People & Taxes

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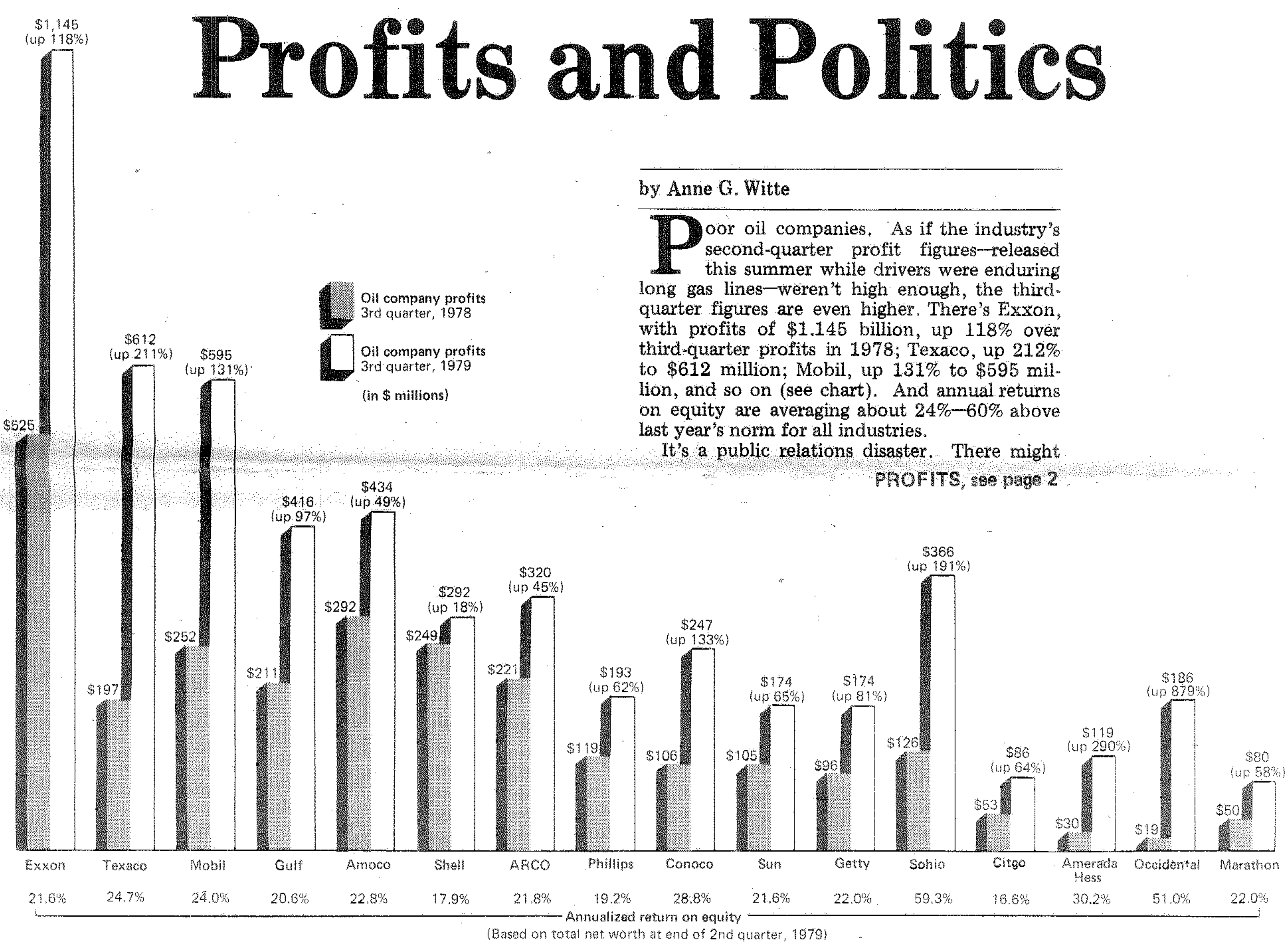
Profits and Politics



by Anne G. Witte

Poor oil companies. As if the industry's second-quarter profit figures—released this summer while drivers were enduring long gas lines—weren't high enough, the third-quarter figures are even higher. There's Exxon, with profits of $1.145 billion, up 118% over third-quarter profits in 1978; Texaco, up 212% to $612 million; Mobil, up 131% to $595 million, and so on (see chart). And annual returns on equity are averaging about 24%—60% above last year's norm for all industries.

It's a public relations disaster. There might

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not be any more gas lines, but now the public's grousing about high heating oil prices. The press is full of "human interest" stories about folks who'll have to choose between heating and food this winter. And, while the industry is busy trying to convince the public that its profits are not "obscene" or "pornographic"—after all, it's not obscene for a company to make an honest profit for its shareholders—critics are pointing to recent charges of industry price-fixing, and wondering whether the profits *are* quite honest.

Meanwhile, Congress is facing—or should be facing—its own public relations crisis. It's about the tax on the windfall profits the companies will realize as a result of domestic oil price decontrol. If profits look decent (or indecent) now, they'll soon be even higher: By latest calculations, decontrol will mean close to *one trillion* dollars in additional oil industry revenues over the next ten years. The only thing more staggering than that figure is the fact that Congress is apparently willing to let the bulk of it go to enhancing oil company profits instead of recapturing it to fund programs for the public good, like conservation measures, alternative energy development, and relief for low-income people.

In fact, the recently drafted Senate Finance Committee tax, along with the regular income tax, would collect only about 45% of the windfall, leaving $431 billion to the oil companies over the next decade—not because of any extra effort on their part, but simply because oil prices will be allowed to rise to OPEC-set levels. Even the House version—weakened significantly from the Carter Administration and Ways and Means Committee's proposal—would have imposed a higher tax of 69% on the industry.

Besides the industry's already enormous profits, there are a number of other reasons why the public should be fuming over Congress'—and particularly the Finance Committee's—reluctance to pass a stiff windfall tax. There's the fact that committee chairman Russell Long (D-La.) himself is an oil millionaire who stands to benefit personally from a weakened tax. This fact is, of course, no new revelation in Louisiana, where the voters accept it with remarkable nonchalance. If Long is facing a difficult reelection campaign next year (something a few observers are predicting, to almost everyone's surprise), it is because of his support of the Panama Canal Treaty, not because of any possible impropriety in his Finance Committee dealings.

Long isn't the only member of Congress with ties to the oil industry. Others benefit from its largess at campaign time: Identifiable oil contributions to the most recent campaigns of Finance Committee members alone amounted to well over a half million dollars. Oil "political action committees" gave over $1.1 million in contributions to House members in 1977 and 1978, with the largest average contributions predictably going to members who voted for floor amendments to weaken the windfall profits tax.

And Congress seems bent on preserving its oil- and other special interest contributions—by systematically defeating measures for public financing of campaigns. The House did vote recently to limit the amount of allowable pac contributions to its members, but some senators are threatening to defeat the measure, even though it doesn't affect the Senate.

All of this means that the oil industry is practically guaranteed favorable treatment. And, at least in the Finance Committee, the favors get written into legislation with very little monitoring by the public. Even if an ordinary taxpayer *wanted* to sit through the often dull, technical drafting sessions, he or she would have to wait for hours outside the hearing room in order to get a seat! Those who do sit through the sessions, the industry lobbyists, often send their paralegals or secretaries to wait in line for them early in the morning, or they just put their briefcases into line and mosey down to the cafeteria for breakfast.

Even if the oil lobbyists had to wait in line *themselves* to get into the Finance Committee drafting sessions, the wait would be worthwhile. In the sessions on the windfall profits tax, the committee began by exempting several categories of oil from the tax altogether. Newly discovered oil, so-called "tertiary" oil, and "stripper" oil produced by independents, among others, are taxed—at reduced rates—in the House bill, but are exempt under the Senate Finance version. The committee also voted to ease the tax on already-discovered Alaskan oil, and, incredibly, to allow percentage depletion on the windfall profit. The only offset was to hike the tax rate on "tier one" oil (oil discovered before 1973) to 75%, instead of 60% under the House bill. Since most of the tier one oil is exempted in one way or another (including a rapid phase-out of this part of the tax), this change was miniscule compared to the Finance Committee actions in the other direction.

One of the measures to pass—a phaseout of the windfall tax once 90% of the projected revenues had been collected- came back to haunt the members later in the sessions. Originally, in calculating the windfall that would result from decontrol, the staff assumed an OPEC-set world price of $22 a barrel at the end of 1979, and price increases of 1% plus inflation thereafter. This meant that the Finance Committee's windfall tax would collect only about $65 billion. With the latest stirrings from the OPEC countries, the experts began estimating that the tax would be phased out beginning as early as 1983.

To delay the phaseout, the committee decided that it would be more "realistic" to assume higher OPEC prices—and settled on $30 a barrel in 1980, with 2% annual real increases. This allowed them to assume a much higher windfall and about $138 billion in tax revenues, still about half of the $273 billion the House bill would collect under the new assumptions.

The higher revenue estimate, of course, amounted to a windfall of sorts for the committee, which had a field day deciding how to spend it. The way to make the bill, in the words of chairman Long, "more popular" in the full Senate was apparently to include something for just about everyone. Here's a sampler of what passed:

- For landlords, there's a new 10% insulation credit, and a 40% solar credit;
- For homeowners, there are increases in the current solar credit, a 25% credit for coal furnaces, and 15% credits for replacement furnaces, wood stoves, and heat pumps; and, finally,
- For businesses, there's a veritable credit bonanza: increases in existing credits for solar, wind, and geothermal equipment; new credits for ocean thermal equipment, "non-oil cogenerational" equipment, heat pumps, and petroleum and pitch equipment; and credits for production of unconventional natural gas, oil shale, and tar sands, among others. (The latter measure, however, passed *before* the committee started assuming the $30 per barrel prices. Since it was to phase out when the price of oil reached *$29.50*, it isn't clear whether it has already phased out, before even going into effect!)

