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Folder Title: [Proposition One] – A Reasonable Program for Revenue Control and Tax Reduction, (Proposition One Blue Book)

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PRESS*

a reasonable program for...

Revenue Control and Tax Reduction

submitted to the California Legislature by

Governor Ronald Reagan

March 12, 1973

RONALD REAGAN
GOVERNOR

Office of the Governor

STATE CAPITOL
SACRAMENTO 95814

March 12, 1973

Revenue Control and Tax Reduction

To the Members of the California Legislature:

A little over a month ago, I proposed to you and the people of California a long-term revenue control and tax reduction program aimed at returning the great bulk of the state's $850 million surplus to the taxpayers, slashing state income taxes by 10 percent next year and thereafter, and limiting the share of earnings the state can take from Californians in the years ahead.

Since then, many of you have been briefed on the program by members of my staff. We have offered such briefings to every member of the legislature.

Legislation was introduced on behalf of the administration several weeks ago providing for deferral of the one-cent sales tax increase from June 1 until January 1, 1974; a 20 percent rebate on 1973 income taxes; and funding of one-time projects such as making the State Capitol building earthquake safe and purchase of beach and park lands.

Unfortunately, this legislation has been shelved in committee and its prospects for coming to a vote on the floor of either house appear to be extremely remote at this time. I will address this matter later in the message.

At the same time, the public statements of some key legislative leaders make it clear that the constitutional amendment we intend to introduce soon—providing for a vote of the people on our proposed revenue control program and permanent, ongoing income tax cut—may well be denied passage.

I certainly hope not.

Purpose of Message

The purpose of this message and the attached detailed information is two-fold:

1) To bring to your attention the urgent need to swiftly enact our legislation to return the surplus to the people, and

2) To provide you with sufficient details and technical information on our proposed constitutional amendment to enable the appropriate committees of both houses to begin close consideration of it. The actual language of the constitutional amendment will be submitted to you shortly.

The Constitutional Process

The California Constitution has made provision in the legislative process for you, the members of the legislature, to place constitutional amendments on the statewide election ballot for a vote of the people.

During the last session, you passed eleven constitutional amendments which were then voted on by the people in November. I respected that action, not necessarily because I agreed or disagreed with the propositions as such, but because I believed the people should have the right to decide the issues for themselves at the polls.

The constitutional amendment I will submit to you in the next several weeks deserves the same consideration and passage which you gave to the measures you placed before a vote of the people last year.

I am not asking you to approve or disapprove the constitutional amendment we will propose, but simply to allow the people to make that decision.

To deny them that opportunity would make a mockery of the very process which the people have authorized for major constitutional issues.

A Thoughtful Program

The constitutional amendment I will submit to you and the people is the result of literally countless hours of study and discussion within our administration. Some of the finest, most distinguished economists in the nation contributed their time and expertise to the task force which helped develop it during the past six and one half months.

It is a thoughtful, reasonable program which assures that state government can continue to fully meet its responsibilities to the people of California in the years ahead.

Some have charged that the program would put the state in a fiscal straitjacket, that it would lead the state down the path of mediocrity, inadequacy or even misery, that it would have a catastrophic impact on the quality of life in California.

But, I ask you. How can a program which would double the state budget in 10 years and nearly triple it in 15 years possibly cause the horrors attributed to it by some?

What About the Taxpayers?

Are we automatically destined to tax and spend, spend and tax indefinitely until the people have nothing left of their earnings for themselves?

Have we abandoned or forgotten the interests and well-being of the taxpayer whose toil makes government possible in the first place? Or, is he to become the pawn in a deadly game of government monopoly whose only purpose is to serve the confiscatory appetites of runaway government spending?

We know who speaks for the special interests. But who will speak for the taxpayer?

We ask that he have the chance to speak for himself.

In 15 Years

If we fail to curb government's voracious appetite for the people's earnings, California's state budget in only 15 years will be five times what it is today. Indeed, the state—without a revenue control—will be siphoning off more than 12 cents from the average dollar earned by that time.

Our constitutional amendment will insure that by 1989, state government can take only about 7 cents from every dollar of personal income. That's five cents less on the dollar.

And, during those 15 years, Californians will have been able to keep and spend as they wish $118 billion dollars—money which they otherwise will not have. For, without the constitutional amendment, government will almost certainly keep that huge sum for itself. I don't need to tell you that $118 billion in the billfolds of the people can only result in a healthy shot in the arm to the state's economy and mean many more jobs to the working men and women of California.

Still, during that same period, our constitutional amendment will enable state government to more than keep up with inflation and increases in population. Indeed, at five percent a year (three percent for inflation and two percent for population increases) the state will have to increase its tax revenues 118 percent in 15 years to keep even with inflation and population growth.

But, under our planned limit state government revenues will increase in the area of nearly 200 percent.

It should be obvious from this that the constitutional amendment we're proposing will allow for tremendous leeway in program innovation and even creation of realistic new programs to meet public needs.

On the other hand, with this revenue control in effect, state government in only 5 years would be in a position to reduce the personal income tax by another 25 percent, or reduce the state sales tax by 1 cent. In only 10 years state income taxes could be reduced 60 percent or there could be a 2 cent reduction in the existing state sales tax, or a combination of both. This would, of course, be a decision for the legislature to make. All of this would be in addition to the ongoing 10 percent income tax cut we are proposing to begin next year.

Safeguards

Some of you have raised the question: what would happen under our proposal if the state were to experience an economic depression or natural disaster? Would the provisions of the constitutional amendment allow the state to cope with such emergencies?

Our program calls for the creation of an emergency fund to be appropriated by the legislature to meet such contingencies. The emergency fund would be a safeguard, not unlike a family's savings account. In the event this fund (up to four percent of the total budget of any given year) were ever depleted, and a shortage of necessary funds continued, the legislature could raise the tax limitation we're proposing by a two-thirds vote of the members. Then the voters would be given an opportunity at the next statewide election to approve or disapprove the increase in the limitation by a simple majority vote. A Tax Surplus fund would be created to replenish the emergency fund, if necessary, and then refund the remaining surplus to the taxpayers or use it to reduce tax rates.

In addition, the constitutional amendment will provide that the legislature can place a referendum on the ballot for a vote of the people to defer the annual decrease in the revenue limit.

At no time would state services be allowed to fall below the current level of per capita expenditures, adjusted for inflation and population growth.

If the federal government were to take over a particular state function, or increase its revenue sharing, the legislature could either pass the savings on to the taxpayers or use the money for new programs.

The constitutional amendment would require a two-thirds vote of the legislature, and the governor's approval, to increase any specific tax within the overall limitation. And, a two-thirds vote of the legislature would be required to override a governor's veto of any tax increase.

The One-time Surplus

Earlier in this message, I mentioned that the legislation already introduced to return the state's current one-time surplus to the people has been effectively shelved in committee. As you know, this bill was recently amended by the author, at my request, to exempt all Californians earning less than $6,000 per year (adjusted gross income) from paying any state income taxes whatsoever this year. Surely, with this amendment, it can no longer be credibly argued that the legislation was designed to unduly benefit the wealthy at the expense of the poor.

Nor can it honestly be said that the proposed return of the one-time surplus contained in the legislation gives an unfair advantage to any segment of our citizens. Those who pay little or no state income tax will benefit directly from the deferral of the one-cent sales tax increase. Those who do pay state income taxes in 1973 will benefit from the proposed 20 percent income tax rebate in direct proportion to their total state income tax bill.

It has been suggested the income tax rebate is disproportionate to the share of the surplus which came from the income tax. That is not true. Federal and state income taxes made up some $60 million more than we are rebating by way of the income tax.

To suggest that the proportional rebate is unfair to any economic group amounts to sheer demagoguery.

The legislation now before you relating to the surplus deserves your swift consideration and passage.

Our Commitment to the People

If it becomes increasingly apparent that our bill to deal with the surplus stands no chance of passage, and that the legislature cannot, or will not, place our proposed constitutional amendment on the ballot, I will have no choice but to meet my commitment to the people of California and lead a petition drive to place the issue on the ballot by initiative at a special statewide election in November.

In this event, the initiative amendment will include our proposed 20 percent income tax rebate for 1973, as well as the 10 percent across-the-board income tax cut and the revenue control provisions I already have outlined.

The Legislative Process and Representative Government

It has been charged by some that because we have placed the long-term elements of our program in a constitutional amendment, we are deliberately attempting to circumvent the legislative process, that the program is a direct threat to representative government.

I do not believe the program we have proposed poses a threat to either the legislative process or representative government. What it does do is to allow all of us realistically to come to grips with a difficulty which state government—indeed all levels of government—has experienced for years: controlling the expenditures of tax money.

Certainly, the revenue limit we are proposing represents no threat to the legislature's authority or prerogatives in altering the state's tax structure within the limit. It is merely designed to halt a continuation of the long-established government trend which siphons off an ever greater share of the people's income for itself. Is that a threat?

Frankly I believe our revenue limit holds the promise of assisting the legislature in its determination of spending priorities so that state government can, once and for all, reverse the trend toward higher and higher taxes and permit the people to keep a larger share of their earnings to use as they wish.

The Frightening Alternative

Government must realize that it cannot indefinitely tax the people at constantly increasing levels without destroying the people's ability to support themselves and their families. In the end they will wind up defenseless, at the mercy of a vast special interest-oriented government bureaucracy they unwittingly helped to create.

We need merely to look at the record.

Before 1930, government at all levels took but 15 cents from the average dollar earned in this country. Only twenty years later, in 1950, that 15 cents had doubled to 30 cents.

Today, government is keeping 43 cents of the people's earnings for itself. In only the next 15 years, our projections show that government's share will have increased to almost 54 cents on the dollar—more than half the people's earnings.

If we as Americans allow that trend to continue, it is only a matter of time before we'll have nothing of our earnings to spend for ourselves. The spectre of such utter dependence on government should be frightening to every citizen who values our traditional values of self-reliance and our productive free enterprise way of life.

A Once-in-a-Lifetime Opportunity

I am firmly convinced that California has an unparalleled opportunity to show the way to the rest of the nation—the way to reverse the trend we have been a witness to.

You in the legislature can help make that possible by exercising your authority to approve the legislation we have proposed and placing the constitutional amendment I will submit to you on the ballot for a vote of the people.

I urge you to expedite these matters at the earliest possible time.

I hope you will find the specific details of the program contained in the following pages of interest and assistance.

Sincerely,

Ronald Reagan

RONALD REAGAN
Governor

Some Press Comments

"As a concept . . . (the Governor's plan) is as practical as the spending limitation placed on local governments by the legislature and the Governor in SB 90 last year. Future governors and legislators still would be free to set spending and taxing policies limited only by the fixed ceiling on total spending.

"They could even be spendthrifts and crash through the ceiling, but only if the people agreed to it.

"The requirement of the people's concurrence is, after all, no more than government by the consent of the governed."

San Francisco Examiner

"Governor Reagan has proposed a sensible plan to reduce the amount the state takes from every taxpayer annually and to give the people less instead of increasingly more government.

