

# US Tax Revolt: a mixed bag that benefits speculators

1978 saw the birth in the United States of what has come to be known as The Tax Revolt. In California, Howard Jarvis' Proposition 13, which called for cutting property taxes by two-thirds, won a two to one victory at the polls. Since then, many tax reform bills have been modelled after Proposition 13. Several of them went before the voters last November, but most of them were defeated, as in Michigan, Nevada, Oregon, Ohio, South Dakota, Arizona and Utah. In Michigan, for example, voters rejected a controversial proposal to limit property taxes to one half of 1978 levels.

What happened to the "Tax Revolt"? Do most voters feel that they are *not* overtaxed? Or is the desire for public services stronger than the desire for lower taxes? California's second attempt at cutting taxes, "Jaws II", was defeated in '79. The surplus in the state's budget had been significantly reduced due to the implementation of Proposition 13. Without this surplus to rely on, voters in California preferred public services over a second tax cut.

Of course, there are other ways to finance government; the property tax is not the only tax. In the US, different levels of government levy different forms of taxation. The federal government relies heavily on income taxes, state governments on sales and other taxes, and local city and town governments on property taxes. According to a US Census Bureau report, property taxes increased from \$32.5 billion in 1969 to \$63 billion in 1979, just keeping pace with inflation. And this increase accounts for a *smaller proportion* of the total amount of local taxes: 78% in '79, down from 86% in '69.

**C**OULD IT be that much of the drive behind the Tax Revolt is not to reduce or abolish, but to *shift* taxation off property and onto other sources of public revenue?

The target of the Tax Revolt, the property tax, is a blanket levy on real property, both land and improvements, and sometimes on personal property as well. Some local governments assess land and



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improvements separately, but tax them at the same rate. A very few, such as Pittsburgh, tax land and improvements at separate rates.

In Utah, the Utahns for Tax Reform spearheaded a successful campaign to defeat Proposition 2 and Initiative B. Proposition 2 would have extended further tax exemptions to property used for religious or charitable purposes, throwing the burden onto those properties that remain to pay the taxes. Initiative B would have put a lid on property taxes a la Proposition 13. Utahns for Tax Reform urges a 5-year phase-out of the property tax on all improvements, with the revenue loss to be made up with an increased tax on land values.<sup>1</sup>

Proposition 106 in Arizona, also modelled after California's 13, was another one to bite the dust at the polls. In the debates preceding the votes, neither pro- nor con-106 groups raised the question of just how the proposition would affect vacant land and land speculation. Property is currently greatly under assessed in Arizona (as elsewhere in the US) to the benefit of land speculators, who pay very little taxes on their under-used land. Had 106 been passed, they would have been the greatest beneficiaries.<sup>2</sup>

**T**HE SHORT-TERM effect of a Proposition 106 or 13 is to make it easier for many to purchase or hold onto a house or a bit of land. The long-term effect is to encourage ever more land to be bought up by speculators, taking more land *off* the market and thus *raising* the prices of what land is left on the market, defeating one of the intentions of the tax reform. Another result is to force local governments to cut needed, as well as superfluous, public services, and to beg, borrow, or steal the revenue needed to remain in operation.

The city, or state, will have to beg the federal government for financial aid, borrow from its citizens by issuing bonds, or steal from them by increasing other forms of taxation. For example, in 1980, voters were more willing to approve state borrowing for public works projects than in the past. \$2.3 billion of state and local bond issues, 80% of the \$2.9 billion sought, were approved. This is up from 71% in '79, and from 55% in '78.<sup>3</sup> It would appear that the current desire of the taxpayers is not to severely limit government spending, but to shift the burden of taxation, when it becomes too heavy, off property and onto other sources of revenue. This is what Citizens for Limited Taxation expect will happen now that they have successfully passed Proposition 2½ in Massachusetts.

Dubbed "Taxachusetts", the New England state had a tax rate of 70% above the national average. Proposition 2½, which won in November by a three to two margin, will cut property taxes by 40% and car excise taxes by 62%. An even wider margin, eight to one, defeated the self-awarded pay increases granted to the state legislators and executives.

Not all Massachusetts communities voted in favour of Proposition 2½, however; and several began procedures to override the proposition two weeks after the vote was in. One such town is Brookline, a suburb of the capital city of Boston. Needing a two-thirds margin to override, the town succeeded with a nine to one vote in favour of "home rule". In opposition, Citizens for Limited Taxation (which promoted

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# Land values dive in Jimmy Carter's town

LAND VALUES took a dive in Plains, Georgia, when US voters gave President Jimmy Carter the thumbs down. A genuine Carter property once on the market for £50,000 is unsold at £10,000.

