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The Wall Street Journal's meathead editorial

The Wall Street Journal thinks you're a chump for living in California.

In a triumph of misleading statistics and unsupported assertions, the Journal reported – well, claimed – in a Tuesday editorial (“Meathead Economics”) that native-born Californians, especially rich ones, are being driven out of the state by high income taxes and a negative business climate.

California had a net outmigration of 239,416 in 2005 (actually, July 2004 to July 2005), according to the U.S. Census Bureau, and the state “is also on a pace to lose domestic population (not counting immigrants) this year,” as the Journal wrote. But that’s not exactly news. Outmigration been going on for over a decade, starting during the administration of Republican governor Pete Wilson. The state’s population continues to increase due to foreign immigration.

But the Journal uses this bit of misdirection to point a bony finger in the wrong direction. “What's gone wrong?” the Journal intones. “A big part of the story is a tax and regulatory culture that treats the most productive businesses and workers as if they were ATMs.”

According to the Journal, California’s cost of doing business, its second highest in the nation income taxes, even factors like high tobacco taxes, contributed to a steep decline in the number of millionaires in the state between 2000 and 2003. Hmm. Note the years. That was the dot-com collapse.

Not to be deterred from its anti-tax tirade, the Journal wrote threw history a bone. The dot-com bust, they wrote, “no doubt wiped out many paper millionaires, but migration out of the state to escape its hefty tax premium has also played a role.”

Oh yeah? And what non-anecdotal, causal evidence does the Journal marshal to support its claim of a “role” for taxes in outmigration and the alleged drop in wealth that went with it? None. So much for the heart of its argument.

If high state income taxes, to take one example, were a demonstrable, isolatable cause of outmigration, it would be consistent from state to state. But it isn't. How would the Journal account for this discrepancy: Oregon’s individual income tax rate is also one of the highest in the nation, ranking just below California’s, while Washington has no

individual income tax at all. Yet both neighboring states had nearly identical net increases in migration.

Clearly something besides taxes is going on – and thank goodness the Census Bureau is there to straighten us out. Across the country most people move for a reason the Journal didn't even bother to mention, one that's familiar to current and former Californians: the cost of housing.

In 2004, some 39 million Americans moved. The single most often cited reason, by 8.8 million, was wanting a new or better home. "Other" housing reasons, including cheaper homes and shorter commutes, was cited by another 8.2 million movers. Together that's well over 40 percent of the total. Work related reasons were cited by only 13 percent.

And the reason for moving most often cited by the rich people the Journal is so concerned about, those making over \$100,000 a year? Change in marital status.

Eventually the Journal editorial gets around to its real purpose: to convince you that Proposition 82 on the June ballot (promoted by Rob Reiner, hence "Meathead" in the headline), which would increase taxes on the wealthiest Californians by 1.7 percentage points to pay for universal pre-school, would be a disaster.

That may be true, although you wouldn't know it from the Journal's analysis. The editorial cites as proof a similar Pete Wilson tax increase in the early 1990s that triggered "one of the worst fiscal crises in the state's history. Tax revenue fell as high-income people fled the state, while public debt exploded." (There go those fleeing rich people again.) Apparently the Journal believes that the cutbacks in the defense/aerospace industry and the George H.W. Bush recession of 1991-1992 had nothing to do with that.

Nobody is pretending that high taxes are an incentive for business, but people want to live in California for a myriad of quality-of-life reasons unmentioned by the Journal – which, by the way, has yet to announce its plans to leave high-priced New York. As for it being cheaper to live in places like Nevada and Idaho, as the Journal says, that's certainly true. But real Californians understand something the Journal doesn't: You get what you pay for.

To view John Yewell's blog, including a collection of columns, visit:
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