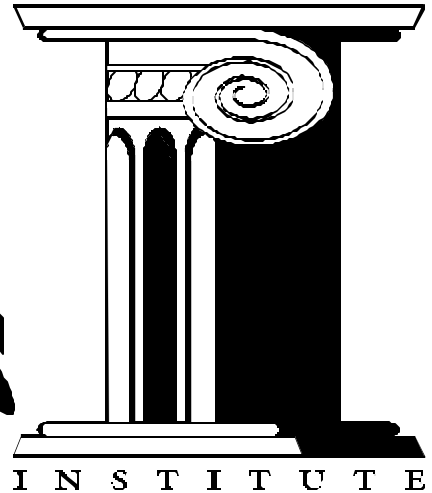


LIMITS



On Power and the Use of Coercion

Proposition 13 Turns Silver

by Jon Coupal

June 6th is remembered by much of world as a day of liberation, for it is the anniversary of D-Day when allies launched the invasion to free Europe from the grip of Nazi tyranny.

In California, June 6th also marks another anniversary celebrating freedom — the day 25 years ago when California voters charged into voting booths and passed Proposition 13 to take control of taxation by cutting property taxes, setting tax limits, and requiring votes on future tax increases.

It is worthwhile for taxpayers to take a moment to reflect on the ideals of liberty that Proposition 13 upholds and what thousands of ordinary citizens working together can accomplish against powerful adversaries.

Ours is a nation founded on tax revolt. The founders recognized that citizens would never enjoy liberty as long as

they were taxed without representation. Once having secured independence, they framed our Constitution with 10 initial amendments, called the Bill of Rights, that were intended to protect citizens from potential abuses of the people by their government.

Our California experience prior to the passage of Proposition 13 was that even with representation our freedoms can be threatened, especially when members of the Legislature are corrupt, indolent, or incompetent. When peoples' homes were literally being taken at the whim of the tax collector, we knew we had lost our way, had deviated from the ideal of a government "of the people, by the people, and for the people."

Proposition 13 limits property taxes by setting the property tax rate no higher than one percent of property value. Initially, the one percent tax

rate was measured against a property's value as of 1975. When a property is sold or new construction takes place, property is reassessed at one percent of its current value. Property assessments can increase to inflation yearly, but no more than two percent. This has the practical value of limiting property tax increases to two percent annually and allows homeowners to know what their taxes will be in the future so they can budget accordingly.

Because Proposition 13 authors Howard Jarvis and Paul Gann wanted to be certain that politicians would not rob property owners of the savings that Proposition 13 provided, they required a two-thirds vote of the Legislature to increase state taxes and a vote of the people to increase local taxes.

With the passage of Proposition 13, Jarvis and Gann

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LIMITS

September 2003
Volume 8, Number 3
Public Interest Institute
President
Dr. Don Racheter

LIMITS is one of our quarterly membership newsletters, arriving in March, June, September, and December. It consists of short articles and essays on protection of human rights by limiting the powers of government.

LIMITS is published by Public Interest Institute at Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

Contributions are tax-deductible under sections 501(c)(3) and 170 of the Internal Revenue Code.

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The Nevada Tax Debacle

by John Berthoud

Martians have landed in Nevada. Really.

State Legislators and the Republican Governor just enacted the largest tax increase in the state's history, but the Democratic leader of the Assembly swears that the tax burden won't fall on humans. "The taxes we passed will not go to the individual," opined Assembly Majority Leader Barbara Buckley of Nevada.

If Martians have indeed landed in Nevada, perhaps they will indeed foot the astonishing \$836 million tax increase that Ms. Buckley and her cohorts engineered. But short of an alien invasion, the tax hike will have a devastating effect on the people who will have to pay the cost of these levies.

The centerpiece of the plan is a payroll tax on workers' gross wages. The rate for all businesses will be 0.7 percent, except for banks, which will have to fork over 2 percent. Employees will probably bear the brunt of this tax and will see wages lower than they otherwise would be. But certainly some of the burden will be borne by employers who won't be able to hire as

many people as they'd perhaps planned.

Lawmakers dumped even higher taxes on alcohol and tobacco. These levies will disproportionately affect lower-income Nevadans. According to Congress's Joint Committee on Taxation, more than 2/3 of all federal tobacco taxes come from those earning less than \$40,000 per year (this is true of state tobacco taxes as well). And higher tobacco taxes in recent years have also spawned a burgeoning market in cigarette smuggling, which can even be linked to terror cells in the U.S.

Finally, the Nevada pols also added a tax on real estate sales and a tax on live entertainment. But perhaps most outrageously, all these tax hikes were enacted to underwrite a 30.5 percent increase in spending. This staggering increase far outpaces inflation and population growth.