The problem with all this—other than that minor technical difficulty with the oil shale credit—is that however popular, tax credits are basically inefficient and unfair. They make the tax code even more frighteningly complex, while rewarding mostly well-off taxpayers for doing what they would probably do anyway.

This credit-laden windfall tax now goes to the full Senate, and then to a House-Senate conference committee where differences in the two versions will be worked out in a compromise bill. Some analysts believe that the strong public outcry over bloated oil company profits will lead to a strengthening of the Finance Committee's tax on the Senate floor and in conference. Others, however, have less confidence. They predict essential acquiescence in the Finance Committee bill by the oil-dominated Senate, and foresee the House conferees concentrating mainly on cutting out some of the Senate's tax credits.

President Carter has said that the final windfall tax ought to raise at least $275 billion to be acceptable—about the amount raised by the House bill. (This does not mean, however, that he would, or could, veto a bill which raised less.) So the Senate floor action is likely to be concentrated on dealing with some of the exemptions which cause the Finance Committee bill to raise only half the revenue which the House bill would collect.

The biggest tax exemption, however—for newly discovered oil ($71 billion)—appears to be almost untouchable, and some of the other exemptions, for tertiary oil ($27 billion) and heavy oil ($12 billion) will be hard to eliminate entirely in the "incentive" oriented Senate.

One package of amendments, outlined in the dissenting views of four committee Democrats (Sens. Nelson, Ribicoff, Moynihan, and Bradley),

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Coming up in December and January issues —a retrospective of tax policy in the '70s, and a preview of the '80s.

would raise $60—75 billion over the Finance bill by: (1) Raising the tax rate on the remaining, non-exempt, already discovered oil (tier 2) to 75% ($20—30 billion); (2) eliminating the 1,000 barrels per day "stripper" exemption for independent producers ($16 billion); (3) putting a 20% "minimum windfall tax" on otherwise exempted, already discovered oil, such as tertiary and heavy oil ($22 billion); and (4) eliminating the phase-out of the tax ($3 billion). The increase in the tier 2 rate is also supported by 6 or 7 other committee members in their supplemental views, and not only narrowly lost in a committee vote.

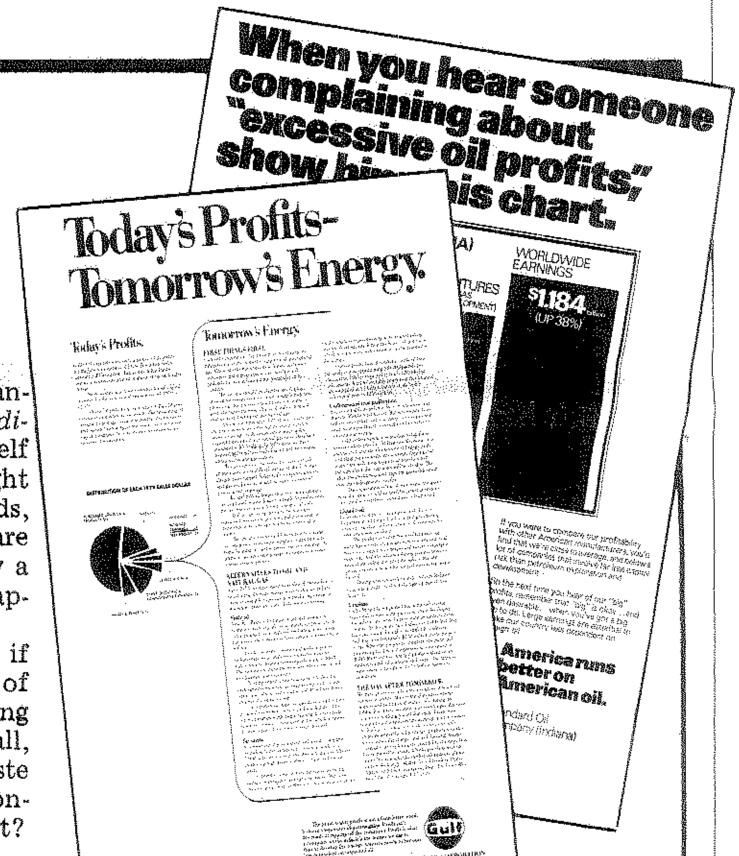
Other possible floor amendments include: eliminating the exemption for state-owned oil ($13 billion); cutting back on percentage depletion ($4 billion) or possibly eliminating it altogether ($10 billion); and returning to the House treatment of already discovered Alaskan oil ($6 billion). And some strategists have discussed minimizing the losses by limiting more of the exemptions to independent producers (thereby denying them to the majors).

Recent votes in the House make clear that Congress has no stomach for reimposing controls on crude oil prices, even in the face of the latest oil company profits data. But, as Carter administration inflation fighter Alfred Kahn puts it, the extraordinarily high earnings make it more apparent than ever that the government should "tax the hell out of the industry." □

Russell Long and his gavel

About those profits:

"It's not real money," and other stories



"Profit is not a four letter word," the Gulf Oil Corporation has recently told us, and if you count the letters it's hard to disagree. But there's *plenty* to disagree with in the recent spate of full-page ads which the oil companies have put out to explain their extraordinary third quarter profits.

To recapitulate the undisputed data: The third quarter earnings of the 16 largest oil companies reporting to date were $5½ billion, up 105% from the same quarter last year, and representing an annualized return on investment of 23.6%.

This seemingly happy news for the oil companies actually has them squirming, because they fear it could spur Congress to enact a tougher tax on the windfall profits which will be pouring in from decontrol of domestic oil prices. So, the public relations departments at the big oil concerns have taken to the newspapers to convince the public that the big profits are justified. But their excuses for their recent successes—in big enough print possibly to seem plausible at a glance—are pretty ridiculous on closer inspection.

Let's take a look at some of them:

● "We're Only Gouging Foreign Consumers, Not Americans."

Standard Oil of Indiana (Amoco) makes a big deal of this one: "Over 85% of our earnings increase came from foreign and chemical operations," its ad recites. "Less than 15% of our earnings increase came from U.S. petroleum operations. But in the U.S. earnings from refining, marketing and transportation were *down* from a year ago—despite our getting higher prices for gasoline and other petroleum products. This is mainly because our costs for crude oil and other feedstocks rose sharply."

Now consider for a minute. To whom do you think Standard Oil is paying these high prices for crude oil and feedstocks? The answer, of course, is to *its own foreign subsidiaries*, i.e., to itself. And after paying itself these high prices, it then passes them right along to American consumers. In other words, American consumers *are* paying a large share toward big oil's increased profits, and only a bookkeeping fiction makes these profits appear "foreign."

And, in any event, does it really matter if a part of the profit hikes are at the expense of European customers, who are already paying uncontrolled prices for all their oil? After all, aren't these skyrocketing earnings just a taste of what Americans will be paying once decontrol of domestic crude prices goes into effect?

● "We Need The Money Because We Spend So Much On Exploration And Development."

Once more quoting Amoco: "We earned $603 million from petroleum domestically. But we spent $938 million just for U.S. petroleum exploration and development."

Again, you have to think a little. Suppose General Motors said it spent more on wages than it earned last year. Would that seem unusual? Of course not, because the amount spent on wages is deducted from gross in computing net earnings. The same is true for the oil companies' exploration and development expenses. In computing its $603 million domestic profit, Standard Oil wrote off much of its E&D investments as a cost of doing business.

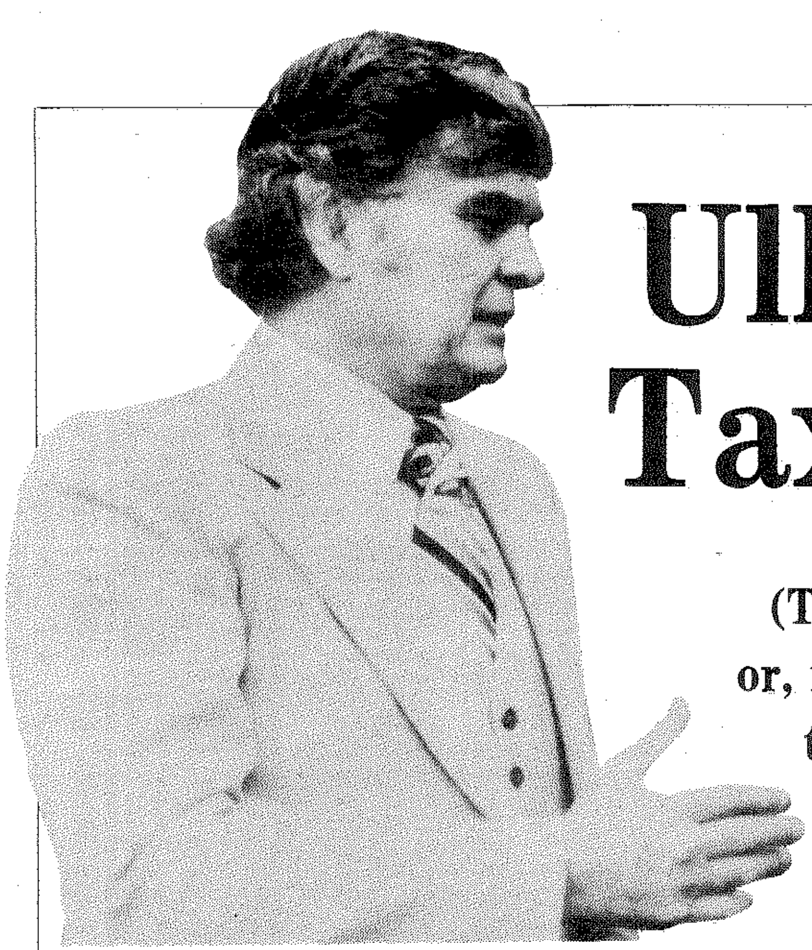
● "We're Not Making Any More Than Other Industries."

