

Cal-Tax Digest

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Does California Mean Business Anymore?

By Jack M. Stewart



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That California faces a budget deficit of staggering proportions is common knowledge.

That our state budget process is broken and tax structure prone to wild swings of unpredictability is widely understood.

The notion that policymakers should assist private sector job growth and develop incentives for businesses to expand and invest? That might as well be the Riddle of the Sphinx.

This is sum and substance of only a few weeks of what promises to be a months-long exercise in budgetary brinkmanship in Sacramento. The state is billions short in balancing its books, and the long knives are out for any business-friendly exceptions to the state tax code.

This is too bad. As California has endured a burst tech bubble, costly energy crisis and a staggering burden on its business community, the few incentives provided to the private sector have kept our economic plight from being even worse than it is.

One of the most important tax credits for business currently on the books is the Manufacturers Investment Credit (MIC), which helps the industry offset the cost of new equipment, enabling them to enlarge production, increase capacity and create jobs. Remember also that the MIC has also allowed manufacturers – small and large – to offset a small portion of their expenses in a state where they endure operating costs 32 percent higher than the national average.

In member surveys conducted by the California Manufacturers & Technology Association, numerous companies have confirmed that not only has the MIC allowed them to create more jobs, without it, those jobs would never have been created in the first place.

Case in point: Santa Clara-based Intel Corporation points to the MIC as a key reason for more than \$1 billion investment in Silicon Valley. The company's D2 development fab has been upgraded and expanded twice since the MIC went into effect, making it the largest and most advanced wafer fabrication plant in Silicon Valley.

To those who think this tax credit has hurt our state, I suggest they tell it first to the hardworking people who have a better life because the MIC enabled a California company to grow and hire them.

But this makes little difference to anti-business critics, who shun these real-world examples, and engage in divisive class and economic warfare. Their view is this: If we have a budget deficit, a tax credit must be bad, because it amounts to money that would otherwise go into state coffers.

This meager reasoning fails to account for what businesses all across California do with capital they don't have to send to Sacramento: they invest it, borrow against it, purchase equipment with it, create jobs with it, and ultimately generate more (and more reliable) state revenue.

Further, this "us against them" attitude towards the private sector pits California against its business community, at which point we are truly at war with ourselves.

Let's pause for a moment to consider: The reason why our tax code contains a home mortgage deduction is to encourage home ownership. The reason why our tax code contains a deduction for dependent children is to ease the burden of parents who are raising the leaders of tomorrow.

And the reason why our tax code contains certain deductions for certain businesses is to encourage a better business climate so that more people will have more and better jobs.

By the logic of the MIC's critics, we should do away with all deductions. Don't they amount to money in people's pockets that would otherwise go to public coffers?

I will never understand how California's professional sector – which, hires, trains, insures and supports millions of our people – came to be viewed as a drain on the public treasury. But that's an increasingly common view, and it is as dangerous as it is misguided.

These are the facts: The average difference between a manufacturing job and a service job is more than \$25,000. And because the vast majority of service wage

jobs don't exceed the state income tax threshold, they don't produce a single dollar in state income tax revenue.

With apologies to Gertrude Stein, state policy has frequently followed the mantra "a job is a job is a job." It's high time we understood that the rapid creation of service jobs – combined with the loss of 185,000 skilled manufacturing jobs since 2001– is not disconnected from our economic plight.

As our manufacturing industry succeeds, it enlarges a high-skill, high-wage workforce, including essential jobs for individuals entering the middle class. Also, at a time when shipping costs are often the only difference to a customer between a product manufactured in California or anywhere else, we have to realize that manufacturing is and remains an industry at risk.

Can we rise above political rancor and give fair incentive to the industries that have fired the engine of California's greatness? Or will our leaders cave in to special interest pressure that's pushing a bad idea and even worse economics?

State leaders must realize we're in deep enough as it is. By rejecting the MIC, they will be ignoring what to do when you find yourself in a hole, economic or otherwise: Stop digging.