insight.... NEWSLETTER

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"Government, even in its best state, is but a necessary evil; in its worst state an intolerable one... government, like dress, is the badge of loss of innocence."
(Tom Paine, Common Sense, 1776)

CALIFORNIA ADOPTS RECORD BUDGET AS REAGAN-MORETTI SALES TAX INCREASE GOES INTO LAW

California's new $9.371 billion dollar budget is the highest ever recorded in any State in any Union, and represents a $467 obligation on every man, woman and child in the State.

By contrast, the U.S. Government's Federal budget reached $6.879 billion in 1940, and $9.202 billion in 1941. For the 60 years from 1789 to 1849 the Federal budget totaled only $1.090 billion, and for the 50 years from 1850 to 1900, U.S. expenditures totaled only $15,453 billion. As late as 1915 the U.S. Government raised only $683 million, and spent $746 million.

The budget features huge increases in State payroll expenses, and approximately $800,000,000 to be donated to local school districts for property tax cuts. However, the Governor did veto many millions slated by the Legislature to be spent for welfare, child care, legal aid to indigents, conservation, parks, fish and game, prisons, medi-cal payments, consumer protection, and other items.

The Hearst Herald-Examiner stated that: "The enormous proposed California budget is an outstanding chapter in the story of threatened financial disaster." We expected that the Herald-Examiner editorial would then attack Governor Reagan for the size of his budget, as it in the past attacked previous Governors for the signing of budgets only one fraction of the size of the present "threatened financial disaster." But no, the Herald happily stated that "Governor Reagan fortunately has a solution to reverse this trend in California." If readers expected the Herald to recite that Governor Reagan's fortunate solution was to reduce future budgets they were disappointed. The Governor's solution, the Herald gleefully announces, is his tax ceiling initiative slated for the November 6th ballot, which will supposedly remove from the grasp of greedy governmental executives the ability to enact new chapters in the story of threatened financial disaster.

GOVERNOR REAGAN, SPEAKER MORETTI BLAME EACH OTHER FOR RECORD SALES TAX INCREASE

The California sales tax is now increased to a record 6 cents on a dollar (and $6\frac{1}{2}$ cents

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in Bay Area counties where further imposition is necessary to finance the BART transit project) with both Governor Reagan and Assembly Speaker Moretti blaming each other for the extortionate increase. The existence of a State Surplus of almost $850,000,000, the new programs for tax rebates to property owners, and the Governor's plan to give a huge rebate to income tax payers in his Initiative proposal, have embarrassed all parties involved in the increase of the admittedly regressive and inflationary sales tax.

The Governor vetoed a proposal to delay the sales tax increase to January 1, because it included a provision for income tax reductions and rebates which conflicted with the Governor's own income tax reduction plan.

Governor Reagan issued an official statement that when Californians pay the extra tax "they should remember it was one man, Assemblyman Robert Moretti, who made that increase necessary." Moretti, for his part, claimed it was the Governor's intransigence which caused the sales tax increase, and called the Governor's veto of the tax delay "the most hypocritical action I have ever seen."

Strange, when the sales tax increase bill was actually enacted at the request of various strong special interest groups, both Governor Reagan and Speaker Moretti claiming credit for the "tax reform" bill and both glorying in the widespread publicity over their mutual cooperation and accomplishment. We believe both sterling statesmen should retain equal public esteem and remembrance for their formerly united efforts to impose the increased levy on California voters, despite the embarrassment caused by changing political tides. As Gracie Allen once said, "We have to take the bitter with the better."

WHEN THE FAVORABLE BALANCE OF TRADE PROVES UNFAVORABLE

The over-enthusiastic efforts to achieve a "favorable balance of trade" by devaluing the dollar, placing quantity restrictions on imports, and promoting subsidized exports to the Soviet Union, is now forgotten as the Administration realizes that exports actually result in higher prices and less product for local consumption, while imports bring about lower prices and greater supplies within the U.S. The export bans on soybeans and cottonseed oil are a complete reversal of policy from the Administration policy which promoted the Russian grain deal. The attempts to reduce foreign oil import quotas also seemed a new departure.

What the public has never realized is that there is nothing "favorable" about the balance of trade when we send abroad more than we receive. The "favorable aspect actually exists when we receive from abroad more than what we transfer to others. Unfortunately this longed-for situation cannot long last, as international trade brings with it its own intrinsic balances, and the value of national currencies automatically readjust in relation to any lack of equality in imports and exports.

Suppose we had demanded $100 billion in reparations from Japan as the price of their loss of World War Two. According to the prevailing "favorable balance of trade" theory, we would have been the losers and the Japanese the losers, their goods would have flooded the U.S. and "destroyed" American producers.

Already complaints have been made as to the international effects of export limitations, particularly from Japan and Canada. The U.S. Ambassador to Tokyo was immediately called in to request U.S. approval of a 600,000 ton planned soybean delivery

slated for Japan for the July through September period. In 1972 the U.S. supplied 92% of the crucial soybean imports required by Japan, and it was expected that in the coming year a total of over $2 billion in farm products would be exported to Japan from America.