Mobil, among others, is fond of telling us that it's just earning an honest profit on the billions its shareholders have invested. Last year, they point out, oil profits as a percent of investment weren't out of line with those of industry in general. The problem with this argument is that *this year* is very different, with oil company returns on equity in the last quarter running over 50% above last year's all-industry average. And next year, the difference will be even greater.

● "We Pay Out Taxes Just Like Everybody Else."

This is another favorite of Mobil's. Recently, it conducted a lively debate with Senator Thomas Eagleton (D—Mo.), who had pointed out (using data supplied by the Tax Reform Research Group) that Mobil had paid only 10.8% in federal income taxes on its 1977 domestic earnings. Phoohey, said Mobil in a nationally syndicated ad, we paid over 40%. The problem with Mobil's arithmetic, as Eagleton reponded in a letter to the *New York Times*, is that the oil company added to the $108 million it *did* pay some $327 million in taxes that it *didn't* pay because of various tax loopholes.

It's likely that big oil's propaganda campaign will intensify as the Senate vote on the windfall profits tax nears. We can only advise that you keep a salt shaker handy while you read their ads. □



Ullman's Tax Idea

(The value-added tax, or, robbing from the poor to give to the rich)

by Robert S. McIntyre

Desperate people do desperate things, and Al Ullman (D—Ore.), Chairman of the House Ways and Means Committee, is desperately concerned about America. So concerned, in fact, that he seems willing to jeopardize his prestige and possibly his whole career. In the face of practically unanimous opposition on the part of Ways and Means members and almost everyone else, Ullman is insisting on going forward with extensive hearings on his (latest) pet project for saving America, an extraordinarily complicated form of 10% national sales tax called the value-added tax (VAT).

Ullman has a right to be worried about the country's future. Official estimates show that our foreign oil bill may be more than $100 billion next year (up from $45 billion in 1978). Over five years this would be the equivalent of transferring half the value of the New York Stock Exchange out of the country. Inflation is merrily chasing its own tail at a 13% clip, with no end in sight. Labor productivity is at a virtual standstill. Interest rates are going through the ceiling. About the only things doing well are employment and corporate earnings, and even these (except for the oil companies' profits) are likely to weaken in the face of the recession.

But almost no one agrees with Ullman that the value-added tax is the answer to the nation's woes. In fact, except for encouragement from Senate Finance Committee Chairman Russell Long (D—La.), the response to Ullman's suggestion has ranged from cool to extremely chilly.

Democrats back in Ullman's congressional district are now organizing a primary challenge to his renomination, centered largely around VAT. In a state where opposition to the sales tax is extraordinarily high (Oregon is one of only five states without one), the impact of such a campaign cannot be easily dismissed.

Ranking minority member of Ways and Means, Barber Conable (R—N.Y.), is a long-time opponent of VAT. (Republican wags have concocted an alternative to VAT, called "TUB," for "True, Unadulterated Bull----.") And the response of Democrat committee members has ranged from disapproving silence to public criticism, such as that of Rep. Bill Brodhead (D—Mich.), who has condemned Ullman's VAT proposal as an illustration of "the total bankruptcy of our tax policy."

Nor have the newspapers been supportive. Writing on the *Wall Street Journal*'s editorial page, Melvin Krauss faulted Ullman for copying Europe even though the VAT is "not well suited" to the U.S. situation. The *Washington Post* criticized the "coarse simplicity of the VAT," and noted that Ullman's international justifications for it "hardly seem plausible." The *New York Times* noted that the country "hardly needs a tax system that would exaggerate [income inequalities] further."

In fact, the only group to offer an unqualified endorsement for VAT so far is the American Council for Capital Formation, a business lobbying arm whose stated policy is to support virtually *all* regressive tax changes.

There are many reasons why most people don't want to see a new tax on spending. First of all, even Ullman admits that "those with limited budgets typically would pay proportionately more than those with large incomes." In fact, as Rep. Brodhead notes, "the *intent* of VAT is to tax consumers in order to provide a substantial tax break to profitable corporations and to individuals in high brackets."

Second, it would be inflationary. Prices would go up by close to the full VAT tax rate as soon as it went into effect, and worker demands for higher wages to meet these price increases could force prices even higher.

Even people who would like to see a tilt toward a consumption tax don't like VAT because it is so mindbogglingly complicated. And some conservatives, like Rep. Conable, who might be inclined to support a less redistributive tax system, are fearful of what Harvard professor Stanley S. Surrey calls "Parkinson's Law of Taxation, to wit, for every type of taxation used by a Government the legislators will find expenditure needs that require raising the tax rates to the maximum politically tolerable level." (Surrey notes that every European country with a value-added tax except Switzerland raises a far higher amount of taxes, in relation to GNP, than does the United States.)

In essence what Ullman has proposed is a 10% national sales tax on most retail transfers of property or services. The $130 billion or so raised by the tax annually would be used for a variety of personal and corporate tax cuts. The idea is to give people and businesses more money but at the same time make it more expensive to spend it. The result, hopes Ullman, would be increased savings and investment and a revitalization of the U.S. economy.

Although there may seem to be some logic to Ullman's theory, there is little evidence to support it. For example, Ullman points to the European countries with value-added taxes as examples we ought to follow. But, although these nations do have higher "capital formation" rates as a percentage of GNP than does the U.S., most researchers who have analyzed the difference have found that it explains little or none of the variance in growth rates. And one study—by Edward Denison—notes that the difference in Investment/GNP ratios may itself be largely or totally illusory, because of the lower price of capital goods in the U.S. In fact, when this factor was taken into account, Denison found that the U.S. actually has had a higher ratio of equipment and non-residential structures to GNP than have the European countries.

Looking at the distribution of the tax burden among various sectors in the U.S. and in other countries also shows no correlation between historical growth rates and value-added taxes. For example, Japan, the world growth leader between 1960 and 1973, has relatively low taxes on goods and services and high taxes on capital. Italy's tax distribution, on the other hand, is just the opposite, yet its growth rate has been much lower. (See chart.) In fact, the U.S. growth rate over the 1960—73 period, although somewhat below most of our trading partners, is conceded by everyone to have been excellent. As Denison points out, the countries which did "better" than us simply started much lower and had greater opportunities to increase efficiency.

Finally, as was pointed out last year by then-Treasury Secretary Blumenthal, over the past few years the U.S. has actually outperformed most other industrialized countries, including Germany and Japan, in terms of real growth and increases in employment. We have done worse than some countries with regard to inflation, but even here we have done much better than countries like Italy and the United Kingdom, which rely much more heavily on consumption taxes. And everyone, including Rep. Ullman, agrees

Real Growth Rates, 1960—73, and Percentage of Tax Revenues Raised From Various Sources

Country	Real rate of growth in GNP	Taxes on capital*	Taxes on labor**	Taxes on goods and services***	Progressive taxes****
Japan	10.9%	38%	38%	24%	52%
France	5.9%	11%	49%	40%	19%
Germany	5.4%	14%	55%	30%	35%
Italy	4.8%	12%	49%	39%	16%
United States	4.1%	34%	46%	19%	60%
United Kingdom	3.8%	28%	42%	30%	57%

* Includes corporate income tax; death and gift taxes; and 25% of individual income tax.
** Includes 75% of individual income tax; and payroll tax.
*** Includes sales, value-added and excise taxes; taxes on imports, exports, and transfers of property; and other transaction taxes paid by enterprises.
**** Includes income taxes, death and gift taxes; and property tax.

SOURCE: "Tax policy and Capital Formation," Joint Committee on Taxation, April 4, 1977.

that adoption of a VAT in the U.S. would make inflation worse, at least in the short run.

A national VAT would mean an additional 120 million returns filed with the IRS every year—a jump of about 25% if W-2s and 1099s are counted. And just the *general* operation of Ullman's approach—even before the special rules and exemptions are confronted—illustrates how burdensome it could be. For example: Suppose Ajax, Inc. manufactures widget-making machines, supplying itself with all its own raw materials. Ajax sells a machine to Bidlow, Inc., which manufactures widgets. Ajax adds the 10% VAT to the price of the machine, and sends the Treasury a check for that amount. Bidlow, which paid the 10% to Ajax, then writes to the government asking for a refund, which is sent. Then, Bidlow sells some widgets to Compex, a retail store, adding 10% to the price and sending the money to the Treasury. Compex then gets a refund from the government for the amount of VAT it paid Bidlow. When Compex sells the widgets to its retail customers, it charges the 10% VAT, and sends it to the Treasury. The result is that Compex's customers pay the whole VAT based on the final price, while Ajax, Bidlow, Compex, and the Treasury waste a lot of postage.

Why all this complication? That is, why not just collect the tax once—from the retail customer, who ultimately pays it anyway? Ullman offers only one reason. Suppose somebody in the chain—say Compex—is a sleazebag member of the underground economy. Compex doesn't collect VAT from its customers and doesn't remit anything to the Treasury. Under a simple retail sales tax, the government has lost the whole 10% it should have collected (unless it catches Compex). Under VAT, all the tax except that on the value-added by Compex has been paid. The assumption is that Compex will be afraid to file for a refund of the VAT on its purchases since IRS might notice that it wasn't paying anything on its sales.

Cutting down on cheating was one of the reasons the Europeans adopted VAT, instead of a retail sales tax, as a replacement for their cumbersome transaction taxes. (Another was that the transaction taxes were already being collected at non-retail levels.) But in the U.S. we already have working retail sales taxes in 45 states, and the evidence is that cheating is relatively rare.

