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## CAN WE AFFORD PROPOSITION 9?

Howard Jarvis claims that because of the State surplus, cutting our state income taxes by one half (with Prop. 9) will require cutting state spending by less than 5%. Other proponents of Prop. 9 claim that the State, rich from its oil revenues can easily cut taxes, especially since the California economy is healthy. California voters have been hit with a barrage of figures on the probable impact of Prop. 9 at a time when inflation makes the figuring and balancing of their own budgets difficult. A careful review of the facts indicates that Prop. 9 will require long-run cuts in state spending ranging from 10% to 25%, depending on the state of our economy and the price of oil. Let's review the facts:

### 1. State Surplus Only a Cushion

At the beginning of this fiscal year, the State surplus was $2.7 billion (after giving localities $4-5 billion for each of the past two years to replace two-thirds of the property taxes lost through Prop. 13). The State had predicted that it would use $ .9 billion of the surplus this year, leaving a surplus of $1.8 billion as of July 1, 1980. State revenues have been higher than predicted, so that the surplus may be slightly higher than expected.

Discussions about the exact size of the surplus, which is in the $2 billion vicinity, and which can be spent only once, distract us from focusing on the long-run impact of the tax cut, which would lower taxes in the neighborhood of $4 to $5 billion each year. All the surplus can do is cushion the initial impact of the cut in State revenues; after that, there will be no cushion left.

### 2. Growth of State Revenues in the 1980s

Two major sources of uncertainty make prediction of future State revenues difficult: the outlook for the California economy and increases in oil-related revenues (i.e., income from the State-owned oil fields along with the State profit taxes paid by the petroleum industry).

Current predictions indicate that California will join the rest of the nation in experiencing a recession. We are already encountering a dramatic decline in California's construction industry. Since the Legislature has indexed the State income taxes, inflation can no longer push one into a higher tax bracket and automatically increase State revenues. Any increase in unemployment (even with the high inflation rate) will cause a decline in projected tax revenues. This will make adjustment to cuts in State income taxes even more difficult, because even more services will have to be cut during a period when the need for them is rising.

The Federal Government estimates that State revenues connected with the rise in the price of oil will be $22 billion during the next ten years. (The State estimate is only $6 billion.) The high estimate of $22 billion is almost one-half of the predicted Jarvis II loss in revenues ($45 billion) during the 1980s. Under the "best of circumstances"--without a recession and with continuing oil price

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increases--Prop. 9 would force us to cut current State services by 10 to 15%. In contrast, the "worst of circumstances" will cause cuts in the vicinity of 25%.

Given the budget outlook, which requires major cuts under even the best outlook if Prop. 9 passes, let us see what services are provided by the State and let us ask what we citizens will get in return for reducing these State services.

3. State Services (1979-80) -- What We Lose

Almost 80% of California's general budget expenditures go into local programs: $7.8 billion for education (K-12 and community college), $3.3 billion for health programs, and $2.3 billion for social services, and $1.0 billion for property tax relief (the homeowner's exemption). The other 20% of the budget pays for State programs: $1.7 billion for higher education (university and State colleges), $ .4 billion for correctional programs, and $ .3 billion to run the three branches of government. The bulk of the $18.7 billion State budget goes for education (52%) and health and welfare (32%). After the budget cuts resulting from Prop. 13 and the budget limitations imposed last election, any further cuts will be felt more and more by the 10 million Californians who directly participate in these programs.

4. The Tax Cuts -- What We Gain

What will the average Californian receive in return for the loss of State services? Because our State income tax is progressive, the bulk of the tax cuts will go to households with taxable incomes over $30,000 (which are 14% of the returns filed); they will average reduced taxes of $4239 each and will receive 54% of the total savings. Households with taxable incomes under $20,000 (63% of all tax returns) will average $257 in reduced taxes and will receive 23% of the total savings. Households with taxable incomes between $20,000 and $30,000 (23% of all tax returns) will average $718 in reduced taxes and will receive 23% of the total savings.

So now we have the bottom line: for a tax cut averaging only $257 for two-thirds of the households (with a total of $774 million in tax savings), these citizens will be losing up to $5 billion a year in State services (along with hefty tax savings for higher income households). Seen in this light, Prop. 9 is not a good way to fight inflation for most Californians.

- Clair Vickery