"The final decision will be made by the electorate at the polls. It is another impressive accomplishment of the Reagan administration that he is spear-heading this move to give the people the opportunity to chart their own destinies."

Los Angeles Herald Examiner

"Governor Reagan's proposal to delay the state sales tax increase and cut back the income tax 20 percent . . . as a way of returning most of the $850 million state surplus to the people who paid it in, is eminently right for short-term tax reduction and it is a challenge the legislature won't easily evade.

"Dr. Milton Friedman, University of Chicago economist, who is accompanying Governor Reagan on his missionary expeditions to sell his tax limitation plan, sees it as a 'unique and valuable opportunity for citizen participation in the spending taxation process.' This is something new in American government and because it is new it may not have instant popularity in Sacramento but it may well have with the public."

San Francisco Chronicle

"The time is near when government will take more out of each dollar than the earner keeps. Governor Reagan perceives that day—and indeed the current level of taxation—as a disaster for wage earners and the entire private sector of the economy. His view should find concurrence among taxpayers who have experienced the sinking feeling that they are 'running just to stay even on the tax inflation treadmill.'

"The program requires a constitutional amendment and if the legislature fails to put it on the ballot, he intends to lead an initiative petition to bring the issue to the people. Hard-pressed taxpayers who take the time to study the Governor's program should comprise a formidable army ready to sign the petition and troop to the polls.

"And if the nation's most populous state puts restraints on spending and taxes, perhaps even Washington will be forced to follow suit."

Santa Monica Evening Outlook

"Taxation is a necessary means of financing government; if carried to excess, it becomes an oppressive burden on the citizenry. Reagan points out that all governments together—state, local, federal—presently soak the California taxpayer for 43 cents of every dollar he earns. 'Obviously,' warns the Governor, 'freedom itself is in danger if we continue this rate of increase.'

"That is just about the size of it."

Dallas Times Herald

"The Governor has proposed a realistic and feasible long-term and far-reaching program to control the growth of state taxes.

"The Governor's plan is a way that assures that you will have some of your income to spend yourself. Without such control, it is clear that you eventually will be totally dependent on a socialistic government to support you on money it has taken from you.

Few hard-pressed California taxpayers, we believe, will reject such a realistic tax reform proposal. Governor Reagan's proposed revenue control and tax reduction program could well be the prototype for every state in the Union."

Sacramento Union

"... It's not very hard to predict what the voters—of California or Massachussetts— would do, if they were given an opportunity to reduce their taxes and slow down government spending."

Herald Traveler Record American
Boston, Mass.

"Reagan and his task force of tax and economic experts have put together a revolutionary and fundamentally sound concept for at last imposing a realistic ceiling on governmental spending.

"It's a plan which is certain to outrage and disturb those who have devoted their lives to spending other people's tax dollars.

"But it is also one which deserves the enthusiastic and wholehearted support of all of us who have become bone-weary of seeing every extra dime we make gradually snapped up and carted off by one tax collector or another."

Oakland Tribune

"Broadly defined the (Governor's) plan suggests installing a ceiling on state spending. This would be determined by a graduated formula based on a percentage of statewide personal income. Thus, the limitation is linked directly to the relative health and vitality of the state's economy and citizens.

"Whenever anyone speaks of imposing controls on government spending there are immediate, and usually hostile reactions, to such limitations. So it's been with Governor Reagan's tax limitation proposal.

"Many have reservations . . . but we're inclined to endorse the radical approach contained in the plan."

KCBS Newsradio, San Francisco

"It is a carefully reasoned, well thought out program that offers some hope for controlling the costs of government without cutting down on services, as well as offering auxiliary benefits in easing the crushing burden borne by taxpayers."

Bakersfield Californian

"The reason the State of California now enjoys a bonanza cash surplus that may reach a billion dollars is that you and I were overtaxed. It's our money. It should be promptly returned to the people."

KGO Radio, San Francisco

"Three big cheers for Governor Ronald Reagan's drive to slap an unprecedented lid on state taxes, offer a one-time 20 percent rebate and a permanent 10 percent reduction in Sacramento's take of our paychecks."

Richmond Independent

"The legislature should give full consideration to Governor Reagan's immediate solution, as well as his recommendation for a permanent 10 percent cut in the income tax starting next year to prevent further surpluses from developing."

Monterey Peninsula Herald

"What the Governor wants to do is simply to reduce the percentage of the people's earnings state government can take. The Governor says he has been appalled at the big spending projects legislators have proposed with never an answer as to where the money is to be found. . . . We at KHJ-TV would ask the legislators just one question: what have *you* done about our tax burden lately?"

KHJ-TV, Los Angeles

"Governor Reagan's bold, visonary, tax-freeze plan . . . deserves the serious consideration of the entire California state legislature.

"The way taxpayers feel today about the amount of money they are being required to pay in federal. state, county, city and special district taxes, there is little doubt that the Reagan proposal would be approved overwhelmingly by the voters at the polls—in any form it appears on the ballot."

Contra Costa Times
Walnut Creek

"A tax reduction is unique and obviously desirable. Dr. Friedman called it 'an imaginative venture.' But in his preface praising the plan the economist warned that all attempts to hold down taxes and government spending by controlling individual programs have been defeated by a coalition of special interests.

"The elections this fall may reveal that taxpayers can rise up as a single special interest opposed to giving nearly half of every dollar to the government."

Fullerton News Tribune

"We think the Governor's tax limit proposal is reasonable and deserves public support. Now is the time to clamp a lid on government costs and spending."

San Gabriel Valley Tribune

"The Press Democrat agrees with the Governor's proposal. Much of the surplus was produced by the payroll withholding system instituted last year. That money should go back to the people who paid it—those who file state income tax returns.

"The sales tax is paid by all and hits those in the lower income brackets the hardest. Delaying the 1 cent increase would give that part of the surplus back to all of the people."

Santa Rosa Press Democrat

"Governor Reagan has reason to be proud of the imprint his philosophy has made on a state government which had spent itself into a fiscal crisis that broke soon after he took office. His plan is imaginative and pioneering and deserves a full and objective appraisal by the legislature."

San Diego Union and other Copley newspapers

"Governor Reagan has launched a bold, new plan to establish some long range control over the prolific growth of state government . . . We predict that when the people are given a chance to express themselves, it will receive resounding approval."

Lodi News-Sentinel

"It is a bold plan, well conceived by some of the nation's best economists. We would like to see it put into effect, as it provides safeguards in the event of a catastrophe."

Elk Grove Citizen

"Stripped down to its bare essentials and left uncluttered of all the hyperbole opponents will surely throw . . . to confuse the issue, the tax limitation program proposed by Governor Ronald Reagan is quite simply a proposal to place all government spending on a controlled basis, identical to that under which private enterprise is forced to operate."

Folsom Telegraph

"It is refreshing to find a politician proposing responsibility for spending be placed upon the spenders. It is refreshing, too, to hear a politician say government cannot continue to grow and spend and expect the people to pay and pay.

"The Governor is to be commended (and) . . . has accepted the challenge and done something positive about a perplexing, and seemingly perpetual problem. He has developed a constitutional amendment that will do something to boost the California economy for both employee and employer.

"Governor Reagan is attempting a practical solution to something we all complain about: taxes. A word of caution: before you listen to the predictions of doom . . . take the time to listen to the Governor and examine his proposal. You will be asked to make a decision altering the course of California's government. It is important—and appropriate—that the people make this decision.

"Virtually every contingency has been thought of and provided for in this constitutional amendment."

The Ledger, Montrose, California

"The lawmakers like to be free to spend money—our money, that is. But Reagan says that if the Legislature won't go along, he'll sponsor an initiative campaign to get the amendment on the ballot. And, that should have less trouble. The people are tired of having their money spent carelessly in Sacramento.

"Reagan's plan is complicated . . . but it makes sense."

San Rafael Independent Journal

The California Revenue Control
and
Tax Reduction Program

" . . . a wise and frugal government, which shall restrain men from injuring one another, which shall leave them otherwise free to regulate their own pursuits of industry and improvement, and shall not take from the mouth of labor the bread it has earned. This is the sum of good government . . . "

—Thomas Jefferson

"An unlimited power to tax involves the power to destroy."

—Daniel Webster

"All attempts to keep down government spending and taxes by controlling individual programs have failed—defeated by a coalition of special interests attached to specific programs. The only hope of meeting the public's demands for an effective lid on spending is by tackling the budget as a whole, rather than piecemeal.

"The Governor's proposed spending ceiling to be included in the Constitution is an imaginative venture in this direction. It provides for expenditure control responsibly, allowing for growth in the State's economy, for emergencies, and for a gradual transition to a lower level. If the public seriously wants its taxes reduced, this is a promising way to proceed.

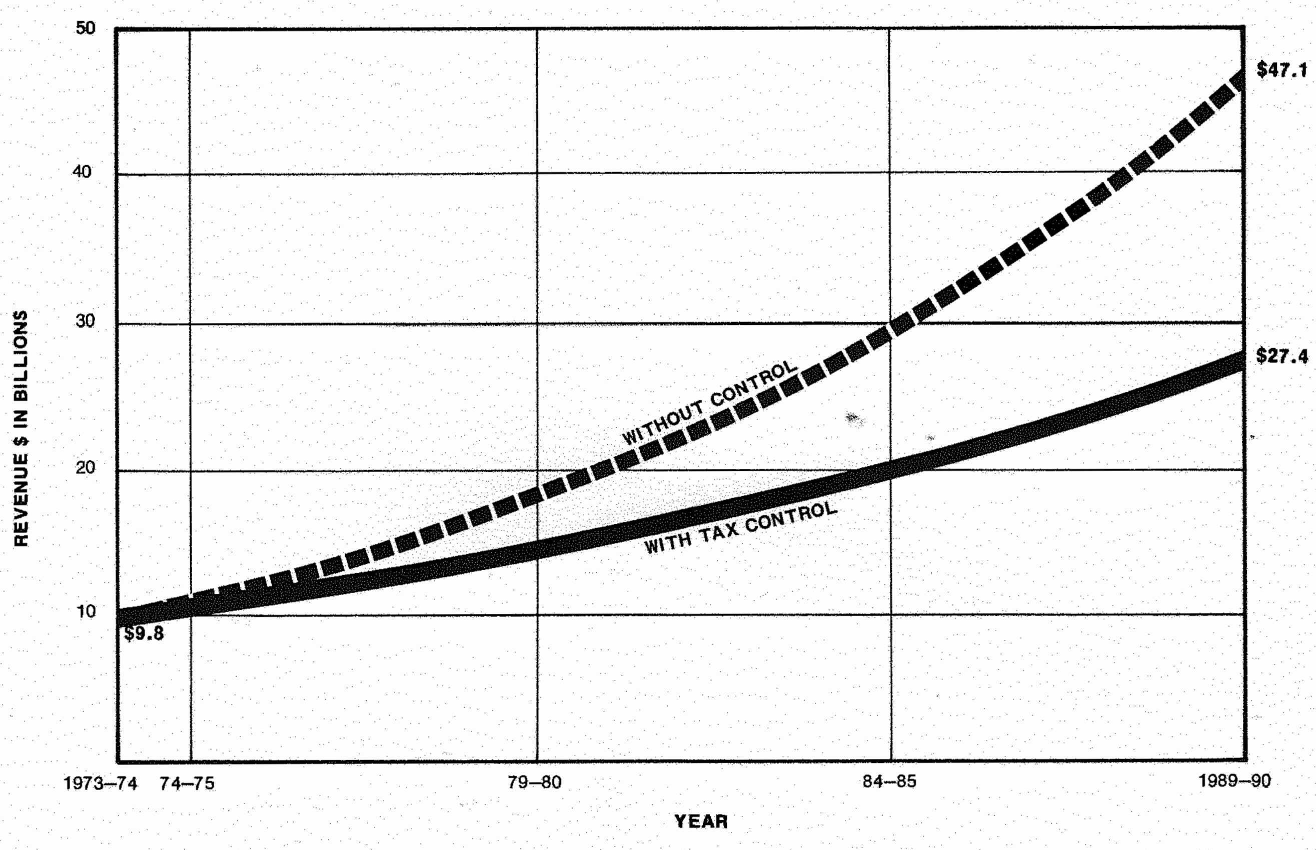
"The Governor's proposal has an importance that extends far beyond California. It will offer a beacon to every other state and to the Federal Government.