There are plenty of additional complications in Ullman's tax on value-added (UTVA). With regard to food, for example, "non-retail" sales by farmers and fishermen would be tax-exempt; other wholesale food transfers would be subject to the regular 10% rate; and retail food sales (and, presumably, withdrawals by farmers and fishermen for personal consumption) would be taxed at 5%. Home sales and rents would also be taxed at the 5% rate—but only if the buyer or tenant uses the property (or plans to use it?) as a "principal residence." (The "taxable amount" on home sales would be the selling price minus the cost of puchase and improvements incurred after January 1981.) Businesses with sales under $10,000 would not have to collect UTVA (nor would they get VAT credits), creating an odd incentive to keep sales at $9,999 or below. And so on.

Such special rules may be justifiable, but their existence—and the pages of definitions included in Ullman's "brief summary" of UTVA—raise the spectre of an administrative apparatus rivaling that of the current income tax. The result could be a significant deterioration in the quality of tax administration. As Professor Surrey puts it, "The United States all in all probably has the world's most carefully structured and administered income tax. Is it because it is essentially our only national tax and therefore we work hard at continually improving it? The European countries must spread their efforts over both an income tax and a sales tax. The more children in a family, the less attention each gets."

What would Ullman do with the $130 billion in revenues his monster would raise? The answer is a little bit—or a lot—of everything:

- The top corporate tax rate would be cut to 36%, on profits above $160,000. The rate on the first $40,000 in corporate income would be 15%, with 20%, 25%, and 30% rates applicable to each additional $40,000 (up to $160,000). The corporate capital gains rate (applicable primarily to timber and coal earnings) would be reduced to 22% for companies earning over $80,000. *Cost: $22 billion.*
- Depreciation write-offs would be speeded up by 16% and made simpler for small businesses, and the investment tax credit would be liberalized. *Cost: $6 billion.*
- Payroll tax rates would be rolled back to 4.5% each on employers and employees, from the 6.65% currently scheduled for 1981. (The self-employed rate would be lowered to 6.285%, from 9.30%.) *Cost: $52 billion.*
- The top personal income tax rate on investment income would be slashed to 50%, from the current 70%. (This would cut the maximum rate on capital gains to 20%.) The top rate on earned income would stay at 50%, but intermediate rates would be reduced and the beginning income tax rate would drop to 10%, from the current 14%. The "zero bracket amount" (or standard deduction) would be increased to $4,000 for couples (from $3,400) and to $2,600 for singles (from $2,300). *Cost: $42 billion.*
- The earned income credit would be expanded, the credit for retired federal employees made refundable, and welfare payments (AFDC) increased. *Cost: $5 billion.*
- Individuals would be allowed to put up to $1,000 a year in a special savings account, the interest from which would not be taxed until withdrawn. Corporate dividends issued in stock, up to $1,500 per year ($3,000 for couples), would be tax-exempt. And the Individual Retirement Account (IRA) rules would be liberalized. *Cost: $3 billion.*

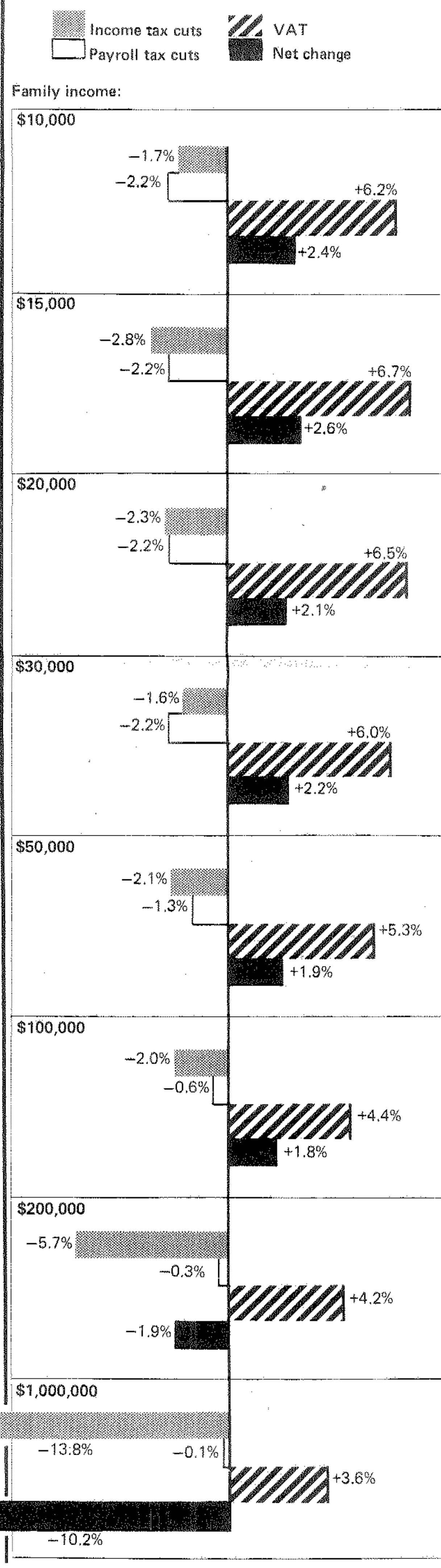
The bottom line would be about a 33% reduction in corporate taxes, a 32% decrease in payroll taxes, and a 19% cut in personal income taxes, tilted toward high income investors. Since the $130 billion in value-added taxes would be borne entirely by individual consumer-taxpayers, most of whom are neither businessmen nor corporate shareholders, this would mean a rather massive shift of the tax burden away from the wealthier segments of society onto the less well-off. Not many people agree with Ullman that making the tax system so much less progressive is necessary to restore the well-being of our country.

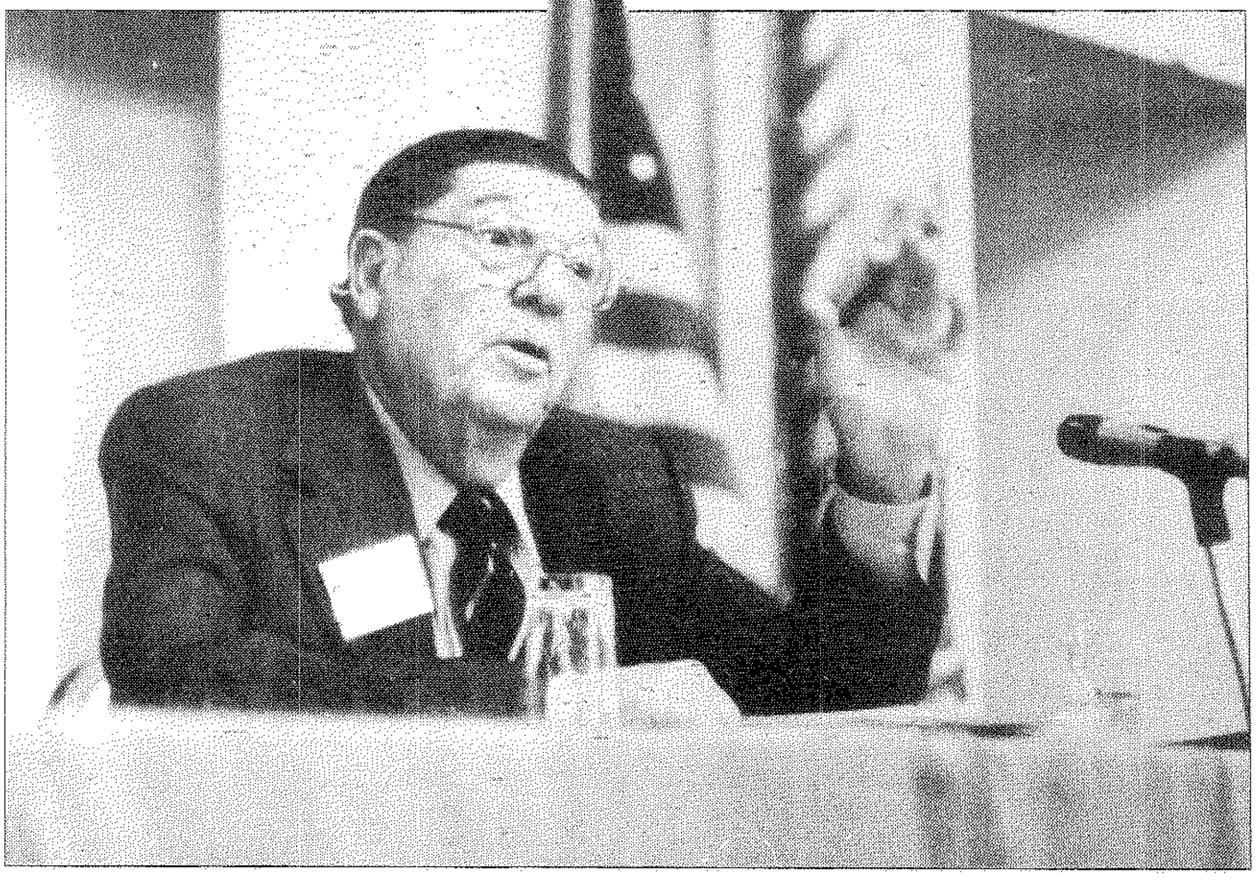
There *are* real economic problems with the tax system in the United States. Because of the multitude of special tax breaks for various interest groups, business and investment decisions are distorted and tax rates are too high. But the answer is not to enact a complicated, regressive, inflationary national sales tax. Instead, we should be moving toward simplifying and reforming the income tax, and thereby lowering the rates—so that taxes become less of a factor in economic decision-making. As Rep. Brodhead puts it, this is all possible "if we can overcome the negative thinking which has characterized congressional tax-making policy for many years."

