

**Remarks to  
California Commission on the 21<sup>st</sup> Century Economy  
September 10, 2009  
By Wayne Jett**

I am Wayne Jett, managing principal of Classical Capital LLC, a registered investment adviser in California. For almost 40 years, I was an active member of the State Bar of California. I appeared as counsel in many cases in federal and state trial and appellate courts, including several dozen cases in the U. S. Court of Appeals for the Ninth Circuit and two cases argued in the Supreme Court of the United States.

Since 2003, I have worked primarily as a classical economist and financial analyst. Since 2005, I have addressed more than a dozen societies of chartered financial analysts in the U. S. and Canada on issues of economic policy reform. In 2003-2005, I worked with the late economist Jude Wanniski representing his firm Polyconomics in the West and reporting on California political and economic issues.

California's fiscal policy is causing the state to hemorrhage producers. Workers and businesses are leaving for more attractive economic conditions, causing loss of tax revenues and bigger deficits.

The state must stop the exodus and attract new business here. To do that, you must improve business conditions here without losing tax

revenues. In other words, you must reduce the state burden on taxpayers without reducing revenues.

That is a very tough challenge, but one tax design has the best chance. Five major states finance their budgets without taxing income, and instead use a tax on final consumption of new goods and services. Those states are Washington, Nevada, Texas, Florida and Tennessee. They are increasing market share of business development compared to their neighboring states.

Taxing consumption at the register greatly reduces compliance costs of taxpayers. Compliance costs are dollars out of taxpayers' pockets that do not convert to tax revenues to the state. Your tax design should cut compliance costs to the bone.

Secondly, a consumption tax collects revenues from "tax gap" entities which file income tax returns owing money that is uncollectible. Revenues from "tax gap" entities lightens the burden of current taxpayers.

Third, a consumption tax collects revenues from the "underground" cash economy, which is likely several times larger than the "tax gap." More savings for existing taxpayers without reducing state revenues.