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Better business climate will aid state's woes

By Chuck Poochigian
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California state government is in the throes of a fiscal calamity. We have faced turbulent economic times before. And Californians are resilient -- we are a land of ideas and action, full of entrepreneurs and dreamers. California has bounced back from recessions in the '70s, '80s and '90s, often leading the nation out from economic decline.

In the 1990s, when the state suffered some of the worst economic losses it had seen since the Great Depression, California's leaders addressed the systemic issues that were causing jobs to leave the state by the thousands -- burdensome regulations and an oppressive tax system.

In the 1990s, both Republicans and Democrats came together to address the state's economic problems. For four straight years beginning in 1991, the state faced major budget shortfalls. While both political parties work to solve the state's fiscal mess, there was a universal understanding that the lack of money in the state's coffers was not the problem itself, but a symptom of the economic woes of the state. There was recognition that California's private employers had to create additional jobs, and that to do that, state government had to eliminate the obstacles to economic growth and expansion.

In the face of the looming recession of the early '90s, Gov. Pete Wilson convened the Council on California Competitiveness (chaired by Peter Ueberroth), which provided an assessment of the state's poor business climate. Recommendations of the council were translated into legislative initiatives. One of the issues singled out as a leading impetus for driving businesses out of our state was the workers' compensation system. The governor subsequently signed landmark legislation aimed at taming the skyrocketing costs of the workers' compensation program.

Later in the same year, while California was still experiencing the recession, the Democrat-led Legislature passed and the Republican governor signed historic business tax reform. The "manufacturers' investment credit" was aimed at encouraging manufacturers to invest in the Golden State; the research and development tax credit encouraged growth in the high technology industries that led to the economic boom in the late 1990s; the creation of the net operating loss deduction provided the cushion needed for many small companies to weather the financial storm and rebound later in the decade; and other tax reforms aided in the creation of hundreds of small businesses -- the backbone of

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our economy. The Legislature also passed measures to cut the red tape that was preventing businesses from expanding or locating in California.

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Vital understanding

In short, the Legislature and the governor "got it." They understood the vital importance of shedding the state's anti-business image. Democrats joined in the Republican chorus to reduce the burdens on business. It was a great lesson soon forgotten.

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Today, we find ourselves in another economic downturn with a new set of leaders at the helm. Financial and budget advisers have been warning of the economic downturn for almost a year and a half, and each prognosis puts recovery out further and further.

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Most disturbingly, the analyst reports that the economy has been buoyed by consumer spending fueled by low interest rates and that we are losing the gains made as a result of the reforms passed in the early '90s in the important manufacturing sector. In fact, California has lost over 230,000 manufacturing jobs in just the last two years.

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Despite the warning signs and now the actual job losses, California has not only just failed to provide the incentive for businesses to remain and thrive here, but the state is actually reapplying the tarnish of an anti-business attitude. During the last four years, the state has imposed higher taxes and more onerous regulations on California companies -- the worst in decades. As a result of legislation signed last year, California businesses are facing increased workers' compensation and unemployment taxes of well over \$3.5 billion.

Unlike a decade ago, the ruling majority in Sacramento does not call for improvements to the business climate or incentives for job creation. Instead, Sacramento has spent the last four years sending a strong message that California is hostile to business.

That simply must change. Even if only viewed from the narrow perspective of solving the state's fiscal crisis, today's California leaders must realize that tax revenues only increase when the number of taxpaying employers and employees increases -- when the economy is allowed to thrive.

It is time for California's leaders to stop the assault on the state's workers and job producers. It would not be unprecedented: In the 1990s some of California's most liberal leaders in the Legislature put aside partisanship and broke from traditional alliances in order to address the economic crisis. I am hopeful that we can again achieve that bipartisanship. Ultimately, there is no other sensible choice. Now, let's get to work.

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