It seems almost inconceivable that Congress will take Ullman's VAT proposal very seriously. Given the broad-based oppostion to it. VAT appears likely to die almost as quietly as did last year's Ullman fixation, "integration" of the corporate and personal income taxes. But Ullman has succeeded in both angering his constituents and irritating his fellow committee members by his stubborn insistence on pushing forward with his plan. The result just could be that his negative thinking may not be leading the Ways and Means Committee too much longer. □

Who gets the cuts, who pays more?

Rep. Ullman's proposed VAT, with accompanying cuts in income and payroll taxes, as % of income for families of 4. (Income tax figures do not include proposed tax breaks for interest and dividends or changes in the earned income credit.)





"Tax I
for Busin
Peo

Howard Jarvis
have it ou
governmen

"It didn't bother me at all that industry got $2 billion from Prop 13. I'm glad they got it. I'll tell you why. We were losing jobs in California. Firestone was leaving. IBM was leaving. General Electric was leaving. And now all these companies are moving back to California."

Editor's note: The following is excerpted from a debate between Howard Jarvis and Ralph Nader at the Mayflower Hotel in Washington, D.C., October 12, 1979. The debate was part of a three-day seminar on business taxation, sponsored by the American University and the Multi-State Tax Commission. Jarvis and Nader each began with opening remarks and then fielded questions from a moderator and the audience.

Jarvis: Why did this country become a great country? It became a great country because of our economic system. The system worked—until about 25 years ago, when the government got its nose into the private business of the people. From then on we've gone downhill. Up until then the income and assets of the American public doubled every generation, but the government managed successfully to put an end to that. As a result, the public got disgusted with the U.S. government; they thought that it wasn't performing the way it should, and that it didn't represent them anymore.

I remember something Adlai Stevenson said one day. It was at the end of a long day of campaigning; he sat at his desk and put his foot up—and there was a hole in his shoe. The press made a big deal of that 75-cent hole in his shoe, and forgot entirely what he said. What he said was, "The trouble with the United States is that you and I are not looking after our store."

In California we had a great governor at one time by the name of Hiram Johnson, who found out that the Union Pacific Railroad had a monopoly on the state. They bought all the elected officials; they owned the banks, lock, stock, and barrel. So, this governor made it possible for the people of California to have the right of initiative and referendum. That is how California had Proposition 13. And Prop 13 is the most important event that's happened in the U.S. in the last one hundred years. . . .

Basically, what did it do? It made it impossible to foreclose on the home of a middle-class citizen, or on the home of a member of a minority community. That was a great accomplishment, because the state was foreclosing on 7,500 apartments a month. Now, none.

The best evidence I can give you today is a report issued by the U.S. Department of Commerce just a short time ago. They said that Proposition 13 created 562,000 new jobs in California. Because these jobs were given to people in th middle and low income brackets, we have th largest drop in welfare relief in the history o the program. Because of Proposition 13, infla tion is one percent less in the state of Californi than in any other state, and because of Propos tion 13, the economy of California is advancin twice as fast as any other state. And, while ther is a recession in many states, we have no reces sion in California. What did Prop 13 do to th finances of the state? Last year we had a $6 billion surplus. This year we've got an $8 billio surplus. That's why, although Prop 13 passed 2 t 1 in the election, a recent state poll by the *Lo Angeles Times* showed that *today* the peopl would vote *3* to 1 for Prop 13.

Nader: At least Mr. Jarvis doesn't claim tha Proposition 13 prevents cancer.

One of the problems with discussions of Prop osition 13 is that it isn't discussed in a broa enough context. The function of taxation is t provide services for people, either because they'r too poor or disadvantaged or disabled, or be cause they simply can't do it individually—as i the case with police and fire protection. Now that is the basic justification for taxation. Ther have been additional justifications—redistributin wealth, stimulating the economy—and layer a ter layer of purposes has been added until peo ple who deal with tax policy find it very difficu to put priorities in order.

The importance of Proposition 13, I think has nothing to do with what it did or did not d for taxes. What Proposition 13 did was to legit mize forever the referendum form of governmen and to make it impossible for people who ca themselves conservatives—who are often corpo atists—to stereotype the referendum form o government as somehow socialistic or commu nistic. So, that's really Howard Jarvis's greates contribution, and we all wish that he'd rest o his laurels.

It's really interesting to see how contradictor writings on Proposition 13 are. For example, i the *Wall Street Journal*, which effusively *praise* Howard Jarvis on its editorial page, the claim made, "More than 100,000 state and local jot were eliminated, most through attrition, and th number may go as high as 200,000 next year. The paper also points out that sixty-five percen of the benefits of Proposition 13 went to bus

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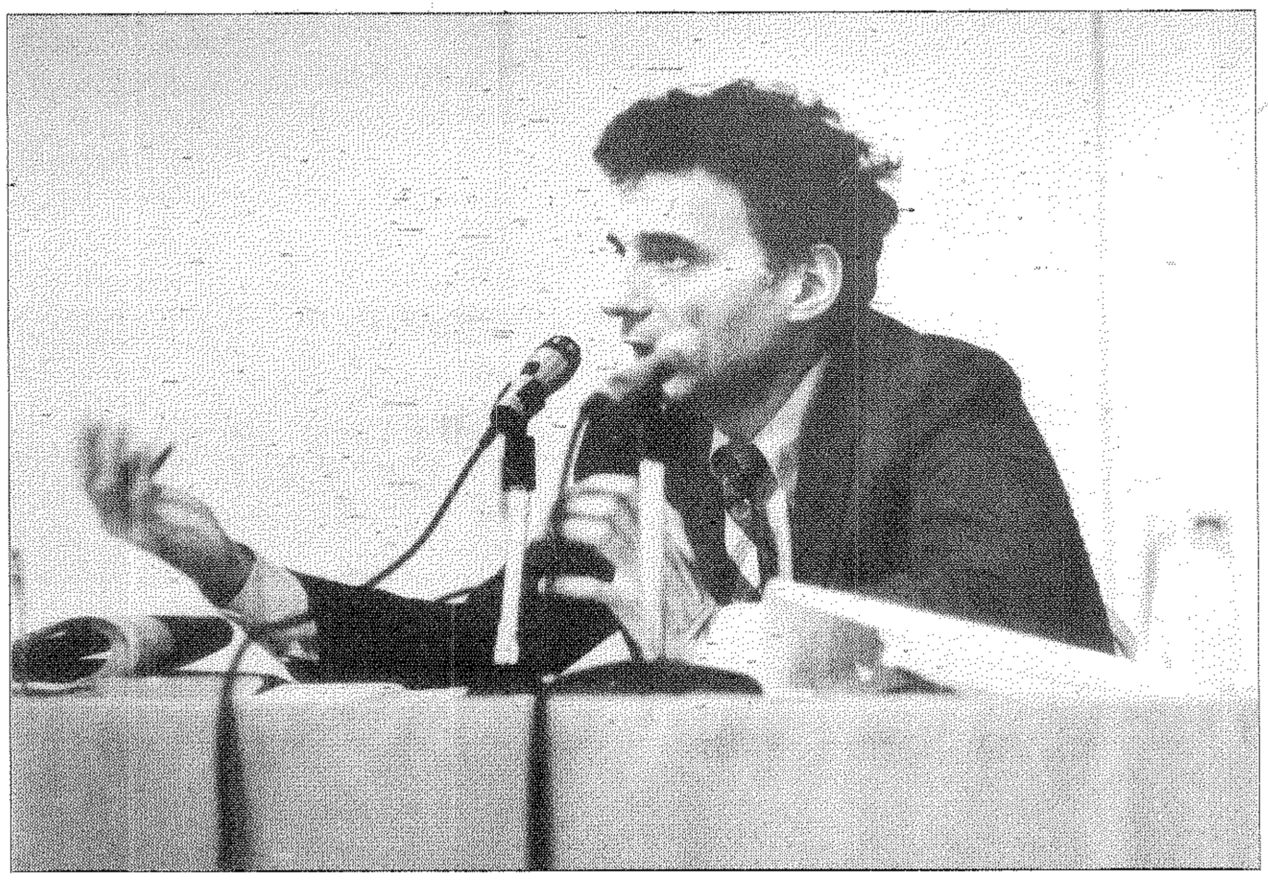

s. And a few months ago, there was an article ed "Business Bonanza: Companies' Big Sav- s From Proposition 13 Slow to Reach Public." That's why there's always so much acrimony ut Proposition 13—because the data, depend- on the person using it, seems to be contradic- y. I'm surprised, however, that a principal porter, Mr. Jarvis himself, makes statements t are contradictory. First of all, although neowners were promised substantial tax re- tions as a result of Prop 13, most benefits— l most of the writing on Prop 13 confirms —went to big business, including agri-business l landlords. Between 60—65% of all property reductions, some $4.1 billion of the 7 bil- ı, wound up in the hands of these two ups.

Second, the inequity will worsen in the future, to continued tax shift from business to neowners. By 1982 business and landlords l be receiving $6.7 billion in property tax aks as a result of Prop 13. In part, this ns from inflation which drives up the price of ısing faster than commercial property. But the most part, it results from a provision of p 13 that caps assessment rises at 2% a year, ept when the property changes hands and is ssessed at current market value. Now, that nds like an equitable provision, until one ns that residential property changes hands on average every five to six years; business and nmercial property, fifteen to twenty years, l industrial property maybe fifty years or er. For example, Standard Oil doesn't sell its neries from time to time. The assessments l rise much faster on homes than on businesses. fortunately, business has made very little ef- t, as the *Wall Street Journal* pointed out, to s tax breaks along to the consumer. It has used Prop 13 money to lower prices, in- ase investments, or create jobs, but in most ances, to cut operating costs and increase reholder dividends. According to Mason Gaff- , an economist at the University of California, nuch as 50% of the total Prop 13 tax benefits falling into the hands of absentee investors, ally shareholders and multi-state, multi- ional firms. Several billion dollars annually , therefore, being lost from California's nomy.

