

CALIFORNIA TAX REVOLT



The Jarvis Amendment by Wendell Fitzgerald

Over a million California voters recently signed petitions to put an initiative measure, known as the Jarvis-Gann Amendment (Proposition 13), on the June 6, 1978 ballot. More signatures than any other initiative measure in California's History have been collected. The issues are property tax relief and limitation of government spending. The Jarvis Amendment, if passed, would: 1) limit property taxes to a maximum of one percent of the market value of property. 2) Limit increases in assessed market value to a maximum of two per cent per year. 3) Require a two-thirds vote of all members elected to both houses of the state legislature to create new taxes or raise old taxes on the local level. 4) Require a two-thirds vote of all locally registered voters to create new taxes or raise old taxes on the local level. Tax reform is sorely needed and the question is whether the Jarvis Amendment is the appropriate vehicle for it.

Effect On Public Services

It is estimated that \$7-8 billion in property tax revenue, representing one-half to two-thirds of total property tax revenue will be lost to local governments and school districts. Furthermore the measure is designed to make it difficult to replace these lost revenues. The obvious question, then, is will not essential public services have to be cut back?

Supporters of the measure say there is enough waste and fat in local budgets which can and should be cut first so that essentials will not be affected drastically. It is reasonable to assume that the truth of the matter lies somewhere in the middle. At least some essential services will have to be cut or be reduced in quality. To the extent that such service cuts affect property owners, the property owners will only harm themselves, but, they will at least have the consolation of a tax break. However, since a little less than half the population actually owns real property, the other half, the renters and financially disadvantaged poor, will suffer from service cuts with no corresponding compensation in the form of tax cut or rent reductions.

Tax Shift

The supporters of The Jarvis Amendment say that they do not want new taxes to be raised to make up for lost property tax revenues. They recognize that new taxes would involve a shift of taxation onto others which

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they do not want either. To prevent this, they call for a continuing campaign to stop new taxes from being raised.

It is hardly reasonable to believe that the forces which have caused government to become larger and more expensive over the last several decades are going to be denied. If these forces cannot be controlled, the Jarvis Amendment will give rise to new or increased taxes. Even assuming that the Jarvis forces were successful in preventing no more than half of the property tax loss from being made up by other taxes, it could mean a huge tax shift onto producers and consumers. In terms of major California taxes, it would be necessary to raise a little less than twice the sales and use tax, a little more than twice as much personal income tax or two and one-half times as much business income and franchise taxes. The poor and renters will be saddled with a disproportionate share of any such tax increases.

Loss of Local Control

Any reduction in essential local services may cause an overwhelming demand to replace them. Not only will new sources of revenue have to be found, but responsibility for local services may have to be shifted from the local level.

The Alternative

The trouble with the Jarvis Amendment is that it betrays the spirit behind it. People are oppressed by high taxes and feel that an injustice is being perpetrated on them by big government. People want a reform which will bring tax relief and an end to the seemingly inevitable expansion of government.

The Jarvis Amendment instead delivers tax relief but not tax reform since it will further enrich the rich, impoverish renters and the poor and seriously weaken that level of government closest and most responsive to the people. It is doubtful if the tax relief delivered by the Jarvis Amendment will be any more than temporary for those who need it the most considering the other problems it will cause. And worst of all after it has worked its effects it may have so enervated the public as to make it impossible to come to grips with truly oppressive taxes and remoter levels of government.

What would be in the spirit of the time is a measure which will give tax relief while at the same time producing positive social, political and economic effects.

The simple alternative to the Jarvis Amendment and the existing property tax is to eliminate taxes upon improvements altogether and to raise taxes on land values to make up lost revenues.

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It is recognized by all authorities that the inefficient use of land and land speculation is the leading cause of urban sprawl, forcing to use land further out from city centers. Land speculation aggravates urban blight as well since the primary concern of speculators (many of whom are slumlords) is not how land is used but how to keep costs down while land values rise. The present property tax with its tax on improvements and relatively low tax on land values actually induces land speculation and inefficient land use by penalizing efficient improvements and rewarding neglect and non-use of land with lower taxes. Under the present property tax it can be good business to let improvements decay, because the profit is in the land.

A higher tax on land values has the effect of lowering the market price of land, takes the profit out of land speculation, penalizes neglect and in-efficiency and thereby encourages good use of land. A higher tax on land also tends to break up land monopoly because large landholders are not usually able to make efficient use of all their land. The higher holding cost forces them to sell unused and underused land to those who can use it efficiently and thereby afford to pay the tax. The tax on land values, then is a beneficial tax. It is a unique tax because the heavier it is (up to the point where it equals yearly ground rent) the more benefits it produces for the community.

The Jarvis Amendment may certainly lower the tax on land values, but the effect will be the reverse of the above. Land prices will immediately rise. Land speculators will be rewarded handsomely and more land speculation will be encouraged. Large landowners will be under much less pressure to make efficient use of their land even though they could erect profitable and useful improvements. Urban blight and sprawl will be aggravated. No new housing will be encouraged onto the market by landlords forced by a higher tax on land to make efficient use of their land, and what housing is built will be more expensive because land costs will have risen.

A "land value tax" only would allow local government to continue to provide services without a loss of local control. More and better housing would be built.

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Rents would decrease and employment would rise. Land speculation would be curtailed and with it urban sprawl and urban blight. By helping to solve some of our most pressing problems the land value tax would help reduce the need for government spending and other taxes could be reduced.

Finally, land value taxation would provide significant tax relief for most homeowners and others with already efficient improvements on their land. The tax load would be shifted to those who refuse to make efficient use of their land or who monopolize land in the hopes of future profit from a rise in community created land values.

Although it is generally admitted, by those who have studied the matter, that the land value tax concept is valid and ultimately necessary, it may not be adopted until it is absolutely clear that there is no other alternative. The Jarvis Amendment may be just the thing to create the conditions for such a realization. In that respect Messrs. Jarvis and Gann and their supporters have probably done us all a big favor.