"Citizens throughout the land are coming to recognize that they are not getting their money's worth for the 40% of their income that is being spent for them by governmental units, Federal, state and local. They are demanding that they be permitted to keep more of their own income to spend in accordance with their own values.

"California may show them how to achieve this objective."

Milton Friedman, Ph.D., Professor of Economics,
University of Chicago

PROJECTED STATE REVENUE GROWTH



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THE PROBLEM:

Constantly Increasing Tax Burden

During the past two generations, the tax burden of the people of California and the United States has almost tripled. Government takes the first and largest slice of the average citizen's income, leaving the people a steadily shrinking share of the income they earn by the fruit of their own labor or through investment.

In 1930, the combined cost of government at all levels—Federal, State and local—was about 15% of all personal income. By 1950, government's cut had grow to 32%. This year, 1973, it is estimated that combined government revenues—Federal, State and Local—will be more than 43% of California's total personal income.

The typical wage earner today must work almost five months of the year just to pay his total taxes to the different levels of government. Taxes cost the average family *more* than it spends for food, shelter and clothing *combined*.

Unless this trend of higher and higher taxes is reversed or slowed down, by the early 1980's, government revenues will be more than 50% of California's personal income. By 1990, economists estimate the percentage will reach nearly 54% of total personal income.

Once established as part of a government budget, few spending programs ever end. Quite often, as government reform efforts demonstrate time and again, some spending programs continue to be a financial drain on the people regardless of whether the original goal is achieved or whether experience proves a particular program to be ineffective in meeting the need for which it was adopted.

In good times and bad, in periods of high employment and recession, government spending goes in only one direction: UP. That means higher taxes and higher taxes means less take-home pay for the individual.

Because government spends more, the people have less of their own income to spend for their own priority needs. Instead, in a tragic cycle, more and more people become dependent on government and this triggers even greater government spending.

Can anything be done? Can the people act to limit the amount of their income government may take? Can government spending ever be brought under control?

Reform Is Possible!

Two years ago, the State of California demonstrated that something can be done to control government costs when it implemented a massive overhaul of the public welfare system. At the time these reforms were proposed, welfare costs were increasing two to three times faster than the normal expansionary (without tax increases) growth of state revenues. Welfare caseloads were growing at the rate of 40,000 new people a month and the public assistance system was riddled with complex and arbitrary regulations and laws which not only allowed but actually encouraged welfare fraud.

The welfare reforms were designed to:

—tighten eligibility to eliminate welfare fraud

—bring welfare costs under control and most important, to

—increase benefits for the truly needy (those with no significant income of their own) by assuring that California's public assistance dollars went only to those who really needed help.

Critics denounced these reasonable reform efforts and instead suggested increasing taxes by more than $700 million. This would have meant subsidizing a discredited welfare system that was unfair to both the taxpayers and the truly needy.

It was alleged that the proposed reforms would simply transfer state welfare costs to local government and thus would mean higher local property taxes.

The welfare reforms Governor Ronald Reagan proposed were adopted and put into effect. The result has demonstrated beyond dispute that government costs can be brought under control. At the end of January 1973, there were 265,000 *fewer* people on welfare than when the reforms were proposed.

Instead of transferring state costs to local government, as critics direly forecast, 42 of California's 58 counties reported reductions in their basic county-wide property tax rates in the year following welfare reform.

Federal taxes are responsible for most of the total tax burden of the people of California. The State of California can do nothing to influence Federal spending except to support the President's current efforts to hold down spending as a means of fighting inflation and slowing down the growth of Federal taxes.

But it can and has acted to reduce the tax burden of California's people at other levels of government. The tax reform and school finance program enacted in 1972 (Senate Bill 90) imposed limits on local government spending.

Besides providing immediate homeowner property tax reduction, the program enacted last year will provide a permanent "brake" on local spending and assure local taxpayers the right to decide for themselves, by majority vote, whether they wish to increase local taxes.

The program outlined below will accomplish the same results at the state level, by placing a permanent limit on the amount of revenue the State may take from the people of California to finance state government.

No one should be deterred by heeding the cries of those who claim it cannot be done. It can be done, if the Legislature responds positively to the urgent demand of the people of California for lasting and realistic relief from their growing total tax burden.

In welfare, the State of California approached a complex problem by totally overhauling the state programs causing the problem. This practical and no-nonsense approach to welfare reform is the nation's most effective. Indeed, it has been cited as a model for other states and the Federal Government.

Other states have incorporated elements of California's welfare reform into their own reform efforts and the Federal Government is utilizing the expertise of some of California's welfare reform team in its own efforts to control welfare costs and eliminate abuses on a national basis.

It is time now for another total effort—an effort that will control the growth of government spending and thus *permanently* reduce the total state tax burden of the people of California.

HOW TO REDUCE THE STATE TAX BURDEN PERMANENTLY

"One of the greatest needs in American government today is control of the growth of spending. The tax limitation plan that Governor Reagan has proposed for California seems to me to offer a unique and valuable opportunity for citizen participation in the spending/taxation process."

—*C. Lowell Harriss, Ph.D.*
Professor of Economics
Columbia University

"The proposed tax limit amendment represents a fundamental change in the way we conduct our public business in the State of California. . . . The proposed tax limit . . . is based on an assumption that the voters in California have the intelligence, information and the *right* to determine the total state tax revenues."

—*William A. Niskanen, Ph.D.*
Professor, Graduate School
of Public Policy,
University of California
at Berkeley

THE SOLUTION:
Revenue Control and Tax Reduction

This program is the result of more than six months of concentrated effort by the Governor's Tax Reduction Task Force. The task force was assisted by nationally noted economists and experts in public administration, management and public policy. The goal during these months of careful analysis was to develop a realistic and a responsible way to reduce the ever increasing burden of taxation being borne by the people of the State of California.

Elsewhere. Governor Reagan outlined a proposal for returning California's $852 million 1973 fiscal year surplus to the citizens of California—through deferring a scheduled one cent increase in the state sales tax from June 1, 1973 to January 1, 1974 and by giving every income taxpayer a 20% tax credit or rebate on 1973 state income taxes.

The Tax Reduction Program, to be introduced as a Constitutional Amendment subject to a vote of the people, provides tax relief on a long term basis. It will include an immediate 10% reduction in state income tax rates and incorporates into the State Constitution a plan to systematically reduce state taxes by imposing a maximum limit on the percentage of California's total personal income that may be taken by the state.

The program will gradually increase the amount of personal income that remains in the hands of the people, to spend as they see fit, and it will decrease the percentage taken by state government.

It allows flexibility to transfer program responsibilities and functions from one level of government to another. It reinforces the legislature's authority to decide the proper combination of state taxes and other revenues to meet budget requirements.

It contains comprehensive emergency provisions to enable the government to meet the needs of the people in times of natural disasters, economic recessions or other emergencies. It allows state revenues to grow to permit financing of present State programs and includes a sufficient expansion of revenue growth to accommodate desirable and legitimate new programs to be adopted to meet the changing governmental needs of the people of California.

At the same time, it *slows* the rate of government's revenue growth in relation to the State's economic expansion and provides a means to return the surplus to the people in the form of lower taxes. In other words, this plan is designed to permit the *take-home pay of the people to grow faster than their payroll deductions for state taxes.*

It is a visionary concept totally in keeping with America's historic tradition that the best kind of government is a government of the people, by the people and for the people.

The plan will produce a healthier State economy, by leaving the people of California more of their own money to spend as they wish. It will mean a more responsible state government. It *will not* force increased costs on local government. In fact, this program will incorporate the local tax rate limit concept of Senate Bill 90 into the Constitution to assure permanent protection against increases in local spending without a majority vote of the people themselves.

Major Elements of the Revenue Control and Tax Limit Program

REVENUE LIMIT AND REDUCTION PROVISIONS

Limit Computation—Economic Estimates Commission

Each year, estimates of state personal income will be made by an Economic Estimates Commission, consisting of the State Controller, an appointee of the Legislature and an appointee of the Governor. On October 1 and April 1 of each year, the Commission will make, adopt and publish an official estimate of California's total personal income for the succeeding year. (Similar estimates are now made twice annually by the Department of Finance and form the basis for projecting revenue and budget estimates.) These estimates shall determine the State Revenue Limitation for both the Governor's Budget in the next fiscal year and the Budget as enacted by the Legislature. The Revenue Limitation will be determined by a declining percentage method (8.75% in 1973–74, 8.65% in 1974–75, etc.) or by a per capita constant dollar calculation, as described below.

On August 1, or as soon thereafter as the necessary data is available, the Commission will determine and publish the amount of surplus, if any, for the previous fiscal year.

RESULT: The effect of this provision will be to provide an effective equitable and official means of establishing the State Revenue Limit each year and to eliminate any dispute over the maximum permissible size of the State Budget.

Tax Revenue Limitation

State tax revenues, *except inter-governmental transfers, employment insurance trusts* and *excluded fees and receipts,* will be limited to a maximum of approximately 8.75% of the State's estimated total personal income for the fiscal year 1973–74. Thereafter, the maximum revenue limit will be determined in the manner described below. The figure 8.75% (an approximation pending later refined estimates) is the result of dividing anticipated 1973–74 State Revenues by the

1973 estimated total state personal income. This produces the 8.75% revenue limitation for fiscal year 1973–74. In other words, the State's revenues currently represent about 8.75% of the estimated total personal income in California.

RESULT: The effect of this provision will be to slow the growth rate of State Government spending by limiting the proportion of personal income that can be taken in taxes to the designated percentage allowable under each year's Revenue Limitation. In short, it will provide an effective limit on state spending.