Beyond paying the direct costs of this tax hike, Nevadans can also expect to see their incomes take a hit as the new taxes slow the state's economy. A review of state budget history in the aftermath of the last fiscal crisis in the early 1990s makes it clear that raising taxes to solve budget shortfalls is pure economic poison. In a study for the American

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The Tax Revolt Turns 25

by Michael J. New

June 6 marks the 25th anniversary of California's Proposition 13, the landmark victory of the 1970s tax revolt. Proposition 13 enjoyed immediate success, slashing property taxes and imposing some much needed discipline on state and local spending. Twenty-five years later, however, California's fiscal situation has changed dramatically. State expenditures have soared and the legislature is considering large tax increases to compensate for California's \$35 billion shortfall. Indeed, California's changing fiscal fortunes provide valuable insights for those seeking to limit government in California and elsewhere.

During the late 1970s, anti-tax activists enjoyed considerable success limiting property taxes. However, Proposition 13 easily became the most well-known of those efforts. Indeed, Proposition 13 was a tremendous short-term success, reducing taxes by a staggering \$6 billion. Proposition 13's impact, however, went far beyond tax relief. The economic boom that followed Proposition 13 gave credence to the idea that tax cuts were economically beneficial. Furthermore, Proposition 13 generated nationwide momentum for tax reductions. Even President Carter and the Democrat-

controlled Congress were motivated to reduce capital gains taxes in the wake of Proposition 13.

As a long-term tax limit, however, Proposition 13 has had a legacy that is decidedly mixed. Though it reduced property taxes, Proposition 13 did not place limits on other forms of taxation. Indeed, after California's expenditure limit was raised in the early 1990s, spending soared, nearly doubling between 1990 and 2001. As a result, California has had to raise the income tax, the sales tax, and taxes on beer, wine, gasoline, and cigarettes to keep pace with these rising expenditures. In fact, during the early 1990s, Gov. Pete Wilson even proposed hiking taxes on snack foods. This cycle of spending and taxing is the root cause of California's current fiscal problems.

Indeed, California's recent fiscal history clearly demonstrates that low taxes can only be preserved when spending is restrained. In fact, during the past 25 years fiscal conservatives in California and elsewhere have attempted to enforce fiscal discipline by enacting Tax and Expenditure Limitations (TELs), which establish limits on expenditure growth. Many studies find TELs to be ineffective. However, in the early 1990s two states, Colorado and Washington, were able to

restrain spending by enacting TELs with especially low limits.

The success of Colorado's TEL, the Taxpayer Bill of Rights (TABOR), is probably the most dramatic. TABOR was unique because in addition to setting a low expenditure limit, it mandated immediate taxpayer refunds of surplus revenues. Shortly after TABOR was enacted, revenue began to exceed the limit. As a result, Colorado taxpayers received a tax rebate every year between 1997 and 2002. During that time, Colorado reduced taxes more than any other state, issuing tax rebates that have totaled more than \$3.2 billion.

Additionally, TABOR has also forced Colorado residents to see the costs inherent in government programs. In other states, residents often support higher spending because they can see the benefits of a particular program, but remain blissfully unaware of the costs that they and other taxpayers will be forced to bear.

However, in Colorado the annual tax rebates bring these tradeoffs into focus. In every year from 1993 to 1999 there was a proposal on the ballot to either raise taxes or increase spending in excess of the TABOR limit. Knowing those initiatives would reduce the size of their annual tax rebate,

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**Proposition 13
Turns Silver**
continued from page 1

and their millions of supporters made a resounding statement — without the use of cannon fire — that it is the people who will rule. Called by many “The Tax Revolt,” Proposition 13 was in fact an evolutionary expansion of the citizens’ rights guaranteed in the United States Constitution. As with the American Revolution, Proposition 13 acknowledged that one of government’s most abused powers is the ability to take the livelihood and property of the people through taxation. By limiting taxes and giving the people a say in how much more they would pay to support government, Californians sent a message thundering across the nation, one that is still reverberating!

In California, polls have repeatedly shown that if they had it to do over, voters would again overwhelmingly approve Proposition 13. But the changes that Proposition 13 brought to California government — limiting taxes and providing the right to vote on taxes — have not taken place without opposition.

Since its inception, Proposition 13 has had powerful enemies. Politicians have opposed it because they see it as limiting their power. Public employee unions have resisted it because they see any restriction on government’s ability to tax as a threat to their job security and potentially unlimited raises. Some in the business community continue to fight it because no longer do campaign contributions alone guarantee that the Legislature and local government will spend money on the projects they favor or provide them with

the special tax breaks they crave. And, of course, there continues to be an active corps of pundits that even after our two-and-a-quarter centuries of success as a nation, doubt the peoples’ ability to make important decisions about how we are to be governed.