Furthermore, landlords have not passed on breaks in the form of rent reduction. In recent months several communities, such as Santa Monica and Berkeley, passed rent control laws in response to public outrage. I think, perhaps, that some supporters of Prop 13 are disappointed that business hasn't used the benefits differently. Unless Mr. Jarvis was misquoted in *Fortune*—and that is an eminent possibility—he has said, "Businessmen are really stupid if they fail to realize that, after landlords, they may be the next target. They better do something special with their savings. I know something about California's political mood, and if businessmen can't figure out the message, then they deserve whatever they get."

Property tax loopholes and exemptions for business are part of the problem. Burdens on homeowners and renters lead to fertile ground for people pushing alleged tax reform, but, in effect, pushing more business tax relief. The massive spread of business abatements and exemptions all over the country is something I hope Mr. Jarvis will pay some attention to. It's getting so GM won't start a plant, or K-Mart won't open a retail outlet, unless they get a property tax abatement. That is discriminatory against small businesses and small homeowners.

Moderator: I guess the first question would be to you, Mr. Jarvis. People speak of the passage of Proposition 13 as symbolizing the modern tax revolution. Are you, Mr. Jarvis, a revolutionary or a con-man acting on behalf of industry?

J: I don't like that question.

M: This is a devil's advocate question.

J: I understand that, and I don't mind that, but I don't like the inference that I'm a con-man, because that is absolute baloney. Now, what was the question?

M: The question was, were you acting on behalf of industry or were you acting on behalf of homeowners?

J: The answer is that I was acting on behalf of both. Unfortunately, Mr. Nader knows nothing about the taxes in California, and I think I ought to enlighten you on how Prop 13 affected busi-

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"The importance of Proposition 13 has nothing to do with what it did or did not do for taxes. What it did was legitimize the referendum form of government — and to make it impossible for conservatives to stereotype the referendum as somehow socialistic or communistic. That's really Howard Jarvis's greatest contribution, and we all wish that he'd rest on his laurels."

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ness and why. For a hundred years California business property, residential property, and commercial property has been appraised, assessed, and taxed upon exactly the same basis. Prop 13 made absolutely no difference in that; it gave a reduction to everybody equally.

Now, I'll tell you frankly: I *want* to help business. If we don't help business, there will be no jobs. It takes money to hire people. How do you think that in a short time California got 562,000 new private jobs? The net reduction in public employees, other than those who resigned or retired, was 18,000. I'm very happy to trade 18,000 public jobs for 560,000 private jobs. And that's why the economy in California is booming.

N: It has an unemployment rate of 7½ percent, which is higher than the national average.

J: You're absolutely dead wrong; it's 5.1%. That was Governor Brown's statement yesterday.

N: Governor Brown's hardly credible on the issue of Prop 13.

J: But you are in league with his staunchest supporters. Their names are Fonda and Hayden. And you belong to the "economic development"—or whatever you call that group, and you want to change the form of government in the United States—

N: Relax, Howard. . . . How do you explain the differential rates in turnover which will create differential rates of reassessment on residential, commercial, and industrial property?

J: Well, that was one of the phoney myths that was spread about Prop 13 by the politicians. It is true that Standard Oil will not sell its buildings every two weeks, and it's true that the Pacific Telephone Company doesn't change hands every twenty minutes. It is *not* true that the small businesses do not turn over at about the same rate as homes. What's going to happen now is exactly the opposite of what you said, Ralph. A great many people had to sell their homes in California because they couldn't pay the taxes. That has stopped.

N: There are other ways to prevent the conditions that lead to people being forced to sell their homes because of property taxes. One way is to reform property taxes so that there isn't an inequitable impact. Another way is to reduce the speculative fever that drives values up very rapidly—and assessments with them.

Let me ask you this: You once said that all business taxes are paid by consumers—

J: Right, every nickel.

N: Alright, would you, therefore—just to get rid of a lot of paper work and red tape—would you advocate the total abolition of taxes on business and industry?

J: No, I would not.

N: Why not?

J: I don't think there's political reality in it.

As for businesses increasing taxes on homes, that is not so. Ten years ago, fifty-eight percent of the people in California owned their homes; now it's only forty-one percent. The cost of building homes and maintaining them has gotten so bad in California that we had to do something about it.

N: But you can hardly attribute that very real problem to property taxes. The biggest cost in producing a home today is interest. Then there are construction costs, and rising land values.

J: Right.

N: While you're focusing on very real price increases and their effect, they can't be blamed on property taxation—particularly equitable property taxation.

J: Let me say something.—

N: No, let me just finish this. The other problem is that a lot of tenants feel that they did not get the benefits—

J: You've said that already, and I'll explain it. Let's answer your first question first. In the first place, honestly, the property tax *cannot* be administered. There is no way. In Los Angeles County an assessor with 18,000 employees can only reappraise one fifth of the counties a year. Let me tell you one thing, the basic American tax principle—and I think Ralph will agree with me—is that the tax should be fair, it should be equal, and it should be within the ability of the people to pay it. The property tax in California never met that principle. In fact, we had about thirty percent of the property off the tax bills altogether. And, I'm not talking about churches and schools, Ralph; I'm talking about political manipulation that got a lot of property off the tax bills.

N: What kind of property?

J: Real property.

N: Yeah, but what kind; be more specific.

J: Well, buildings and land.

N: You mean industrial and commercial?

J: I'm not so sure about that. But let me finish this. What we tried to do with Prop 13 is to have a reasonable, equal taxation. And that's what we will succeed with.

M: Okay, let me step in with a larger question than this. In a sense, you both have one thing in common that you are two "consumer advocates." You both think government is too big. Where do you see that you would agree largely, and where do you differ?

J: Well, I don't know because I can't tell what Ralph is saying.

N: How come you're agreeing with me a lot? You see, it's easy to agree with Howard in principle and disagree with him in his practice. That's the problem. For example, he recognizes that there are property holders in California that, through their political power, don't pay taxes. The tax-abatement, tax-exemption schemes are proliferating all over the country. But I don't see you making much of a point of that in your public statements. Secondly, I don't see you emphasizing enough, particularly during the debate before Prop 13 was passed, the inequitable share of property tax burden. What you said was, "We're going to cut the property tax." But you didn't analyze the consequences of the cut in terms of who was going to bear what percent of the burden among homeowners, renters, and industrial and commercial property. I mean these *Wall Street Journal* articles are remarkable not only for their facts about "business bonanzas"—business not returning the money, absentee ownership receiving the benefits, one hundred or two hundred thousand jobs lost, and so on. They're also impressive because they counteract what the paper's own editorials say about you. In other words, the facts must be so compelling that the *Wall Street Journal*, in the interests of fair journalism, is putting these articles on page one.

Now, what I'd like to see you do more—because now you're a very powerful citizen in California—is to go after government corruption, go after business bonanzas, unfair consequences that burden homeowners and renters compared to businesses. I asked you just a moment ago, when you said a lot of property is off the rolls, "What kind of properties?" You should answer, "The property of big business, agri-business, and office buildings." That would increase your credibility.

J: I'm not going to say that because that's compost.

N: What do you mean, compost?

J: That's compost one hundred percent.

N: Well, who's getting the abatements and exemptions? Who's going off the rolls? You just said thirty percent, and it wasn't churches and schools. What is this missing thirty percent? Relieve it of its anonymity, Howard.

J: Well, I'll tell you, Ralph, I started talking about that eighteen years ago. In California 64,000 tax exempt corporations and 18,000 charitable trusts own thirty percent of the property in the state and haven't been audited since 1938. Now, that's not the fault of Prop 13. I think Prop 13 will force the legislature for the first time to put those properties back on the roll.

M: Mr. Jarvis, did you realize before the passage of Proposition 13 that industry would receive that $2 billion?

J: Yes. And it didn't bother me at all. I'm glad they got it. I'll tell you why. We were losing jobs in California. Ralph, we were at your 7½ percent unemployment. Firestone was leaving. IBM was leaving. General Electric was leaving. And now all these companies are moving back to California.

N: Have you been in any libraries recently in California?

J: Yes, I have.

N: There are a lot of jobs open there; there's just no one to pay for them.

J: Well, that is not so, Ralph. Every school district got more money this year than they got last year. Every city, every county got more than they got last year.

N: What's going to happen when the state surplus is gone?

J: Well, I don't know—

N: It's really the cushion that made Prop 13—

J: I'll tell you what's going to happen to the surplus. I'll back an amendment to cut the state income tax 50%. That's what's going to happen to the surplus. And in the end, Ralph, the state of California is going to take in more money than it ever took in before.

N: So, you agree with the Khaldun curve?

J: Who?

N: The Khaldun curve.

J: I never heard of it; I know the Laffer curve.

N: The Laffer curve plagerizes fourteenth century North African philosophy. The problem with the so-called Khaldun curve—renamed the Laffer curve, probably because of its semantic significance—is that it doesn't really apply when the benefits go out of state. And the claim made again and again by analysts of Prop 13 is that

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Playing Follow the Leader

Small business should stop supporting every big business tax break that comes along

by Frank Domurad

Early this year, the U.S. Chamber of Commerce approached another business organization, the National Small Business Lobby, with a scheme to "get the economy going again." The plan was a proposal by Reps. James Jones (D—Okla.) and Barber Conable (R—N.Y.) to allow faster business tax write-offs for plants and equipment; the Chamber of Commerce already supported it, and wanted the NSBL's endorsement as well.

Never mind that about 80% of the benefits would go to 1% of the nation's top corporations—hardly the small businesses represented by the NSBL, and incidently, by the Chamber of Commerce. The Chamber had every reason to believe that the NSBL would go along: Small business lobbies could always be counted on in the past to approve of almost any big business proposal, from accelerated depreciation and investment tax credits to state and local tax abatements.

