JAN NORMAN ON SMALL BUSINESS

News and practical tips for Orange County small business owners

Calif. can't compete with Texas, study says

October 12th, 2010, 1:25 am · 27 Comments · posted by Jan Norman, small-business columnist

When it comes to taxes, regulations and government spending, California is

The California Project
An Orange County Register special report

losing ground to Texas, according to a new study by the Texas Public Policy Foundation.

The *Competitive States 2010: Texas vs. California* report is a follow up to a similar one in 2008, which also showed the Golden State lagging the Lone Star State. Here's the snapshot of the 35-page report (click on chart for a larger view):

State and Local Tax Burden vs. 10-Year Economic Performance

	Tax Burden % PI	Gross State Product Growth	Personal Income Growth	Population Growth	Net Domestic In-Migration as a % of Population	Non-Farm Payroll Employment Growth
Texas	8.40%	94.5%	67.6%	20.5%	3.4%	13.7%
U.S. Average	9.70%	66.34%	65.54%	10.08%	0.80%	10.42%
California	10.50%	70.1%	56.6%	10.3%	-3.9%	2.5%

Source: Texas Public Policy Foundation

Texas' competitive advantage over California, according to the study, is lower taxes, lower government spending and less regulation.

The study compared the two states on six broad categories:

- taxes on labor
- taxes on capital
- taxes on consumption
- overall tax environment
- regulatory environment
- government spending policies

The Texas Public Policy Foundation is a free enterprise and personal responsibility research institute. One of the study's authors is former Californian Arthur Laffer, a supply side economist who advised President Reagan."A comparison between Texas and California is not only valid but vital for our country," Laffer said. "Both are large, strategically located states with strong demographics and bountiful natural resources. But California's regulatory and tax costs, coupled with budgetary and policy instability, render it an impotent competitor when standing next to low-tax, business-friendly Texas, which levies no capital gains or income taxes to support its affordable government."

Laffer is perhaps best known for advocating that lower taxes can actually increase revenues to government by encouraging economic growth.

"It's just striking how the states with no income tax (including Texas) outperform the states with high income taxes (California's highest personal income tax rate, 10.55% is third highest in the nation)," Laffer said.

Sally C. Pipes, president and CEO of San Francisco-based Pacific Research Institute, said, "If Californians still have trouble understanding why so many of our former neighbors have gone to Texas, this scorecard spells it out in painful detail."

California does outperform Texas on a few measures:

- State and local property tax burden per capita: California $32.89, Texas $36.50
- Sales tax per $1,000 of personal income: California $25.62, Texas $29.47

But on most measures that the study uses, Texas comes out ahead:

- State sales tax rate: Texas 6.25%, California 8.25%
- Marginal corporate income tax rate: Texas 1% GRT, California 8.84%
- Total state and local government expenditures per capita: Texas $7,763.49, California $11,256.83
- Average annual growth in government spending: Texas 7.02%, California 7.29%
- Recession-related job loss from peak employment to July 2010: Texas, -2.3%, California, -8.7%

"The lighter regulatory burden in Texas also helps its economy flourish in comparison to California, which overloads businesses in the state with excessive costs and burdens," the 2010 study says.

Tell us what you think:

THINGS TO DO

EVENTS | DINING | MOVIES | VENUES | ALL

Add an Event

1. JM Barrie's Peter…
2. South Pacific
3. Jack Johnson
4. Brian Scolaro
5. The Melvins
6. Semi Sweet Every…
7. Comedy Juice College…

More event information from our partner OrangeCounty.com

The California Project
An Orange County Register special report

Take Jan's latest poll

- Calif. can't compete with Texas, study says
- Win trip to Richard Branson's island
- Take my cellphone, not my coffee!

Local companies

- O.C. inventor works best in tiny spaces
- O.C. chocolate maker closes store
- Many O.C. biz owners wouldn't start again
- O.C. firm switches CEOs, cuts 40 jobs
- O.C. woman celebrates 3 decades in business
- O.C. company shifts work to Mexico and from France
- O.C. doctor recruiter mergers with Texas firm
- CEO moves, will company follow?
- O.C. tech company buys 2 firms
- O.C. drug firm closes merger move to Canada

Search Blog

Economy

- Calif. can't compete with Texas, study says
- Anti-underground economy bill vetoed