To put the blurred picture in slightly better focus, it is to the best short-run interests of producers that exports be increased and imports decreased. The short-run interests of consumers demand that we have heavy imports and no exports. And in the long run, it is in the interests of both producers and consumers that our Government (and every Government) keep its awkward hands out of the impossible task of regulating what its citizens are allowed to buy or sell.

WELFARE COSTS ON THE WAY UP AND UP AND UP

Governor Reagan's highly touted plan to retain welfare recipients for useful employment is charged with falling far short of its hoped for expectations. Recent reports claim that only 18 welfare recipients in the last 6 months who received the State job retraining were able to obtain permanent employment. State officials hotly deny the charges.

Some critics assert the State program was not realistically administered, charging that the income differential between welfare payments and employment take-home pay is still too slight, while other critics charge that relief recipients have lost the habit of regular work, and that retraining for employment is impossible for a majority of welfare recipients because of their age, poor health, illiteracy, or the necessity of their staying home and taking care of fatherless children. But other experts claim the main problem is that the jobs the welfare recipients were trained for just did not exist.

And despite desperate attempts to weed out relief "chiselers" welfare costs throughout the nation keep on rising. Approximately 15 million persons are now on welfare in the U.S., including over one million people in New York City alone, where a small army of over 25,000 are employed administering relief payments.

With the Federalization of all categories of public assistance the Federal Department of Health, Education and Welfare, which now employs only 110,000 persons and will only spend $94 billion during the next fiscal year, should be considerably expanded, and become the most important department of the entire government.

In short we are approaching the dreaded status of a Poorhouse State. The old-fashioned stigma-ridden public poorhouse may have disappeared, but its successor is no great improvement, with huge sections of the populace receiving not only money handouts, but Government-paid rent, Government-paid food stamps, and Government supplied medical care. Our society knows that it cannot allow these people to starve, go naked, or sleep in the streets, but it wonders how much greater a welfare tax burden can be born without the increased inflationary consequences forcing more and more people now gainfully employed into the welfare category.

Most of the persons now on relief are only two, and sometimes only one generation removed from farms whence they were removed with a big boost from Federal price subsidy programs which favored the large corporate farmer at the expense of the family-sized farm, and which encourages the big operator to get rid of his sharecroppers and tenant farmers so that he might keep to himself the whole of the Federal bonus for not raising crops. And our local property tax, so administered as to fall heavily on the intensively farmed 160

acre holding, but lightly on the 20,000 spread, further speeded the process.

Commenting on a similar situation in his famous "Deserted Village" (1770) Oliver Goldsmith stated that "A bold yeomanry, its nation's pride, when once destroyed, can never be supplied." Although the current flow from the cities might be stayed by elimination of the Federal farm subsidy program, and reform of our rural property tax, most city dwellers a generation removed from the farm could never be trained for a successful return.

In the absence of any political enthusiasm for removing all governmental barriers to economic growth and taxes on production, we must become reconciled to a permanently high level of unemployment, relief rolls, and the payment of an increasingly high percentage of our incomes to the Poorhouse State.

Oh well, possibly we can retrain the relief recipients to work for the Department of Health, Education and Welfare.

SHORT SHOTS

INDUSTRIALIST NORTON SIMON PROTESTS BURLINGTON NORTHER'S REFUSAL TO DEVELOP NATURAL RESOURCES

Millionaire industrialist Norton Simon, largest stockholder and a Board member of the hug e Burlington Northern railroad company, recently voted unsuccessfully to remove the company's Board of Directors on the grounds that it had delayed too long to develop its vast timber, coal, oil and land resources.

Simon claimed he was attempting to pro the Board into developing the 7.5 million acres of oil and natural gas reserves, low grade coal deposits, amounting to 20% of the nation's reserves, millions of acres of timber land, and millions of other acres dating back to the corrupt land grants of post-civil war days.

Simon stated: "Much of the resistance I have met has been because our management team has grown up in the railroad and is steeped in traditions and practices of the railroad industry. . . As a result the priority, financial support, and manpower applied to development of our natural resources have not progressed as they should. To this day, with more than 8,000,000 acres involved, I am advised we have only 180-including all levels-employees participating in the management of our vast natural resources."

If you wonder what 8 million acres of land encompasses, keep in mind that Belgium covers only about $7\frac{1}{2}$ million acres.

STATE LAW INTRODUCED TO REQUIRE APARTMENT BUILDERS TO INCLUDE SUBSIDIZED RENTERS

Assemblyman Bagley (R-San Rafael) introduced a bill in the California Legislature requiring all apartment house builders to provide 15% of their space to low and moderate income renters whose rent payments will be subsidized by the Government. Inasmuch as Assemblyman Bagley has been a front fighter against property tax reform to encourage slum removal and construction of reasonably priced housing, we find no inconsistency in his present inane proposal.

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