Definitions

State personal income is the total personal income of California as defined by the U.S. Department of Commerce, and represents not only earned income, but all other income, including income to nonprofit institutions, Social Security and Welfare payments and the imputed rental value of owner-occupied dwellings. Professional economists agree that this is the single best standard measure to accurately reflect income to individuals who are, of course, the true payers of all taxes.

State tax revenues means all receipts to the State Government of California, except as noted. The major components of State Tax revenues are:

—State Sales Tax
—State Personal Income Tax
—State Corporate Income Tax
—State Inheritance and Gift Tax
—Motor Vehicle Taxes
—Cigarette Taxes
—Alcoholic Beverage Taxes
—Horse Racing Taxes
—Insurance Taxes
—Miscellaneous taxes, licenses and fees, except excluded user fees.

Intergovernmental transfers are amounts received by California, from other levels of government, principally from the Federal Government as fiscal aid in the form of shared revenues and grants-in-aid, as reimbursements for performance of general government functions and specific services for the Federal Government or in lieu of taxes; includes the large sums of money received from the Federal Government for welfare, education, health care and highways.

Employment Insurance Trusts are revenues from contributions required of employers (including the State of California) and employees for funds (and earnings on assets held by such funds), such as: the Unemployment Insurance Fund; Disability Insurance Fund; and Public Employees Retirement System.

Excluded fees and receipts are taxes, fees, penalties and other monetary extractions, receipts, and interest and costs in connection therewith, imposed, collected or received where the basis of the user fee is generally available from a non-State source or where the user fee is collected to regulate a non-commercial or non-professional activity. Examples of excluded fees and receipts are fees for use of State Park camping facilities, fees paid by students enrolled at the University of California and the State University system, hunting and fishing license fees and charges made for State owned parking lots.

Tax Reduction

The allowable percentage of state personal income which the State may take as revenues in 1974–75 shall be reduced by 0.1% each year, commencing in fiscal year 1974–75, unless using this declining percentage the Revenue Limitation in a given year would produce less total revenue than $360 per capita constant dollars, using a base year of 1967. (The year 1967 was the last year the Federal Government defined a "constant dollar.")

The cost of present state programs and services in California for fiscal year 1973–74 is $467 per capita. Measured in "constant dollars," the present cost of existing state programs and services for fiscal year 1973–74 would be $360 per capita. That means it takes $467 this year to purchase the same amount of goods and services that $360 purchased in 1967.

By measuring costs on a constant dollar basis, the eroding impact of inflation on the purchasing power of the dollar is taken into consideration.

Thus, if the 0.1% per year reduction factor should ever produce revenues *less* than $360 in constant dollars, the constant dollar method of calculating the Revenue Limitation would be used. This would assure that the State's current level of services to the people would never be decreased because of expected growth in population and inflation.

RESULT: The result of this yearly 0.1% reduction will—over the years—gradually *increase* that portion of total personal income that remains with the people who earned it and it will require the Legislature to *lower* taxes as the allowable Revenue Limit declines.

Definitions

Constant (1967) dollars are dollars with 1967 purchasing power, as established by the National Consumer Price Index. The limit expressed in per capita constant dollars means that revenues will always expand to meet the combination of inflation and population growth

Tax Surplus Fund

The State will create a Tax Surplus Fund for any surplus of revenues over expenditures and/or any surplus of revenues over the revenue limitation within a given year. The money in the Tax Surplus Fund may not be spent for programs. These funds may only be used to return the surplus revenues above the revenue limitation to the people, either through refunds or by decreasing taxes, as determined by a majority vote of the Legislature, with the concurrence of the Governor.

Local Government Tax Limit

The State will pay to each local entity that amount necessary to reimburse them for increased costs caused by newly-enacted State programs or increased levels of service required by the State under an existing program.

The property tax rates in effect when the program begins will be the maximum property tax rates which may be levied in the future, unless the people by a majority vote elect to change the rates. In the event of an emergency, the local governing body, by a four-fifths vote, may temporarily increase property tax rates, but only until the next regular election unless the temporary higher rates are approved by a majority vote of the people.

RESULT: The effect of this provision will be to prevent State program costs in excess of State Revenues from being forced on local government. With the local limits in effect, property taxes could not be raised and, in addition, the State would be required to fund any new or expanded programs mandated by the State at the local level.

FLEXIBILITY TO MEET CHANGING NEEDS, EMERGENCIES

Emergency Fund

The State will create and maintain an Emergency Fund equal to 0.2% of the State's personal income. The Fund may be appropriated by the Legislature to meet bona fide emergency needs. However, prior to use of the Emergency Fund, the State must exhaust other resources, such as normal internal borrowing and available Federal funds. Thereafter, the Emergency Fund may be used if the Governor declares a State emergency. Any unused portion of the Emergency Fund at the end of a fiscal year may be carried over to be used in the Emergency Fund in the succeeding year.

RESULT: The effect of this provision will be to provide the Legislature the flexibility to meet unexpected needs during legitimate emergencies (such as substantial, unanticipated economic difficulties, natural disasters, etc.). This figure (0.2% of State personal income) will amount to approximately $220 million in fiscal year 1973–74 and may reach $750 million by 1990.

Definitions

Internal borrowing means procedures by which State funds borrow from other State funds on a temporary basis to meet a cash flow deficiency.

Available Federal funds are funds available through Federal programs, including those under existing Public Law 91-606, the National Disaster Assistance Act, et al., to meet a national disaster declared by the President.

Safety Valve—Vote of the People

If the Emergency Fund is exhausted, the Legislature, by a two thirds vote and with the concurrence of the Governor, may impose a tax increase to meet an emergency. Such tax increase will be temporary only and will expire at the next general election, unless the people by a majority vote decide to extend it or to permanently increase taxes.

RESULT: This provision means that the Legislature may by a two-thirds vote, spend in excess of the Revenue Limitation for that year, including the Emergency Fund and may temporarily increase taxes to do so for legitimate unexpected needs. But the people will have the opportunity to determine, at the next general election, whether the temporary increase shall be extended, made permanent or allowed to expire.

Limit Adjustment

The Legislature may, by a two thirds vote, place on the ballot for a vote of the people the question of increasing or decreasing the limit. If the issue is approved by the people, the revenue limit level will be adjusted accordingly, and thereafter, the annual tax reduction will commence from the level of the newly established limit.

RESULT: The effect of this provision will provide complete flexibility to adjust the revenue limit level to accomodate unforeseen needs or reductions in the costs of operating government.

Tax Rate Adjustments

No State tax may be increased if such increase will produce revenues in excess of the annually established revenue limitation. The increase of any State tax within the limitation will require a two thirds vote of the Legislature and approval of the Governor.

RESULT: At present, only the Bank and Corporation tax requires a two thirds vote of the Legislature for approval of increased rates. This provision will put all taxes on an equal basis, requiring a two thirds vote of the Legislature and concurrence of the Governor to increase any State tax.

Transfer of Fiscal Responsibilities

If, as a result of a Federal or State statute or a judgment of a court requires the State to perform and assume the cost of a program or function formerly financed by another level of government, the State revenue limit may be increased. If the transfer of a function is from local government to the State, local taxes must be reduced by the same annual amount the program cost at the time of transfer.

RESULT: This means that if the State is required, for example, by a future court decision to finance local school costs now borne by local government, local government would have to reduce its homeowner property taxes by the amount it saves as a result of such a court ruling. The effect of this guarantees that total taxes will not be increased because of a transfer of financial responsibility for a specific program from local government to the State. Instead of spending the money it formerly earmarked for school costs and thus has available, local governments would have to return this tax saving to the people through lower property taxes. This will prevent total taxes from increasing as a result of transfers of financial responsibility from one level of government to another.

This will provide flexibility for transferring functions between the different levels of government, but *without penalizing the taxpayer.* To the extent that such transfers increase or decrease expenditures at the State and/or local level, the respective limitations are in turn increased and/or decreased.

THE RESULT:

To Permanently Lower the Tax Burden

The long term result of this responsible and realistic program will be to control the growth of government spending, reduce taxes and it will maintain present levels of government service, taking population growth and inflation into consideration.

It also will require the Executive and Legislative branches of state government to more carefully consider each spending proposal both on its own merits and to measure the cost against the impact that the new spending program might have on state taxes.

With this Revenue Limit in effect, the State would have ample funds to finance existing services and to adopt new programs. But by having the limit in effect, at the end of five years, the State also could reduce the State Income Tax by 25% or reduce the state sales tax by one cent. At the end of 10 years, the State could accomplish a 60% reduction in state income taxes—over and above the 10% income tax reduction that would go into effect immediately. Or the State, after 10 years, could reduce the sales tax by two cents. Or the Legislature could enact any combination of tax reduction.

But the important point is: the State would be planning its future budgets to include tax reductions instead of tax increases. The people want lower taxes now and in the future.

That is what this Revenue Control and Tax Reduction Program is all about.

A Conversation With DR. MILTON FRIEDMAN, Professor of Economics, University of Chicago:

Q. Dr. Friedman, thank you very much for taking the time to discuss Governor Reagan's tax limitation plan. First of all, what do you think will be the immediate and longrange economic impact on California?

A. The immediate impact will be primarily through what it does to people's expectations about the future in California. The enactment of this measure will give businessmen in California and in the rest of the country a kind of confidence they cannot have in any other state about what will happen to the future level of taxes. And, therefore, its immediate effect ought to be to encourage a willingness on the part of business and other groups to invest in California. In the longer run, this effect will be reinforced by the fact that the citizens of California will have more of their own money to spend on themselves (see Figures 5 and 6), will see less of it going through government for government services that they may not value at what it costs.

Q. Does this tax limitation plan mean the present and future level of government services will be drastically reduced?

A. On the contrary. The plan provides that initially the amount of money spent by the government will stay the same, as was otherwise intended. Over the longer period, the amount of money spent by the government is going to go up. It will be possible to have an expansion of services. What's going to be held down is the fraction of your income that will be spent by the State Government. But given that California is going to continue to grow as it has over the past 100-odd years, a slightly smaller fraction income will mean a larger amount of money available for government services, so the range of government services will expand, not decline. (See Figure 5 and Table 5c).

Q. What assurances, Dr. Friedman, can anyone give that both fiscal and social chaos won't result as a result of this plan?

A. The assurance you can give is that the State of California is now spending a great deal of money. It's spending something near 9% of personal income. (See Figures 3 and 4) This proposal will simply keep that amount of money spent the same as the fraction of income for the next year, and then gradually reduce it over 15 years to something like $7\frac{1}{4}\%$. It is inconceivable that any kind of fiscal or social chaos can arise out of preventing the State Government from spending more than $7\frac{1}{4}\%$. However, to allow for even that minute possibility, the proposal has an emergency provision in it, whereby if an emergency arises, the limits can be broached by the Legislature, provided they are reasonably united behind it, subject to the approval of the public at large. It seems to me those are ample assurances against any kind of fiscal or social crises. People who talk about fiscal and social crises arising out of this plan simply have not read the plan. They are reading into it all sorts of imaginary fears of their own. Just stop and consider, how do you get a fiscal and social crisis out of setting a top limit to receipts and requiring the government to live within its budget?

