxes in much the same way that they are repelled by a swarming cloud of bees. If the politicians raise taxes on the rich, there will be fewer rich people in Virginia. That will also mean fewer jobs and fewer tax revenues. That's exactly what happened in California.

So how can Virginia avoid California's sad demise? To start, Governor Mark Warner and the legislature need to start making cuts in the budget now, so that the fiscal crisis doesn't cascade out of control the way it did in Sacramento. Despite lip service to what we are told were draconian budget cuts last year, the budget in Virginia has not only grown, but grown faster than inflation and population in every year of the Warner administration. Borrowing at the state and local level in Virginia has also exploded in recent years. This just makes balancing the budget in the future all the more difficult.

Gray Davis was removed from office because infuriated voters felt that he allowed their state to slip into a fiscal ditch and had no viable plan to pull the state out of its decline. The combination of high taxes, onerous business regulations, runaway trial lawyers, and \$50 billion of new debt by the state government drove individuals and business to sanctuaries of political sanity outside California's borders.

California's predicament is a result of inept and cowardly leadership and an inability of the politicians in that state to say no to parades of moneyed special interests. I see the same maladies creeping into the political structure of Virginia. In California, the bloom is off the rose. It would be a shame if the Commonwealth of Virginia suffered the same unhappy fate.

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(Stephen Moore is president of the Club for Growth and a senior fellow at the Virginia Institute for Public Policy, an education and research organization headquartered in Potomac Falls, Virginia. **Permission to reprint in whole or in part is hereby granted, provided the author and his affiliations are cited.**)

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John Taylor  
Virginia Institute for Public Policy  
20461 Tappahannock Place  
Potomac Falls, Virginia  
20165-4791

Phone: (703) 421-8635  
Fax: (703) 421-8631

[www.VirginiaInstitute.org](http://www.VirginiaInstitute.org)  
[JTaylor@VirginiaInstitute.org](mailto:JTaylor@VirginiaInstitute.org)

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