Today, with the state of California facing the largest budget shortfall for any state in history, the fate of Proposition 13 is still in question. In spite of the fact that our budget problems have been brought about by lavish overspending, the politicians are again looking to the taxpayers to bail them out, and to them, with their myopic government view, Proposition 13 is once again fair game.

The fight for taxpayers’ rights goes on.

Jon Coupal is an attorney and President of the Howard Jarvis Taxpayers Association, California’s largest taxpayer organization.

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For more information, visit the Howard Jarvis Taxpayers Associations website at www.hjta.org, or contact HJTA at 921 11th Street, Suite 1201, Sacramento, CA 95814.

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Question of the Quarter:

Do you think California’s Proposition 13 (adopted 25 years ago) has helped or hurt the current budget situation in that state?

Send your thoughts on this issue to us at public.interest.institute@limitedgovernment.org. We may publish some of your ideas in the December 2003 issue of *LIMITS* or on the Institute’s Website.

of individuals like you who believe in individual liberty and free-market
aid envelope to make your tax-deductible contribution to this effort today.

The Nevada Tax Debacle

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Legislative Exchange Council, economist Steve Moore examined the ten states that cut taxes or avoided tax increases over 1990-1996 and compared them to the ten states that raised taxes the most during this period. By a variety of measures, over the period 1990-1997 (the time period is lagged to account for implementation), the tax-cutting states outperformed the tax-hikers:

Population Growth. The tax-cutting states gained 13 percent in population, while the tax-raising states grew by only 3.8 percent during this time.

Employment Growth. The tax-cutting states saw employment rise by 16.3 percent, while the tax-raising states saw employment increase by only 5.3 percent.

Income. State personal income grew by 22.5 percent in the tax-cutting states, but only by 11.3 percent in the tax-raising states.

Moore's findings about the relationship between lower taxes and greater economic growth are echoed in many other studies. A study by the National Center for Policy Analysis and Canada's Fraser Institute looks at economic

freedom in America's 50 states and finds that those with greater freedom (measured by such things as lower taxes and more flexible labor markets) have higher per capita incomes. The ten freest states have per capita output that is \$2,560 higher than the average state.

Other states have raised taxes this year, but most of them also at least reined in spending. Not so in Nevada. So as bad as this year's tax hike was, there could be more in the works in coming years to feed the voracious spending appetites of Governor Guinn and his public employee allies.

Nevada has been one of America's most economically-attractive states in recent years. Under the bungled policies of Kenny Guinn — the Mario Cuomo of the west — that appears likely to change.

Dr. John Berthoud is President of National Taxpayers Union (NTU) and National Taxpayers Union Foundation (NTUF).

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National Taxpayers Union was founded in 1969 to fight for the American taxpayer. NTU is the nation's largest grassroots taxpayer organization, with 350,000 members across fifty states. NTU lobbies Congress

and State Legislatures, educates politicians and the media on important taxpayer issues, and teaches its members how to become effective, united citizen lobbyists.

National Taxpayers Union Foundation was founded in 1977 and provides critical research on a variety of tax and fiscal issues.

For more information visit www.ntu.org, contact NTU and NTUF at 108 N. Alfred Street, Alexandria, VA 22314, or call 703-683-5700.

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TABOR Critics Insult Our Intelligence

by Jon Caldara

The Taxpayer's Bill of Rights, or TABOR, which passed back in 1992, enjoys a love-hate relationship in Colorado. That is, taxpayers love it, and those who like to spend other people's money hate it.

You see, there is a well-funded effort under way to dismantle TABOR, or at least dismantle as much as they can get away with. That's why you are going to hear a lot more TABOR-bashing in the next year or so. TABOR causes deficits, budget crisis, acne, baldness, etc.

The folks who work on this campaign are promoting the idea that stripping the best parts of this amendment will make up for budget problems caused by the Gallagher Amendment (which moves property tax burdens from homeowners to business owners, thus hurting local funding of districts like schools) and Amendment 23 (which forces K-12 education spending to increase at the state level at the cost of all other programs, like higher ed and prisons).

In order to get you to feel victimized by TABOR, they, like a broken record (remember records?), repeat that we voters didn't really understand what we were voting on back in 1992. And if they repeat it enough, we might believe it.

Apparently we thought we were voting simply to require a

vote on all future tax increases. We simpletons didn't know that TABOR restrains the growth of government spending to population growth and inflation. Nor did we know that TABOR changes government's spending limits when tax revenues go down, even though that was debated incessantly during the election, and the two elections before that when TABOR barely lost.

The affront that voters didn't understand what they were doing is even more insulting when you remember that the amendment's title even said it would, "limit the rate of increase in state and local government spending." Even the first line of TABOR's text read, "Its preferred interpretation shall reasonably restrain *most* the growth of government." (Emphasis mine.)

