California Federation of Teachers
American Federation of Teachers, AFL-CIO

FOR IMMEDIATE RELEASE: **Monday, June 21, 2010**

Contact: Steve Hopcraft, 916/457-5546; steve@hopcraft.com;
Fred Glass, 510.579.3343, cftoakland@igc.org

In case you missed it…

Los Angeles Times

Corporate welfare and California's budget deficit

The government handouts include tax breaks for businesses and incentives for some of the state's largest industries.

Michael Hiltzik
June 18, 2010

I believe we can all agree on the root cause of the state's $20-billion budget gap. It's welfare: all those millions of taxpayer dollars going to recipients who line up for their government handouts instead of competing in the marketplace on a level playing field like the rest of us, who don't pay their fair share of taxes and who get protected by a politically powerful lobby. Yes, I'm talking about the business community.

For all the hand-wringing by Gov. Arnold Schwarzenegger about how there's almost nothing left to cut in the state budget except services to children, the aged and the destitute, hundreds of millions of dollars are spent every year on handouts to business. That's despite the lack of evidence that some of these programs keep employers in the state, lure employers from out of state or are cost-effective in any general way.

The governor is asking the Legislature to take such draconian steps as eliminating CalWORKS, the state's principal family welfare program (serving 1.1 million children), and downsizing child care and mental health programs.

Meanwhile, corporate welfare programs such as tax breaks for some of our largest companies and "incentives" for our largest industries are to survive. To his credit, Schwarzenegger has proposed delaying some new corporate tax breaks.

The state budget is rife with industry goodies. For example, there's the Hollywood subsidy, currently pegged at $100 million a year in tax credits.

The rationale for this welfare program is to keep productions from fleeing to other states, taking California jobs with them. But you could go blind looking for an independent study, as opposed to studies funded by the state film commissions handing out the dough, showing that such programs produce more in overall benefits than they cost.

Quite the contrary — according to Governing magazine, New Mexico, which had aggressively courted producers with $40 million in tax rebates, concluded in 2008 that for every dollar it spent, it received 14.4 cents in return.

No one knows to what extent the production companies pocketing California's cash would have filmed here anyway. And the program is hardly aimed at companies on the financial edge — as my colleague Richard Verrier reported recently, $20 million is going to pictures being shot here this year by Warner Bros. The money isn't allocated according to need but on a first-come, first-served basis among qualified productions, the California Film Commission says. In other words, it's more a windfall for the nimblest applicants than a program targeted at productions most likely to leave without it.

The biggest state incentives are attached to enterprise zones, which cost as much as $500 million a year in forgone taxes. Businesses locating within any of 42 designated zones across the state can apply for tax credits and other bounties for hiring unemployed or low-income workers.

But there's a vigorous debate over whether the program increases employment. A study published last year by the Public Policy Institute of California found "no statistically significant effect on employment" from the program.

That hasn't moved its influential fans. The California Chamber of Commerce, which was last seen electioneering for Pacific Gas & Electric's Proposition 16, thinks enterprise zones are great.

For proof, it relies on two studies from 2006. It fails to mention that the author of one of them, the late Ted K. Bradshaw of UC Davis, had received funding for some of his work from the California Assn. of Enterprise Zones, which is a bit like my obtaining a character reference from my mother.

The chamber quotes Bradshaw as concluding that California's program is "probably the most successful in the nation." But it doesn't say he also found that two-thirds of the growth in the zones would have occurred anyway, or that no "definitive study" had been conducted to nail down the "impact of the zones on local economic development."

In other words, while we know that children have to eat and get medical care, we don't know for sure that businesses need the half-billion-dollar annual tax break they get from enterprise zones. So why is the former expendable and the latter a sacred cow?

As for the other 2006 study, it found that for households within enterprise zones, poverty rates were lower and incomes higher than in the rest of the state. But that measure applies to *households* within the zones, not *employees* of zone-based companies, which are by no means the same thing, according to Jed Kolko, an author of the critical Public Policy Institute of California survey.

The chief mechanism for corporate welfare in California is the tax system. Some industries whacked hard by other states are untouched by California — this is the only major oil-producing state that doesn't levy a severance tax on oil taken from the ground, even though such a tax could yield billions of dollars a year.

Despite this state's reputation for being tough on business, other states rely far more on business taxes than we do. According to a survey by the accounting firm Ernst & Young, California ranked 35th in terms of business' share of state and local taxes in 2007. (That is, in 33 other states and the District of Columbia, business carried a higher burden relative to individual taxpayers than in California.) Measured by business taxes as a percentage of gross state product, California ranked 32nd.

The business lobby loves to cite California's high corporate income tax rate as emblematic of our negative business climate, but that's cherry-picking — in this state the income tax ranks high as a percentage of total business taxation because the property tax is so low, accounting for a lower percentage of total taxation than in 44 other states.

None of this means that business incentives are necessarily bad or that some may not indeed promote job growth. But the budget disaster requires every program to be measured against competing priorities, and corporate welfare hasn't gotten enough scrutiny.

What could we do with all that money? The $100 million spent on Hollywood could maintain any of several Medi-Cal benefits the governor proposes to cut. The $500 million spent on enterprise zones could save half of CalWORKS, and $1 billion from a severance tax could save all of it, benefiting a billion children. Eliminate some of these questionable programs, and more could be spent on the schools and the universities.

We're constantly being told that in these straitened times, we need to make hard choices. So where should our money go — to Warner Bros., to the membership of the Chamber of Commerce, or to the schools, the poor and the sick?

For more information visit www.cft.org