Q. How do you know this kind of plan can work?

A. There are very few things of which one can be certain—it's only a fool who's positive. However, we know that other ways of trying to hold down government spending have not worked. We know for certain that trying to cut down particular projects doesn't work, because you get all the special interests going each after his own special project, and the general public interest tends to get buried. The great virtue of this plan is that it looks at the problem as a whole. One can ask, how do you know that having a limit on the amount of money you can spend keeps down your spending? Have you ever tried it? I think most of the citizens of this State have tried it, and the same principle will apply to government. So we cannot be certain it will work, but we can have a pretty good reason to expect that it will.

Q. The allegation has been made that this limitation plan is really a very simplistic answer to a whole host of complex social problems. What is your reaction to that?

A. Well, I think it is a simple, but not a simplistic, answer. And it's a simple answer not to a whole host of problems but to one very particular specific problem. How do you keep down the total amount of spending? And it is exactly as simple an answer to that as it is to say to you as an individual that the way to hold down your spending is to keep watch on how much money you have in the bank. Now that's a simple answer, but it's an effective answer. The fact that an answer is relatively simple does not mean that it cannot be effective. On the contrary, it's very hard to get a complicated answer to work.

Q. What does the program do about tax loopholes?

A. It doesn't do a thing about tax loopholes—that's completely independent, whether you have this program or not. The closing of tax loopholes depends on action by the Legislature. That can be done without this program, that can be done with it. This program does nothing about measles, either.

Q. Does this program help the rich at the expense of the poor?

A. It has no relation one way or the other to that. Its main effect will be to reduce waste in government activities. Insofar as the distribution of spending is concerned, that again is up to the Legislature. This only sets a limit on the total amount to be spent. If the Legislature feels that too much of current spending is going to help one group rather than another, there is absolutely nothing in this proposal that prevents the Legislature from reorganizing the given total.

Q. Dr. Friedman, will the tax limit really force the Legislature to establish spending priorities?

A. It must. Of course, it may be that somehow or other the Legislature is going to completely disregard the Constitution and the law, but I don't believe that's going to happen. I think it's a responsible Legislature, and the best way to establish priorities in spending is to have a total limit. That's true for the individual, and it's true for the government.

Q. Well, then, why not reduce government by cutting bad programs?

A. That's a tempting approach. It's one that's been tried over and over again. It never worked, and the reason it has never worked is because, when you take one program by itself, all of the people who have a special interest in that program land in Sacramento like a ton of bricks. It's worth their while to spend a great deal of energy on it. On the other hand, the public interest in having that program is diffused. Each one of us saves a few cents, but for the special interests, those cents accumulate into a great many dollars. As a result, whenever you try to take off one special program at a time, the special interests win every time and the general interest is suppressed. The great virtue of this proposal is precisely that it lumps together all of these little programs into one bigger total and, thus, makes it possible for the public interest—that is, your interest and my interest—to be reflected, in the same strength and the same force as the separate special interest.

Q. Dr. Friedman, over what period of time will the State tax revenues be reduced, and to what percentage of total person income will the State tax revenues drop before they actually bottom out?

A. Well, the particular proposal that the Governor has made looks, at most, 15 years ahead, and it specifies that the government revenues drop to a percentage of 7¼% of personal income, provided that is higher than a specified constant amount in real terms, allowing for price rises of government spending. There's no point now in trying to figure what's going to happen in 50 or 75 or 100 years, and the most you can say is at the moment, the program is geared to the next

15 years. As time rolls on, as people see how it works, as the public decides whether it likes it or not, it can then make whatever decisions are necessary to keep it going.

Q. Recently a State Legislative leader said that Governor Reagan has actually declared economic war on the interests of most of the people of California with this tax limitation plan. What is your reaction to that allegation?

A. It's poppycock. Obivously, whoever made that statement didn't understand the plan. If Governor Reagan has declared economic war on the people of California, then the Legislature has done so; because to begin with, Governor Reagan's proposal simply provides for spending the amount of money that the Legislature has already appropriated. I find it hard to see how it's declaring economic war on the people of California to provide that government spending will go up year after year, almost in proportion to total income. The program calls for a very large increase in the government budget. In my opinion, from my point of view, I think if it has a defect, it's that it doesn't cut down government spending fast enough.

Q. Everyone's standard of living has increased so tremendously at the same time that government has grown; thus, why limit government?

A. Everyone's income and standard of living has grown at the same time that pollution has grown. Does that mean that we ought to be happy with pollution and not try to limit pollution? Everybody's standard of living has grown, despite the fact that government has been wasting some of our substances; but, fortunately, we are strong enough and a productive enough economy that we've had enough left over for waste. The fact is that you need to ask yourself the question—here Federal, State and local governments are spending roughly 43% of the National income (see Figures 1 and 2). Do you feel that you are getting your money's worth for that? If not, then you better think about how you can get more for your money, and the only way you can do that is by cutting down the amount which the governments spend, both on the Federal level and also on the State and local level.

Q. Some commentators have suggested that this plan is historic, really a revolutionary step in the history of public finance. What is your reaction to that?

A. There's some merit to that, but it goes a little far. You've had many cases in which in local areas, in cities, in counties, you have had limits on total taxes that can be collected, on the total amount that can be spent. On the other hand, it is historic, in the sense that it is the first time to my knowledge that a major state in the United States proposes to impose upon its governmental process the kind of discipline that we all impose on ourselves. We have a great background. For 150 years from the birth of the Republic of the United States to 1932 or 33, we had governmental spendings kept down to relatively small levels. During the whole of that period, spending for Federal, State and local governments never exceeded 15% of the National income, except during time of major war. In the past 40 years, we've had a revolution. The New Deal ushered in a period in which government spending has been growing by leaps and bounds and has now reached 43%. Something historic needs to be done to stop that process.

COMMENTS BY OTHER TAX EXPERTS

Here is what some other leading economists in America say about the California Revenue Control and Tax Reduction Program. All served as advisors to the Governor's Task Force on Tax Reduction.

"Governor Reagan's plan to reverse the trend of ever-increasing tax burden and of a continuous and limitless expansion of governmental spending and to reduce the tax load gradually over the next few years is excellent. I expect it to be received with enthusiasm by the citizens and taxpayers of California. In fact, I feel that California may in this be setting a precedent and example for the entire nation. Residents of other states may soon be clamoring for comparable relief from exorbitant tax bills.

"I believe that the approach used by Governor Reagan—to reduce the tax burden in small annual steps and to relate the tax limit to the personal income of our citizens—is the only practicable approach to implement it."

—*Roger Freeman, Ph.D.,* Senior Fellow, The Hoover Institution

"A constitutional initiative imposing strict limits on the taxation of personal income and wealth is a direct and effective avenue by which Californians may register their preferences with respect to state spending. Should this initiative pass, Californians may look forward to a progressive reducton in the burden of state taxation."

—*Craig Stubblebine, Ph.D.,* Professor of Economics, Claremont Men's College, Claremont Graduate School, California

"The governor's plan offers the people of California a clear opportunity to not only stop the increasing tax burden, but also to reverse it. It is a truly innovative, eminently sensible tax reform plan. If the people of California accept it—and I think they will—it will mean more money in the pockets of Californians to be spent for things they personally value and less money for government bureaucrats to dissipate.

"We are now at the point where government spending has become so wild and exuberant that it will only be controlled by restricting the flow of tax money into the government coffers. The governor's plan is a rational way to restrict this flow gradually and may be the only viable alternative to keep us from a future fiscal crisis that could severely damage each and every one of us."

—*Martin Anderson, Ph.D.,* Senior Fellow, The Hoover Institution

"Unfortunately, evidence accumulates that legislatures respond largely to the pressures of the entrenched government bureaucracy, rather than to the public at large. Until the legislature is forced by constitutional restriction to face up to the conflicts between the interest of the citizens and that of the bureaucracy, they will continue to take the route of least resistance. This has been, until now, that of allowing government budgets and taxes to continue to grow. I applaud the initiative taken by Governor Reagan of California in attempting to resolve this major problem."

—*James Buchanan, Ph.D.,* Director of the Center for Public Choice, Virginia Polytechnic Institute

"Governor Reagan's proposal will provide a basis for more rational use of state funds and should assure the development of better programs. It should set a precedent for other states. Its adoption in California should help to assure the success of the efforts now being made in Washington to limit federal expenditures."

—*Dan Throop Smith, Ph.D.,* Senior Research Fellow at The Hoover Institution, and Lecturer at Graduate School of Business, Stanford University

QUESTIONS AND ANSWERS
About the Revenue Control Plan

1. Over what period will State tax revenues be reduced, and to what percentage of total personal income will the State tax revenues drop before they bottom out?

   Revenues will not be reduced. They will increase at a slightly smaller rate than the personal income of the State increases. Tax rates will be reduced by about 20% over the next 15 years, by our estimates. At the end of that time, the percentage of personal income taken in State revenues will be 7.15%. If the reduction is continued beyond that time, the percentage will decrease until it reaches the level of constant dollar services currently being provided, which should be about 5½% to 6% of total personal income.

2. Will the tax limit force the Legislature to establish spending priorities? If so, how and why; and will this be done more effectively than it is now?

   Yes, because not every new program will be capable of funding levels that meet the desires of the special interests that support them. The Legislature will have to assess varying needs against a limited capability to increase payments for those needs.

3. As you know, California provides a rather substantial portion of the State budget in local assistance. A substantial portion of the local assistance budget is in the form of direct real property tax relief. Won't the limit force the Legislature to eilminate this real property tax relief from the State budget?

   The program should have no effect on present or future property tax relief. If additional property tax relief were to be passed by the Legislature, under the terms of this program the limit would be raised for the State, but property taxes would be decreased dollar for dollar to offset the increase in the limit.

4. Is it true that had this plan been in effect during the last 15 years, it would have been impossible to achieve a $2.5 billion tax program, of which $1.25 billion went for property tax relief?

   No. The Legislature could have raised the state revenue limit by statute to the extent that it required lower property taxes at the local level.

5. Won't the limitation plan result in the demise of county government?

   The plan should strengthen local government, including county government, in relation to both the State and Federal Government. Since the State Government will be unable to force unwanted programs and expenditures on local government, local government will, therefore, be encouraged to define its own needs and enforce its own solutions.

6. Isn't your concept of a tax limitation the same as the Watson Amendment, which was defeated by the people at the polls in the last election?

   No. The Watson Amendment was an arbitrary fixed limitation on one tax without regard to income and other economic variations. The revenue control and tax limitation program is a flexible limit on the general power of the State to tax in relation to the income of the people.

7. How does the plan handle a decision by the courts that all public school costs must be borne by the State?

   Such a decision would automatically increase the limitation at the State level so that the State could fund, without effect on other programs, any school costs required of it. Simultaneously, the plan would require a dollar for dollar tax reduction at the local level.

8. How does the plan handle a cutback in the amount of Federal funds which now flow into California by the billions each year?

   The plan is not related to the amount of Federal funding, and Federal funds are excluded from the limitation. If fewer Federal funds will result in a lower level of services and the people of California decide to pick up the costs of maintaining that level of service, the State limit may be raised to do so.