Those who would like to reinvent the past will have a harder time than they'd like. Taxpayers will remember during five years of an overheated economy, the TABOR rebate mechanism returned \$3.25 billion in state tax overpayments; that's about \$800 for every man woman and child, or \$3,200 per family of four.

The image that TABOR-bashers like to portray is one of government being starved of the very cash it needs to provide basic services. But

TABOR didn't stop governmental growth; it stopped excessive growth, that over inflation and population increases. In fact, as a recent Independence Institute report showed, TABOR did exactly what it promised to do in the last decade.

For the decade before TABOR combined population growth and inflation was 40 percent, but state government spending grew by an outrageous 90 percent. But for the decade following TABOR, the state's population and inflation was close to 63 percent, and spending increased roughly the same, about 64 percent.

So where's the headline, "TABOR worked!"?

The biggest scare tactic TABOR-bashers like to use to frighten small children, bond dealers, and PTA moms is TABOR's so-called "ratcheting" mechanism. Basically, it says that if tax revenues decline, that lower level becomes the new baseline from which population and inflation adjustments begin. Tax revenue collected over that baseline must be refunded back to the taxpayers.

First, it's important to note that for all the squawking about "ratcheting down," it hasn't happened yet. Tax revenues in the state are down due to a slow economy. When the economy picks up, then we might see a

new, lower baseline, but only if tax revenues increase faster than population growth and inflation.

But more importantly, if the economy heats up, TABOR has a built-in mechanism that allows government to keep all the tax money it collects in excess of this formula. All government has to do is ask voters if they can keep it. That's it.

Why is this concept such a fright to those who like to spend other people's money? Do they fear that they might not be able to convince you to let them "keep the change," or do they think we again "won't understand it"?

TABOR won in 1992 with a solid 54-percent vote, but it is much more popular now. A recent poll showed extremely high support for it, with 71 percent supporting voting on all taxes. And to the horror of those who like to spend other people's money, 74 percent support limiting annual increases in state and local government revenue — the very part of TABOR that we idiots weren't supposed to comprehend.

Jon Caldara is President of Independence Institute and a weekly columnist for the Boulder Daily Camera.

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Independence Institute is a non-profit, non-partisan think tank located in Golden, Colorado. Its public policy research focuses on economic growth, education reform, local government effectiveness, and Constitutional rights.

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The Tax Revolt Turns 25

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voters defeated them. In 2001, an initiative to increase spending for Colorado schools did pass. However, Colorado taxpayers still received tax rebates totaling more than \$900 million from fiscal 2001 revenues.

Overall, Proposition 13 enjoyed a great deal of success at lowering taxes, both in California and across the country. However, it has been less successful at keeping taxes low. Indeed, soaring expenditures over the last 25

years have resulted in sharp tax increases in the Golden State.

Still, one important lesson from the 1990s is that well-designed expenditure limits can both effectively restrain spending and provide tax relief. Indeed, spending limits modeled after Colorado's Taxpayer Bill of Rights may well be the best strategy for those seeking to reduce the size of government during the next 25 years.

Michael J. New is an adjunct scholar with Cato Institute.

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Cato Institute is a non-profit public policy research foundation founded in 1977. The Institute is named for Cato's Letters, a series of libertarian pamphlets that helped lay the philosophical foundation for the American Revolution.

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For more on Proposition 13's impact read Michael J. New's Cato Institute Briefing Paper, "Proposition 13 and State Budget Limitations: Past Successes and Future Options," at www.cato.org.

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Initiative and Referendum in the States

by Amy K. Frantz

Whether or not Governor Gray Davis should keep his job won't be the only question on the ballot in **California** on October 7. Voters will also consider two Constitutional Amendment initiatives.

Proposition 53 requires that a portion of the California state budget be set aside for infrastructure spending. This initiative is sponsored by the California General Assembly.

Proposition 54, known as the Racial Privacy Initiative, prohibits the collection and use of racial statistics and data by state and local government entities. Proposition 54's main supporter, Ward Connerly, was

also the driving force behind the passage of Proposition 209, the California Civil Rights Initiative, in 1996. That initiative prohibits state and local governments, public universities and schools, and other government agencies from discriminating against or giving preferential treatment to an individual or group in public employment, public education, or public contracting on the basis of race, sex, color, ethnicity, or national origin.

The **Nevada** State Supreme Court issued a ruling recently that seems to declare that the State Constitution can be cast

aside in the name of a so-called budget emergency. In 1996, Nevada citizens adopted a Constitutional Amendment initiative requiring a two-thirds vote by the Legislature or a majority vote of the citizens to increase state taxes. However, the State Supreme Court held that the requirements of the Constitutional Amendment could be suspended, in light of the Legislature's failure to raise taxes to fund the state's education budget — effectively forcing the Legislature to increase taxes.

Amy K. Frantz is a Research Analyst with Public Interest Institute.