This time, however, something happened to the united business front. As the NSBL recently told a Senate Finance subcommittee, it was initially encouraged when "the U.S. Chamber of Commerce, et al." approached it—although it was disturbed that the Chamber had provided it with only a brief *summary* of the proposal, and not the actual language of the bill.

"When we finally got the language and evaluated it, we realized what was happening," it said. "To put it bluntly, the small business community was being taken for a ride on a piece of legislation authored by representatives of the major corporate powers in this country. . . . It would be difficult to write a tax bill better designed to speed the extinction of small business."

One small business group—the National Federation of Independent Business—was willing to support Conable-Jones, but even it told the *Wall Street Journal* that it would really prefer a payroll tax cut intead.

Whether this split in the business community over Conable-Jones represents a major, lasting rift isn't clear. What *is* clear is that small business is finally rethinking its position that what is good for—or, what throws money at—*big* business must be good for small business as well.

Measures like investment tax credits, the ADR system of accelerated depreciation, and now Conable-Jones not only fail to put money in the hands of those businesses needing it the most—they also aggravate a real problem for small firms, economic concentration.

Between 1950 and 1972 the percent of total manufacturing assets in this country held by the 200 biggest corporations rose from 48% to 60%. This growing economic power of the largest corporations has placed small business and the economy in a difficult situation. In fact, as Charles Mueller, editor of the *Antitrust Law and Economics Review*, estimated in recent congressional testimony, overcharges flowing from "the monopolized one third of the U.S. economy" amount to approximately $175 billion per year, or 9.2% of the gross national product.

Yet small business, itself extremely labor-intensive, persists in supporting corporate tax breaks primarily beneficial to immense, capital-rich firms. Thus, it eagerly pushed for investment tax credits, even though for every two dollars in benefits that go to the top 1,300 corporations—less than one tenth of 1% of all businesses—only one dollar finds its way to the remaining 99%.

Large corporations are also able to marshall consistent small business support for tax schemes on the state and local levels. What often happens, however, is that once state and local governments have sated big business' appetite for tax breaks, there are no more funds to go around. Last December in Maine, after Pratt & Whitney Aircraft—a subsidiary of the vast United Technologies conglomerate—won a $2.1 million investment tax credit, small businessmen approached state officials demanding equal treatment. What they received was a sympathetic nod of the head, and word that the state's budget had unfortunately been depleted.

Similarly, Ohio small businessmen have learned that property tax abatements are welfare for the rich only. Local politicians, granted the right to distribute such exemptions by the state legislature, are swept off their feet by claims of the public relations experts from large corporations that they can create thousands of new jobs—or, if the politicians don't cooperate, make existing ones disappear. In Toledo, representatives from Owen-Illinois, the nation's 84th largest corporation, with assets of $2.2 billion, demanded a $26 million property tax abatement over twenty years to build its $100 million world headquarters in the city. Despite opposition from labor, church and other citizens' groups, and a small business community worried about a resultant rise in its own property taxes, the Toledo City Council granted the request unanimously.

Then there is the whole issue of state corporate income taxes, and big business' dogged opposition to unitary auditing and the Multi-State Tax Commission, the only realistic hope state governments have of keeping tabs on multi-state and multinational corporate income for tax purposes. Over the past few years big business has used every trick in the book to destroy the MTC, from threatening the economic ruination of states which dare to become members, to challenging its constitutionality in the U.S. Supreme Court. The problem is that individual states don't have the resources to audit the books of giant corporations according to separate accounting procedures and instead often have to settle for whatever they can get. The end result is an annual loss in corporate income taxes amounting to billions of dollars, a sum which must be made good from other sources—including small businesses.

If small business cannot expect to benefit from tax breaks, where can it turn for the financial assistance it needs to create jobs, develop new technology, and remain economically competitive? One possibility would be the various state economic development agencies springing up around the country. But if Texas and Massachusetts are any example, small business shouldn't hope for much from this source.

Originally established to promote the "legitimate interest and welfare of Texas business, industry, agriculture, and commerce," the Texas Industrial Commission has narrowly interpreted its mission as smokestack chasing. It is convinced that the key to economic bliss for the state lies in attracting *Fortune* 500 industries, and devotes the bulk of its time and money to newspaper, magazine, radio and even television advertising in other parts of the country, extolling the Lone Star state's low taxes, low wages, and "good labor attitude" (read "anti-unionism").

The Commission adds the extra incentive of industrial revenue bonds, a form of tax-free financing which overwhelmingly benefits larger corporations (See *P & T*, Oct. 1979).

As for the Massachusetts Industrial Finance Agency, it claims to have nothing but the pure interests of small business at heart. Its literature portrays a state criss-crossed with prospering small enterprises providing employment to

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"To put it bluntly, the small business community was being taken for a ride on a piece of legislation authored by representatives of the major corporate powers in this country. It would be difficult to write a tax bill better designed to speed the extinction of small business."

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workers and cheaper products to consumers. But when it comes to dishing out financial assistance, it too relies heavily on industrial revenue bonds.

It is only when small business and state and local governments reject tax schemes altogether that they are able to help one another. In Buffalo, New York, for example, the city government has established the first publicly owned venture capital firm in the country. Its purpose is simple: to provide direct financial assistance to expanding small businesses while rejuvenating a declining urban core. Already the company has attracted several small businesses from the suburbs, supplying them with renovated, previously abandoned buildings in return for preferred stock transferable in the future to interest-bearing debentures. It also expects quite soon to receive a license as a "small business investment company," thereby enabling it to leverage loans from the U.S. Small Business Administration and increase the total funds at its disposal.

In Connecticut, a state "product development corporation" provides up to 60% of the risk capital to small firms developing "new" innovations. If the product becomes a success, the Corporation receives a 5% royalty on all sales. And California favors small firms by giving them a 5% bidding preference, which not only allows efficient small businesses to remain competitive, but also counterbalances the advantages which big business enjoys through loopholes in the state tax system. □

Some small business reforms

1. Small business should refuse to support federal tax schemes purporting to stimulate "capital formation" and job creation. Schemes like accelerated depreciation, investment tax credits, and foreign tax credits are all tailored to suit the capital-intensive nature of large corporations, and funnel the overwhelming share of tax reductions to big business. Small business should instead advocate the reform of Social Security taxes, including a rollback of rate increases. Since payroll taxes currently constitute anywhere from one-half to two-thirds of the small business tax bill, reductions in Social Security taxes will significantly lower costs, and stimulate *real* "capital formation" for small firms.

2. Business tax breaks on the state and local level should be rejected for similar reasons. Property tax abatements, exemption of machinery from sales tax, or investment tax credits consistently benefit big business over small business.

3. Small business should fight on the state and local levels to insure that big business pays its fair share of the corporate income tax. While big business can shift its income to other states and countries in order to avoid paying taxes, small business is easy to audit and like all small taxpayers will wind up paying its full share. Organizations like the Multi-State Tax Commission can insure that tax enforcement for large corporations becomes a reality.

4. Small business should demand that state economic development agencies serve its interests rather than those of a few footloose corporate giants which are capable of providing their own capital resources. Large capital-intensive corporations often eliminate, rather than create jobs, and grow more powerful through mergers to lessen price competition. In addition, small business should reject financing schemes like industrial revenue bonds as a give-away to the largest businesses.

5. Small business should form political alliances, not with big business but with labor and consumer groups. In Ohio, small businesses are already joining with labor and citizen groups to fight tax abatements for large corporations. Similar alliances could be formed to insure enforcement of anti-trust legislation and to fight big business give-aways on the federal level. □

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the benefits, because they are skewed heavily toward business and industry, are pushing out of California to other parts of the economy, and the *Wall Street Journal* seems to confirm that.

J: Well, about the *Wall Street Journal*—I don't know what issue you've got—but I've got one that calls Prop 13 "the best thing that ever happened to the state of California." Anyway, I like it when they favor me, and I don't like it when they don't.

M: I have a question from the floor. How does your current campaign to cut the income tax rates in half help the average taxpayer when you you're cutting the most progressive tax while shifting the tax burden to the sales tax and other regressive taxes?

J: Well, the first question is irrelevant. We're not going to shift any of the tax to anything. So, how are we helping people? Instead of paying a hundred dollars to the government, they'll pay fifty. And it's predicted by smart guys like Milton Friedman and Neil Jacoby and Arthur Laffer that if we cut the income tax in California, we'll provide 200,000 *more* new jobs.

M: Are you really serious about this? —that you want to cut the income tax in California and not substitute any other taxes?

J: That's right.

M: Yet you say you believe in the American system.

J: The American system, my dear, is a government of the people, by the people, and for the people.

M: Who's going to provide the services?

J: The people are going to provide them—they're going to provide what they want to provide and not what the President wants to provide, or some Congressman. There are many things wrong with this country. But as Churchill put it, democracy is the worst form of government there is—except all the rest. So, we have to put up with this. I just came from Austria, and, you know, you walk around that country and you think everybody's going to Forest Lawn. They don't smile. And you hear so much about Sweden. Well, I was in Sweden last week. Same damn thing. The only country that's really great over there is Switzerland. Did you know what? Every issue that comes up goes to a vote of the people. *No* issue goes to a politician. You ought to see that country. It's like being in heaven.

N: It *is* a heaven for corporate thieves all over the world who send their money there. But in Sweden, you don't see the kind of terrible poverty you see in Appalachia and some of our central cities.

J: Well, I don't know, Ralph, why don't you go over there—

N: I've been there.

J: Why don't you go over there and feed those people if it bothers you?

N: No, we have enough to do here in this country. We're not talking about Sweden. We're talking about Bedford Stuyvesant and Anacostia and Southern California and the farm workers, and so on.