9. What happens if there is a large mandated Federal program over which we have no control? How will we pay for it?

   The Federal Government has never mandated costs associated with a program. In the highly unlikely event that they were to do so, the State, under this program, would have to increase its limit through Constitutional Amendment or decrease expenditures for other programs.

10. Why include most so-called user fees within the limit? Isn't it good economics and, as a matter of fact, fairer to exclude those functions for which people pay some direct charges?

    Many user fees are involuntary payments to a monopolistic government and are, therefore, in effect, taxes. Those fees are included within the limit.

11. It has been criticized that linking State revenues to the total personal income of Californians should not be done. Personal in-

come should be a reference point, but it should not be tied in the Constitution to State revenues. Is this true?

Fixing a tax limitation to any other reference than the income and resources of the people who must pay the taxes will result in unequal treatment of the people, as well as artificial levels of government services. Although "State personal income"—a standard definition of the Federal Government—includes some unearned components, it is the best standard measure related to people's income, and people are the true payers of all taxes.

12. Is it valid to make a straight line extrapolation of economic growth? Doesn't the analysis of growth of California's total personal income exaggerate growth in order to make it appear that there will be more money available to run State Government than there probably really will be?

Any projection technique, statistical or "eyeball," is subject to criticism. Projections of economic and tax growth attached to the description of this program are useful for illustrative purposes and should be considered in that light. The design of the program is independent of projection techniques, since revenues as a percentage of personal income will be scaled identically, no matter how large or small the increases in personal income turn out to be. Various techniques of extrapolation were used, including straight line, average of historical percentage increase, S-curve and exponential curves based upon linear regression techniques.

13. Why not cut government spending by cutting bad programs? Isn't this a better way than to tie State Government's hands through this limitation plan?

Simply because program cuts have not worked. In those instances when a specific program has been cut, the savings have been drained off almost immediately into the programs. For a more comprehensive explanation of this phenomenon, see Dr. Friedman's comments in the text.

14. It has been stated by members of the Legislature that this plan doesn't propose a limitation on the amount of taxes people will pay but places a limitation on the amount of services you receive. Is this true?

This is a simplistic and totally inaccurate statement. The limitation is on taxes, not on services. Which taxes will be reduced and to what extent will be decided by the Legislature when the program is in effect. Which services will expand and how much will also be decided by the Legislature, but an overall expansion of services will be possible at the same time tax rate reductions are put into effect.

15. Is it true that this plan emasculates the Legislative Branch of government?

    On the contrary. This program should increase the responsibilities of the Legislature and the visibility of their decisions, since the true problems associated with tax inequities and combinations will be addressed within a limited revenue base.

16. Is it true that this plan is a complete reversal of good fiscal policy and there would be no discretion as to what kind of tax policy the State could have?

    As indicated above, not only is full discretion for tax policy left with the Legislature under this program, but also the fact of a revenue limitation should result in more rational and better thought out tax decisions in the future.

17. Does the plan permit the Legislature to grant tax loopholes on a majority vote but require a two-thirds vote to close them?

    The plan permits the Legislature to reduce taxes by a majority vote but requires a two-thirds vote to increase any tax. It neither permits nor denies loopholes to be granted or closed.

18. Is this plan a way of the Governor saying we have all the programs we're ever going to have?

    No. It is simply a way for the people to express whether or not they feel government has grown too rapidly in the past and should be required to grow more slowly in the future. This is the only way to achieve permanent tax reduction.

GOVERNOR'S TAX REDUCTION TASK FORCE

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GOVERNOR'S TAX REDUCTION TASK FORCE

ADVISORS AND CONSULTANTS

12 — ARMEN ALCHIAN, Ph.D. *Professor of Economics*, UCLA

13 — MARTIN ANDERSON, Ph.D.
Senior Fellow (Public Policy), The Hoover Institution, Stanford

~~NEIL BERSCH~~
~~*Senior Partner*, Touche Ross & Company, Los Angeles~~

14 — PATRICK M. BOARMAN, Ph.D.
Director of Research, Center for International Business (affiliate of Pepperdine College), Los Angeles

11 — JAMES BUCHANAN, Ph.D.
Economist, Chairman of Center for Study of Public Choice, Virginia Polytechnic Institute and State University, Blacksburg, Virginia

15 — GLENN CAMPBELL, Ph.D.
Director of Hoover Institution on War, Revolution and Peace, Stanford

8 — HAROLD DEMSETZ, Ph.D. *Professor of Economics,* UCLA

10 — PHOEBUS DHRYMES, Ph.D. *Professor of Economics,* UCLA

6 — PETER DRUCKER, Ph.D.
Management Consultant, Member of the Faculty of Claremont Graduate School, Claremont

19 — ROGER A. FREEMAN, Ph.D.
Senior Fellow, Hoover Institution on War, Revolution and Peace, Stanford

5 — MILTON FRIEDMAN, Ph.D.
Professor of Economics, University of Chicago

16 — FRANK GOBLE
Management and Motivation Consultant, Author, and President of Thomas Jefferson Research Center, Pasadena

4 — C. LOWELL HARRISS, Ph.D.
President, National Tax Association, Professor of Economics at Columbia University, Consultant to The Tax Foundation, Inc., New York

ANTHONY KENNEDY
Professor of Constitutional Law, McGeorge School of Law, University of the Pacific, Sacramento

1 → J. CLAYBURN LaFORCE, Ph.D.
Chairman of Department of Economics, UCLA

2 — WILLIAM A. NISKANEN, Ph.D.
Professor, Graduate School of Public Policy, University of California, Berkeley

17 — DAN T. SMITH, Ph.D.
Senior Fellow (Taxation), The Hoover Institution on War, Revolution and Peace, Stanford

3 — W. CRAIG STUBBLEBINE, Ph.D.
Professor of Economics, Claremont Men's College, Claremont Graduate School, Claremont

9 — PROCTOR THOMSON, Ph.D.
Lincoln Professor of Economics and Administration, Claremont Men's College

JAY TONTZ, Ph.D.

7– *Chairman,* Economics Department, California State University at Hayward

18–NORMAN TURE, Ph.D.

Tax Consultant and Economist, Washington, D.C.

APPENDIX

STATISTICAL DATA IN SUPPORT OF REVENUE CONTROL PROGRAM

FIGURE 1

GOVERNMENT REVENUES FROM CALIFORNIANS
1950—1970

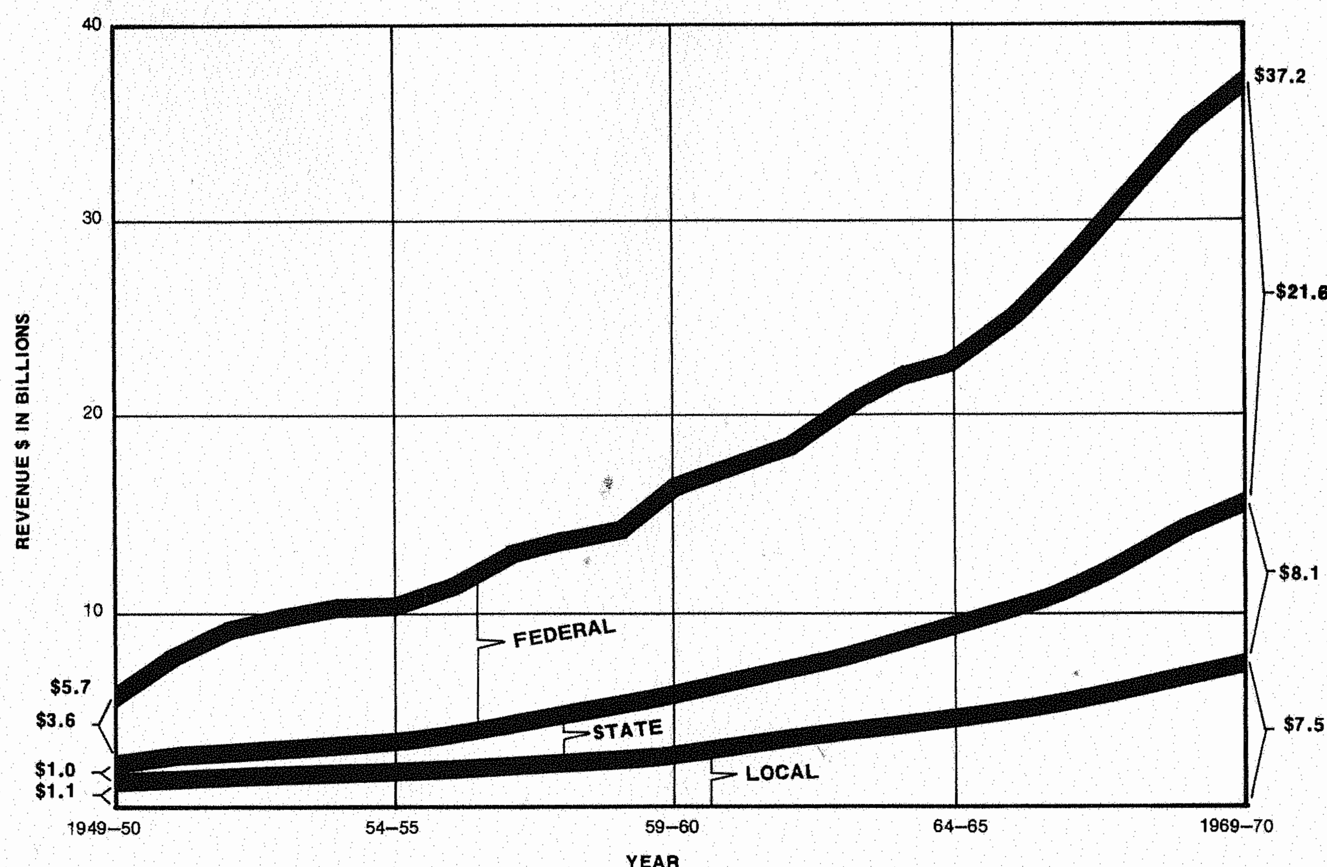

TABLE 1: GOVERNMENT REVENUES COLLECTED FROM CALIFORNIANS: 1950–1970

TOTAL REVENUES BY LEVEL OF GOVERNMENT (1)

($ in millions)

Fiscal (2) Year	*Local Total*	*State Total*	*Federal Total*	*Total*
1950	$1,135	$1,029	$3,595	$5,759
51	1,327	1,351	4,675	7,334
52	1,378	1,499	6,201	9,077
53	1,525	1,593	6,723	9,841
54	1,498	1,681	6,891	10,078
55	1,659	1,877	6,626	10,161
56	1,849	1,895	7,664	11,589
57	2,126	2,285	8,583	12,994
58	2,456	2,400	8,733	13,589
59	2,494	2,660	8,734	13,887
60	2,662	3,068	10,529	16,259
61	3,283	3,347	10,528	17,158
62	3,471	3,580	11,197	18,248
63	3,868	4,033	12,252	20,153
64	4,339	4,536	13,230	22,105
65	4,516	4,868	13,505	22,889
66	5,094	5,356	14,695	25,144
67	5,701	5,531	16,803	28,035
68	6,050	6,850	18,667	31,567
69	6,884	7,699	20,528	35,111
70	7,487	8,115	21,584	37,186
Total % Increase	559.65%	688.63%	500.37%	545.69%
Average % Increase	10.04%	11.09%	9.75%	9.97%

