

NOW FOR PROPOSITION 13!

PROPOSITION 13 was scarcely a simple matter, being hedged in with qualifications, and upon analysis is seen to benefit the big property holder more than the small homeowner. Already the benefit of the lower tax has been reflected in increased rents.

Mr. Jarvis has stated that "property is sacred"—he has been an agent for real estate interests—and he would like to see taxes levied on other sources than property. An ancient voice speaks here: it was the landlords of England who, in 1689, in the name of liberty, shifted their burden of taxation onto the general populace.

It is fitting that there should be a taxpayer's revolt, but it would be better directed against other taxes which have far less merit and do much more harm than the property tax. The property tax is direct and visible. It is generally levied at the local level. It goes to pay for local services. It is controlled more directly by the taxpayer than other taxes. And it has to be accounted for in terms of how much is levied and how it is spent. What other taxes have that much going for it?

The lion's share of taxation is taken by the federal income tax along with the social security tax. The average property owner pays more income tax than property tax. The taxpayer is very remote from controlling the income tax and usually knows about changes (mostly upward) only when it is

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deducted from his pay. It then disappears into the maze of federal bureaucracy, and any semblance of control over how it is spent is even further removed from the taxpayer—unless he is part of one of the powerful lobbies in Washington demanding special favours! Unlike with the property tax, the taxpayer would be hard put to say what services he is getting for the income tax he pays. There are also state income taxes which are hardly more accountable or uncontrollable.

As for the hundred and one other taxes, the taxpayer hardly knows they are there. It has been estimated that there are 150 taxes hidden away in a loaf of bread. One could count an equally impressive number in all the other things people buy—food, furniture, clothing, automobiles, plus hefty tariffs on imports, taxes on travel, general purchases, licenses, interest on bank deposits, dividends on stocks, and so on. ...

Of course the trouble with all this is that one would not know where to begin a revolt against these really harmful taxes, whereas the property tax is a highly visible target; furthermore, big propertied interests can afford to go after it

and hide behind the poor harried homeowner.

Unfortunately these are not the issues around which the property tax is being debated. The opponents of Proposition 13 are indeed accepting it as a taxpayer's revolt and are merely warning about the dangers in cutbacks in government services. In California, warnings are being sounded about what will happen after the state's surplus is used up, in about a year. What is likely to happen is that it will be found that the unsolved problems of the economy will demand public spending and then there will be an increase in indirect taxes or income tax.

What is needed is a real tax reform, not a crippling of the property tax. It needs to be noted that the property tax as now levied is not one but two taxes—a tax on land and a tax on improvements. It is right to revolt against the tax on improvements, which goes up the more productive one is. But the tax on land should be strengthened so as to be in proportion to its value, to discourage holding valuable land idle, to prevent monopolists and speculators from battenning on the unearned income. Along with this there ought to be a revolt against taxes on our earnings and against the innumerable indirect taxes that plague us.

After disenchantment sets in about the workings of Proposition 13, will we be ready for Proposition 14?

ECONOMICS OF POLITICS

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policy actions ten years hence, very little heed would have been paid them by any politician anticipating an election in three years' time. Economic management has in fact been based mainly upon forecasts which looked forward for no more than two years. The dangers of this procedure are brought out clearly in a recent report⁶ which (referring, as it happens, to the crisis following the 1973 oil price rise) observed cautiously that "although the instinctive reaction in the short run is to attempt to soften the blow of such a crisis, it might not have been the best policy if it had the effect of inhibiting the inbuilt corrective mechanism in the economy." The suspicion is growing that many of the difficulties which we now face may be the delayed consequences of supposedly short-term measures taken many years ago.

The main problem raised by the economics of politics is how to devise a system in which the command system and the market system can work together for the public good. Some command systems—such as systems of commercial law—are of course necessary to the smooth operation of the market

system, but other command systems may weaken the market system—sometimes in unexpected ways. Most Keynesian economists, for example, have seen themselves as helping to preserve the market system in good working order, but they may have been the unwilling agents in the process of weakening it. It may be that command systems have an inherent tendency to expand their activities at the expense of the market system. Worst of all, it may be that our present command system tends in the long run to be just as collectively self-defeating as the behaviour of the South Atlantic penguins. Perhaps a Martian observer would find our attempts to master the art of living together just as ludicrous?

1. *Participation without Politics*, Samuel Brittan, IEA, 1975.
2. *The Vote Motive*, Gordon Tullock, IEA, 1976.
3. *The Jekyll and Hyde Years*, M. J. Stewart, 1977.
4. *The Managed Economy*, Sir Alec Cairncross (Ed), Blackwell, 1970.
5. *Giving Economic Advice in Difficult Times*, Alan Peacock, Three Banks Review, March 1977.
6. *The Economist in the Public Service*, Ralph Turvey, Kemp Rybzyński (Eds), *The Economist in Business*, Blackwell, 1967.
7. *The Consequences of Mr. Keynes*, J. M. Buchanan, J. Burton and R. E. Wagner, IEA, 1978.
8. *Report of the Committee on Policy Optimisation*, Chairman: Prof. R. J. Ball, Cmnd. 7148, HMSO, 1978.