J: I'll tell you, I've been in forty-eight states, Ralph, and I haven't seen anybody who doesn't eat. I haven't seen anybody who was starving.

N: I think you need a tour, Howard. □

State & local briefs

Michigan tax expenditures and the churches

Tax expenditure budgets provide the public and lawmakers with valuable information on the extent of foregone revenues due to various tax loopholes and exemptions. Or at least that is how Michigan State Representative Lynn Jondahl sees them; some churches, however, see things differently.

Jondahl estimated recently that tax expenditures in his state run in excess of $5 billion annually—more than the $4.5 billion raised each year for general fund spending. Since he considered a more complete accounting to be "critical" to the making of good tax laws, he presented a bill calling on the governor to report annually to the legislature on the amount of tax revenue lost in indirect benefits to special interests.

At first his bill encountered little or no opposition. It sailed through the State House in late April on its way to the Senate, but there the Michigan Catholic Conference caught wind of what was happening. The Conference had not realized until then that a tax expenditure budget would force the Church to report the full value of its property in the state, a step it had always refused to take.

According to one Conference spokesman, the measure violated the constitutional separation of church and state. Churches had a moral right to their tax exemptions, he said, and "for the state to attempt to declare that by the grace of government annually we are exempting these items . . . sets a very dangerous precedent."

An angry Jondahl, himself an ordained United Church of Christ minister, retorted that "this amounts to a defense of ignorance. As a minister, I am embarrassed to see the church taking that position. Their logic is that their exemptions are safe only so long as the people don't know the extent of them," he concluded.

But evidently most state legislators did not share Jondahl's thirst for knowledge. Arguing that it was virtually impossible to set a price on church property anyway, they altered the bill's language so that each year churches and schools were required to report only the "acreage" they owned and not its value. □

Illinois sales tax exemption defeat

Illinois is the only major industrial state in the nation which still has a sales tax on food. And if Republican Governor James R. Thompson and Democratic Mayor Jane Byrne of Chicago get their way, it will retain that dubious distinction for some time to come.

The state has had a sales tax ever since 1933, and by one official count, labor unions and public interest groups have made thirty-three unsuccessful attempts to get an exemption on food and medicine. When on their thirty-fourth sally they were finally able to push an exemption bill through both the House and the Senate, they assumed victory to be theirs. What they did not count on was Governor Thompson's veto.

Thompson's major objection to the legislation was apparently financial. He argued that the state could not afford to lose some $600 million in annual revenues by 1984 when the exemption became fully operative. Instead, he proposed a plan to scrap immediately one cent of the five cent sales tax on food and drugs, while keeping further reductions for a future date.

Needless to say, neither Thompson's objection nor his alternative proposal proved very popular with the bill's supporters. They pointed out that the state could well afford the loss in revenue. For fiscal 1979, which ended in June, there was a budgetary surplus of $304 million, the largest in Illinois' history. Furthermore, there was the question of equity. The sales tax on food and medicine falls disproportionately on those poor and low-income families who can afford it the least. Said one legislator concerning Thompson's substitute proposal, "I call the governor's new plan the penny proposition. That's all the tax relief he wants to give to the poor, to working people and to the elderly."

In all likelihood, Thompson's veto was headed for an almost certain override. But that was before Mayor Byrne entered the picture. Worried about state funding for her favorite patronage programs in Chicago, she decided to trade the Democratic votes under her control for money. It was enough to preserve the veto and insure that the sales tax exemption on food and medicine would have to wait for another day. □

New Hampshire: Small towns and big landowners

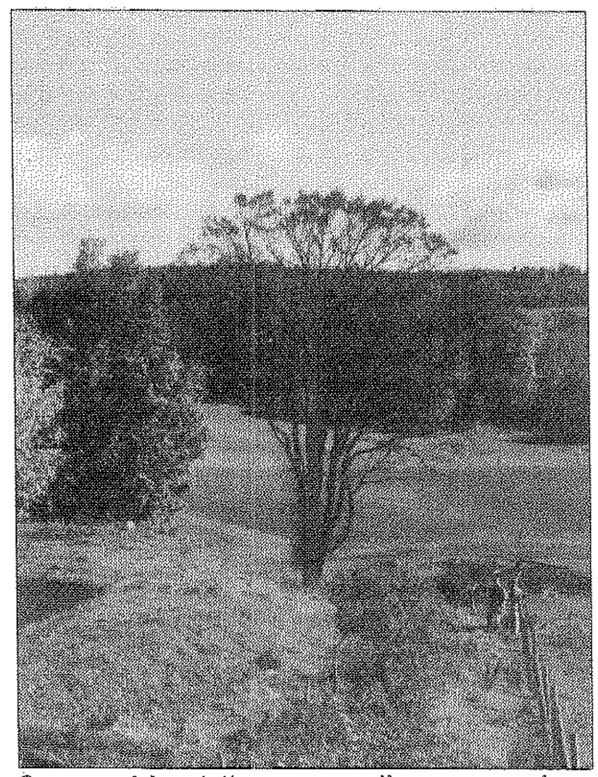
The small town of Croydon is at it again. After an unsuccessful attempt at having the New Hampshire Supreme Court declare the state's "current use" assessment law as unconstitutionally discriminatory against homeowners, it is now challenging the way in which land held for current use is valued for tax purposes. In particular, it is claiming the right to determine such valuations on a local, rather than a state-wide basis.

Croydon's problem stems from the fact that half the taxable land in the town is owned by the Blue Mountain Forest Association, a private group which uses the land exclusively as a game preserve for twenty wealthy businessmen. Because the land also happens to be productive forest, it qualifies for a low tax rate under the state's current use law. According to the Current Use Advisory Board, the state agency administering the law, forest land and thus the Blue Mountain preserve, should be taxed at a rate of from $25 to $35 per acre.

Lawyers for Croydon, which has taken the case to court, argue that this figure is artificially low for forest land situated in a developed region. Proximity to roads and to markets for forest products can alter the value of even current use real estate. In fact, they say, these improvements make the Blue Mountain property worth $70 an acre or more.

"The problem is that the Current Use Advisory Board has said one acre of decent pine forest anywhere in the state is worth one thing, regardless of anything such as whether it is next to a road or deep in the forest lands of the North Country," commented Croydon's legal representative. "The position we take is that land like this ought to be assessed at specific fair market value for the land at its present use."

If Croydon wins its case, New Hampshire's entire current use assessment system may have to be discarded. The state's Attorney General has said that the current use system would be rendered meaningless if each parcel of open land had to be valued and taxed individually, rather than categorically. Meanwhile Croydon homeowners wait for the result, knowing full well that if Blue Mountain is again a winner, they will pay for the victory, with higher property taxes. □



State and local "current use" assessment laws are supposed to protect farmland and open space. Instead, they provide huge tax breaks to wealthy landowners.

CTRA "teach-in"

Californians who think tax *reform* means more than just drastic tax *cuts* will have an opportunity to share their views with like-minded citizens early in December.

The California Tax Reform Association will be sponsoring an all-day "Teach-In for Tax Justice" on December 1 in San Francisco. Some of the speakers include Gar Alperovitz, Co-Director of the Exploratory Project for Economic Alternatives; former California governor Pat Brown; Michael Harrington, Chairman of the Democratic Socialist Organizing Committee; and Tom Hayden.

For information, contact CTRA, 1107 Ninth Street, Suite 915, Sacramento, CA 95814.

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briefs

Maine: Voting down a tax cap

Demonstrating that there might be some truth to a recent Roper poll claiming that the tax revolt is on its last legs, voters in Augusta, Maine, recently sent a Proposition 13-style tax cap proposal to an overwhelming 2—1 defeat.

In an unusually high turnout for an off-year election, they rejected a charter amendment that would have prevented city officials from collecting more than $5.2 million in taxes in 1980 (nearly $1 million less than the city would need to maintain current operations), and would have restricted subsequent tax hikes to two percent each year.

The proponents of the tax cap, who had claimed extensive support among homeowners tired of big government and wasteful spending, were obviously shocked by their defeat. They charged that local residents were simply not tough enough to vote yes on the referendum. "It looks to me like the majority were scared and weak," complained one spokeswoman. "And if people are that weak here, I feel very bad for America."

Opponents of the tax ceiling felt otherwise. According to one leader, they had predicted almost certain defeat six weeks before the vote. But hard work, and the public recognition that severe cuts in governmental services and education were not in their best interest, managed to turn the tide.

"I think this is really encouraging," commented the chairman of the "Spirit of Augusta" group which had campaigned actively against the tax cap. "It shows that people are willing to close their eyes to their pocketbooks for a moment and look at the broader picture." □

Iowa: To err is human . . .?

Everyone knows that real property values are skyrocketing, but imagine the surprise of a Polk County, Iowa resident when told that he had a $107,000 house on his *vacant* lot! "I went out and checked my property again," he said. "I really don't have a house there."

This mistake is only one of many coming to light ever since the county hired the Cole-Layer-Trumble Corporation to conduct a mass property reappraisal at a cost to the county of $480,000. Besides listing improvements which don't exist, the firm has been accused of violating its contract by failing to inspect each parcel individually, ignoring the public's request for information on its activities, and consistently valuing most property for more than it's worth. One confused homeowner, for instance, learned that her house was worth $140,000—only days after the county assessor had valued the same home at $80,000.

According to investigations by County Assessor Jack Newell, the firm has a 25% error rate. But this doesn't seem to bother the Cole-Layer-Trumble officials, who have taken the uproar in stride. Said one spokesman, "This is a world of revolt—Proposition 13 and everything. People are getting educated about taxes and many of them feel they have to protest." test."

Maybe so, but Polk County officials are now worried that the bad job being done is destroying public confidence in the assessment process. Several officials have asked that the contract with the firm be cancelled and that the county be reimbursed for the $390,000 of taxpayers' money already spent. □