TABLE 1: GOVERNMENT REVENUES COLLECTED FROM CALIFORNIANS: 1950–1970

LOCAL REVENUES BY SOURCE [1]
($ in millions)

Fiscal [2] *Year*	*Property*	*Other Taxes*	*Charges and Miscellaneous*	*Total*
1950	$731	$31	$372	$1,135
51	805	38	484	1,327
52	863	42	473	1,378
53	950	48	527	1,525
54	957	50	492	1,498
55	1,062	66	531	1,659
56	1,183	87	579	1,849
57	1,320	135	671	2,126
58	1,487	182	788	2,456
59	1,646	210	638	2,494
60	1,820	231	612	2,662
61	2,302	343	638	3,283
62	2,468	334	669	3,471
63	2,682	353	832	3,868
64	2,996	387	957	4,339
65	3,147	445	925	4,516
66	3,564	477	1,053	5,094
67	3,936	519	1,246	5,701
68	4,145	579	1,326	6,050
69	4,629	627	1,628	6,884
70	4,998	665	1,825	7,487
Total % Increase	583.72%	2,045.16%	390.59%	559.65%
Average % Increase	10.19%	17.44%	8.92%	10.04%

TABLE 1: GOVERNMENT REVENUES COLLECTED FROM CALIFORNIANS: 1950–1970

STATE REVENUES BY SOURCE [1]

($ in millions)

Fiscal [2] *Year*	*Employ and Insurance Trust*	*General Sales*	*Selective Sales*	*Individual Income*	*Corporation Income*	*Licenses*	*Property*	*Other*	*Total*
1950	$129	$322	$207	$61	$75	$73	$49	$115	$1,029
1951	315	401	224	76	98	78	57	101	1,351
1952	345	417	242	91	119	95	72	118	1,499
1953	356	462	278	94	119	94	72	118	1,593
1954	338	464	330	96	126	121	80	127	1,681
1955	358	491	356	107	133	130	87	216	1,877
1956	226	565	403	128	157	140	102	173	1,895
1957	477	603	430	143	167	146	108	211	2,285
1958	531	604	438	149	172	153	112	242	2,400
1959	588	634	516	161	175	166	114	306	2,660
1960	706	715	573	246	240	177	126	286	3,068
1961	816	715	592	270	273	186	129	366	3,347
1962	909	755	620	299	291	191	136	379	3,580
1963	1,122	813	665	322	311	206	148	446	4,033
1964	1,203	883	760	392	405	225	163	505	4,536
1965	1,285	944	828	411	416	239	179	567	4,868
1966	1,439	1,099	875	454	434	261	189	605	5,356
1967	1,533	1,062	889	500	453	273	194	629	5,531
1968	1,609	1,391	1,088	952	579	309	202	722	6,850
1969	1,761	1,684	1,170	1,087	593	335	221	849	7,699
1970	1,854	1,757	1,252	1,151	588	359	234	921	8,115
Total % Increase	1337.21%	445.65%	504.83%	1786.89%	684.00%	391.78%	377.55%	700.87%	688.63%
Average % Increase	18.84%	9.17%	9.55%	17.17%	11.40%	8.46%	8.29%	12.26%	11.09%

TABLE 1: GOVERNMENT REVENUES COLLECTED FROM CALIFORNIANS: 1950–1970

FEDERAL REVENUES BY SOURCE [1]

($ in millions)

Fiscal [2] Year	*Individual Income and Insurance Trust*	*Excise*	*Corporation Income*	*Estate and Gift*	*Customs*	*Other*	*Total*
1950	$1,688	$429	$902	$85	$35	$456	$3,595
51	2,293	474	1,225	63	53	567	4,675
52	3,021	513	1,890	78	47	651	6,201
53	3,434	586	1,965	90	55	592	6,723
54	3,501	531	1,977	95	51	736	6,891
55	3,457	538	1,704	88	56	783	6,626
56	4,043	578	2,040	109	67	827	7,664
57	4,544	648	2,109	152	73	1,056	8,583
58	4,683	695	2,030	167	79	1,079	8,733
59	4,893	713	1,790	142	96	1,099	8,734
60	5,746	766	2,298	188	118	1,412	10,529
61	5,747	846	2,246	188	105	1,396	10,528
62	6,255	863	2,249	233	125	1,471	11,197
63	6,787	908	2,391	273	134	1,759	12,252
64	7,358	919	2,655	296	142	1,861	13,230
65	7,051	1,028	2,904	347	164	2,010	13,505
66	7,644	937	3,385	364	199	2,166	14,695
67	9,127	989	3,769	374	211	2,333	16,803
68	11,527	1,035	3,185	371	226	2,323	18,667
69	12,210	1,051	4,092	435	259	2,481	20,528
70	13,408	1,199	3,637	439	269	2,632	21,584
Total % Increase	694.31%	179.49%	303.35%	416.47%	666.43%	476.75%	500.37%
Average % Increase	11.39%	5.47%	8.56%	9.69%	11.49%	9.60%	9.75%

FIGURE 2

GOVERNMENT REVENUES FROM CALIFORNIANS AS A PERCENTAGE OF STATE PERSONAL INCOME

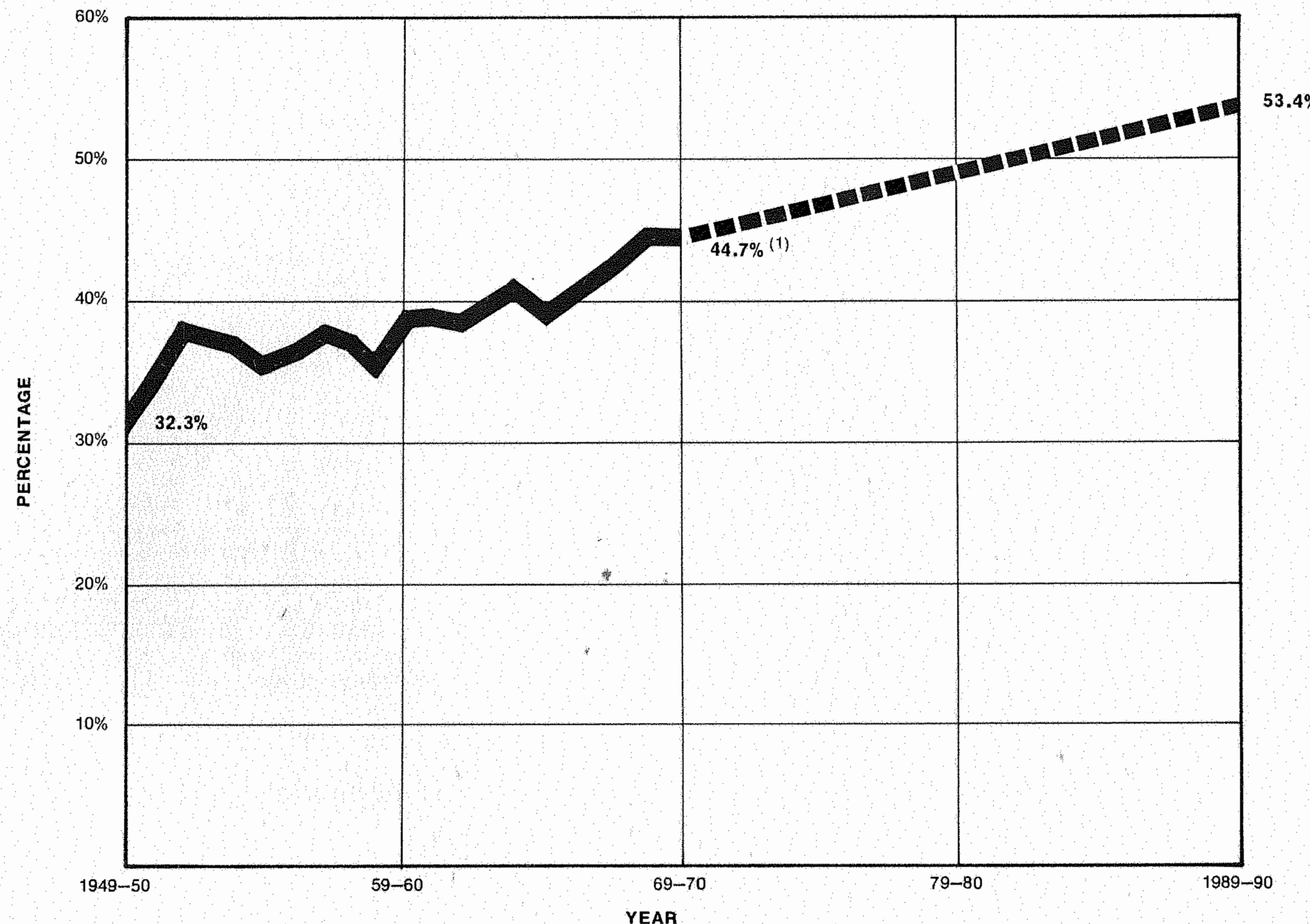

TABLE 2

CALIFORNIA TOTAL PERSONAL INCOME ACTUAL AND PROJECTED, 1949 to 1989

($ in millions)

Calendar Year	*California Total Personal Income*	*Calendar Year*	*California Total Personal Income*
1949	17,878 [2]	70	88,825
50	19,774	71	94,118
51	22,756	72	102,220 [3]
52	25,214	73	111,535
53	27,002	74	120,970
54	27,682	75	130,648 [4]
55	30,378	76	141,100
56	33,177	77	152,388
57	35,497	78	164,579
58	37,361	79	177,745
59	41,010	80	191,965
60	42,980	81	207,322
61	45,678	82	223,908
62	49,051	83	241,821
63	52,615	84	261,167
64	56,570	85	282,060
65	60,234	86	304,625
66	65,156	87	328,995
67	69,936	88	355,315
68	76,867	89	383,740
69	83,192		

FIGURE 3

1973–74 STATE REVENUES SUBJECT TO LIMITATION UNDER THE TAX CONTROL PROGRAM

	$'s In Millions
General Funds in the Budget	$7,258 (1) (2)
Special Funds in the Budget	1,691 (1) (2)
Intergovernmental Revenue Included Above	(74)
Miscellaneous Revenues, Charges and Fees	884 (2)
	$9,759

TABLE 3

ESTIMATED 1973–74 LIMITED REVENUES DERIVED FROM 1970–71 ACTUAL REVENUES

	$'s In Millions *1970–71 Actual*	*1973–74 Estimated*
Governor's Budget	$5,917	$8,949 (1)
Less Amounts Not Counted as Revenues Within the Tax Control Program		
From the Federal Government	(54)	(60)
From Local Governments	(14)	(14)
Excess Highway Lands	(34)	–
Plus Amounts From Other Sources		
Net Interest Income	97	120
Charges, Fees and Other Income	609	764
Total Revenue Subject To The Limit	$6,521 (2)	$9,759 (2)