Speculators have burnt their fingers.

One group of Toronto businessmen who bought a 190-acre farm at the peak of land values have been saddled with a loss of £150,000 on their investment. They have little chance of recovering their money.

As one local resident said with a note of resignation in his voice: "Jimmy is yesterday's man, and this is a yesterday town."

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*THE SPURLOCK family has sold a town for \$615,000. Four couples bought Navajo, Arizona, which is occupied by just 20 families. The new owners are not sure what they will now do with their 7.5-acre town. But one of them, Rita Schwingamer, explained: "We just want to make money."*

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WAGE-EARNERS in Little Sidney, Montana, have once again shown that they benefit when job opportunities are opened up at nature's frontiers.

OPEC price rises have unlocked the oil in the Williston Basin. The ten-fold rise in prices has encouraged new drillings. Oilmen have flooded into the little towns that scatter the basin, that extends into Canada.

Local labour has been in such short supply, that salaries have been forced upwards as people switch jobs to take advantage of a new-found prosperity.

Eventually, however, lower-paid workers from neighbouring states will move in and depress the wage levels. But no such threat hangs over the landowning farmers.

Bonus payments for drilling leases have increased from \$5 an acre to \$15 an acre three years ago; and now they often go for \$300 to \$700 an acre, as canny farmers hold the oilmen to ransom.

Leases have dropped from ten to five years, and royalties are rising.

Amoco spokesman Dave Dick said: "You just can't talk to a lot of these people anymore. We have created a Frankenstein's monster."

According to William Blundell, reporting in *The Wall Street Journal* (24.12.80), the cash invested by oil companies in land is now so large that it is dictating the pattern of exploration and exploitation.

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*US FARMLAND values rose by more than 200% during the 1970s. In 1978, while inflation was 9.4%, farmland prices increased by 14%. In 1979, farmland prices rose by 23%. Although the rate of increase declined slightly at the beginning of 1980, the pace picked up again in the third quarter. East coast investors are pouring money into agricultural land. "Maybe they are trying to tell us something," said one industry spokesman laconically.*

## 'Wyatt Earp' battle for gold mines rent

IT'S the Wild West Gold Rush all over again. This time it's happening in the Amazon basin, writes Colin Green.

Ranchers complain that they cannot find hands to hire to work their cattle herds... the men have dropped their branding irons, grabbed their spades and headed for Babylon.

That's the name of the largest gold mine discovered at Serra Pelada, deep in the Brazilian Amazon. With the price of gold rocketing, fortunes were being made by men using the methods of the Klondike.

## S.V.R. AND 'A FEW MISTAKEN EXECUTIONS'

POLITICAL columnist Frank Johnson, in his commentary on the British Liberal Party's last conference, noted that site value rating was to the Liberals what hanging was to the Tories—"the touchstone, the acid test, the lodestar." He then added: "... were one to know anything about it one could discover that site value rating could cause far more injustices than a few mistaken executions."—NOW! Sept. 12, 1980.

## The Tax Revolt

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Proposition 2½) pointed out that the Brookline government spends a greater proportion of its revenue on education, administration costs, and executive salaries than do other Massachusetts communities. Boston, however, will be in for hard times; there is no surplus in the budget to come to its rescue. Even the Citizens for Limited Taxation "don't expect Boston to really be able to survive this kind of cut at all". As a solution, they propose raising the lost revenue via the state sales and income taxes.<sup>4</sup>

IT appears that "The Tax Revolt" is a mixed bag.

While the battle has been joined over irresponsible government spending and the overburdened home-owner, *not* every voter is a home-owner. On the other hand, every voter is a beneficiary of public services, perhaps the home-owner most of all.

The special interests of home-owners aside, there are legitimate reasons for a Tax Revolt in the US. The sales, and especially, the income taxes are greatly reducing the wages of the average voter. This is, perhaps, a primary reason why the present property tax reform movement is not succeeding: it will ultimately increase the sales and income taxes, or inflation,<sup>5</sup> that affects everyone, not just owners of real estate.

In the final analysis, it is the land speculator who will gain the most, at the expense of the consumer and wage-earner, by this shift in taxation. If this fact is brought to light, we can expect more consideration given to the genuine and fundamental tax reform of abolishing all taxes on earned income and property, and collecting community-created land values for community services.

### REFERENCES

1. *Desert News*, November 6, 1980. Utahns for Tax Reform, Box 207, Cedar City, Utah 84720.
2. *New York Times*, December 21, 1980.
3. *US News and World Report*, November 17, 1980, p.109.
4. *The New York Times*, December 28, 1980.
5. The federal Government also relies on deficit spending, which is one of the causes of inflation, which is often described as a hidden tax.