FIGURE 4

PROJECTED STATE REVENUE GROWTH WITHOUT LIMITATION

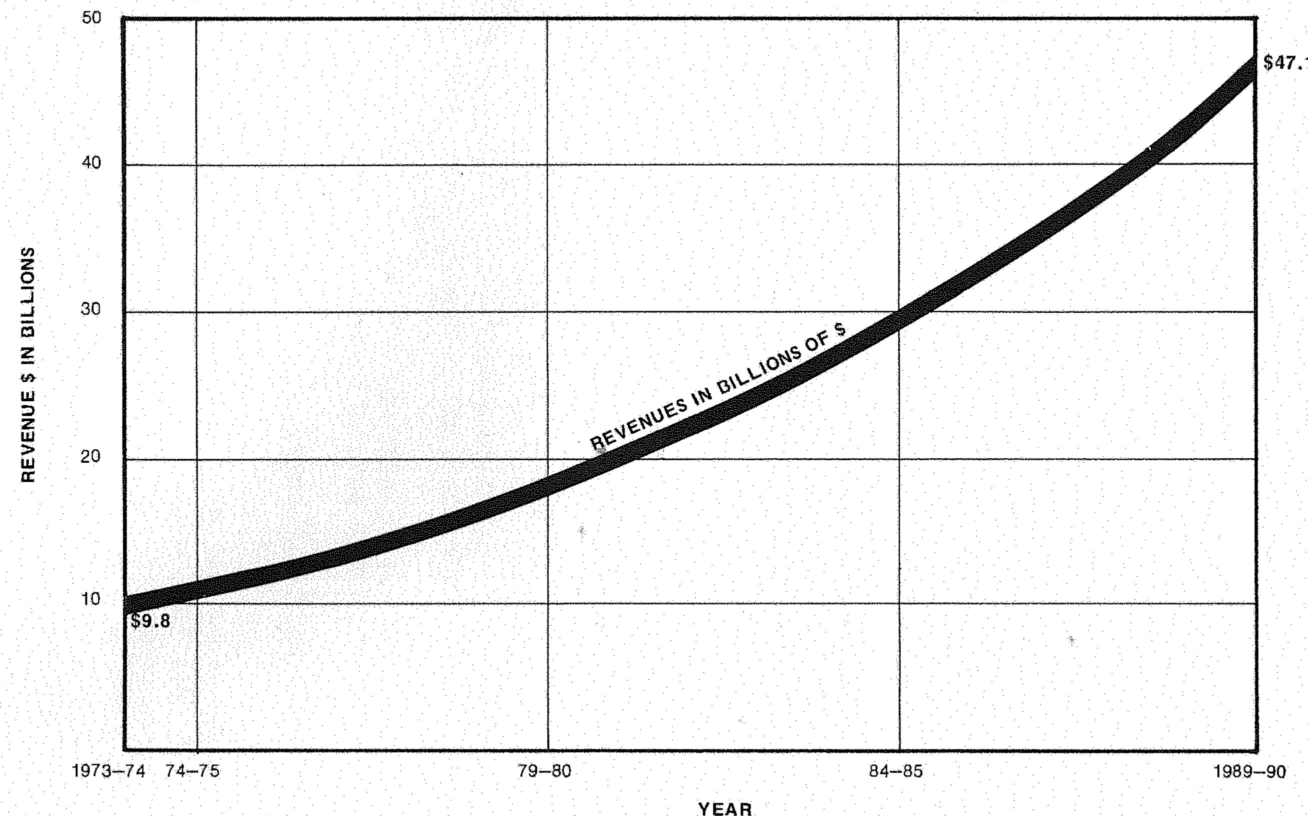

TABLE 4: PROJECTED STATE REVENUE GROWTH WITHOUT LIMITATION 1974–1990

Fiscal Year [1]	*Revenues in Millions of $*	*Revenue Growth in Millions of $*	*Tax Burden as % of Income* [2]
1974	9,759		8.75
75	10,851	1,092	8.97
76	12,007	1,156	9.19
77	13,278	1,271	9.41
78	14,675	1,397	9.63
79	16,211	1,536	9.85
80	17,899	1,688	10.07
81	19,753	1,854	10.29
82	21,790	2,037	10.51
83	24,025	2,235	10.73
84	26,479	2,454	10.95
85	29,172	2,693	11.17
86	32,127	2,955	11.39
87	35,367	3,240	11.61
88	39,920	3,553	11.83
89	42,815	3,895	12.05
90	47,085	4,270	12.27

FIGURE 5

PROJECTED STATE REVENUE GROWTH UNDER TAX CONTROL PROGRAM

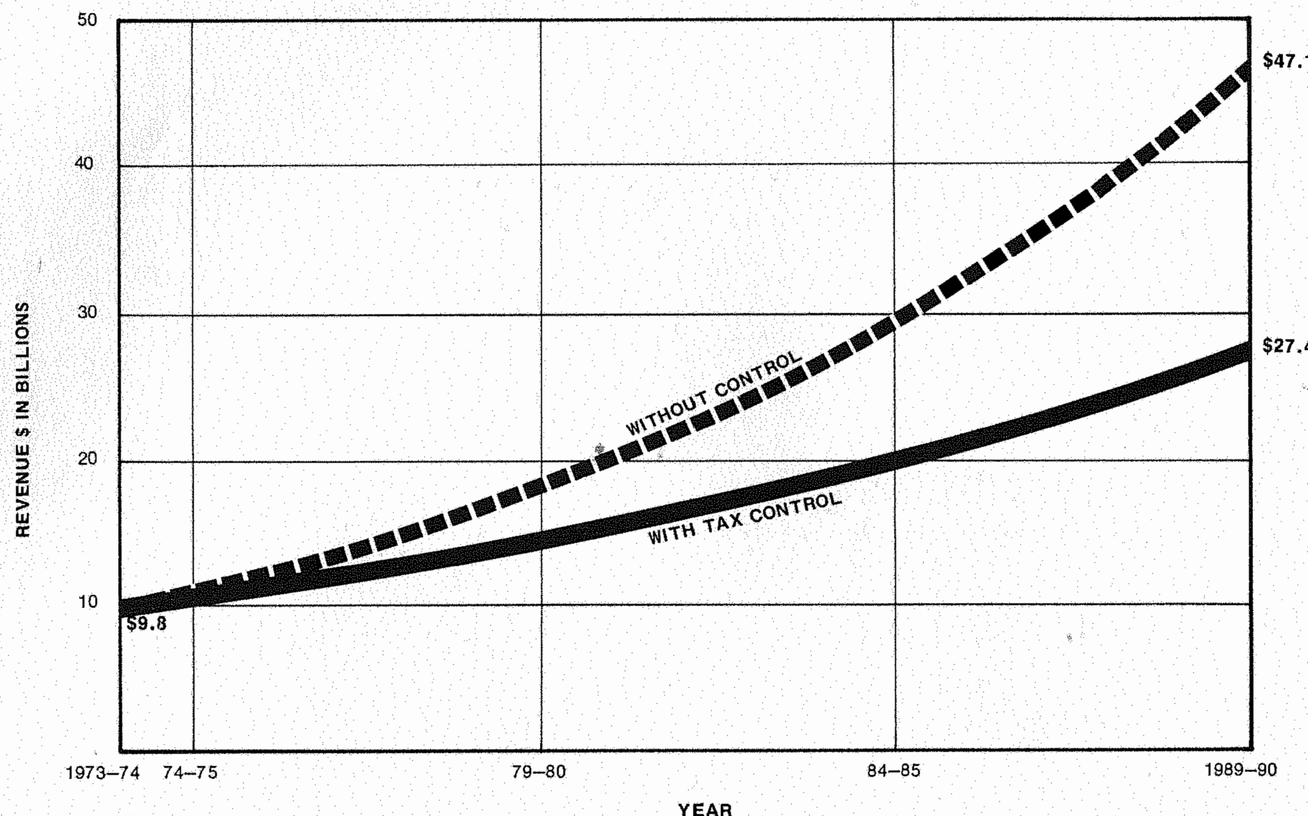

TABLE 5(a): PROJECTED STATE REVENUE GROWTH UNDER TAX CONTROL PROGRAM 1974–1990

Fiscal [1] Year	*Revenues in Millions of $*	*Revenue Growth in Millions of $*	*Tax Burden as [2] % of Income*
1974	9,759		8.75
75	10,464	705	8.65
76	11,170	706	8.55
77	11,923	753	8.45
78	12,724	801	8.35
79	13,577	853	8.25
80	14,486	909	8.15
81	15,453	967	8.05
82	16,481	1,028	7.95
83	17,576	1,095	7.85
84	18,740	1,164	7.75
85	19,978	1,238	7.65
86	21,295	1,317	7.55
87	22,694	1,399	7.45
88	24,180	1,486	7.35
89	25,759	1,579	7.25
90	27,436	1,677	7.15

TABLE 5(b)

INCREASED AVAILABILITY OF DISCRETIONARY MONEY TO PRIVATE CITIZENS UNDER THE TAX CONTROL PROGRAM
($ in millions)

Fiscal [1] Year	*Projections of Revenue Growth Without Control Minus Projections of Revenue Growth Under the Tax Control Program*
1975	387
76	837
77	1,355
78	1,951
79	2,634
80	3,413
81	4,300
82	5,309
83	6,449
84	7,739
85	9,194
86	10,832
87	12,673
88	14,740
89	17,056
90	19,649
Cumulative Dollars Not Taken by Government Under Tax Control Program	**$118.5 Billion**

TABLE 5(c): POTENTIAL PROGRAM GROWTH WITH TAX CONTROL
($ in millions)

Fiscal [2] Year	Total Revenues [3] Under Limit	Program [1] Education	Health Care	Welfare	Transportation	Public Safety
1974	9,759	3,403	1,143	830	879	550
75	10,464	3,651	1,224	889	941	585
76	11,170	3,898	1,307	949	1,005	626
77	11,923	4,161	1,395	1,013	1,073	667
78	12,724	4,440	1,489	1,081	1,145	713
79	13,577	4,738	1,589	1,154	1,222	760
80	14,486	5,055	1,695	1,231	1,304	811
81	15,453	5,393	1,808	1,314	1,391	865
82	16,481	5,751	1,928	1,401	1,483	923
83	17,576	6,134	2,056	1,494	1,582	984
84	18,740	6,540	2,193	1,593	1,687	1,049
85	19,978	6,979	2,337	1,698	1,798	1,119
86	21,295	7,431	2,492	1,810	1,917	1,193
87	22,694	7,920	2,655	1,929	2,042	1,271
88	24,180	8,438	2,829	2,055	2,176	1,354
89	25,759	8,989	3,014	2,190	2,318	1,443
90	27,436	9,575	3,210	2,332	2,469	1,536

FIGURE 6

THE EFFECTS OF TAX CONTROL ON AN AVERAGE CALIFORNIA FAMILY OF FOUR

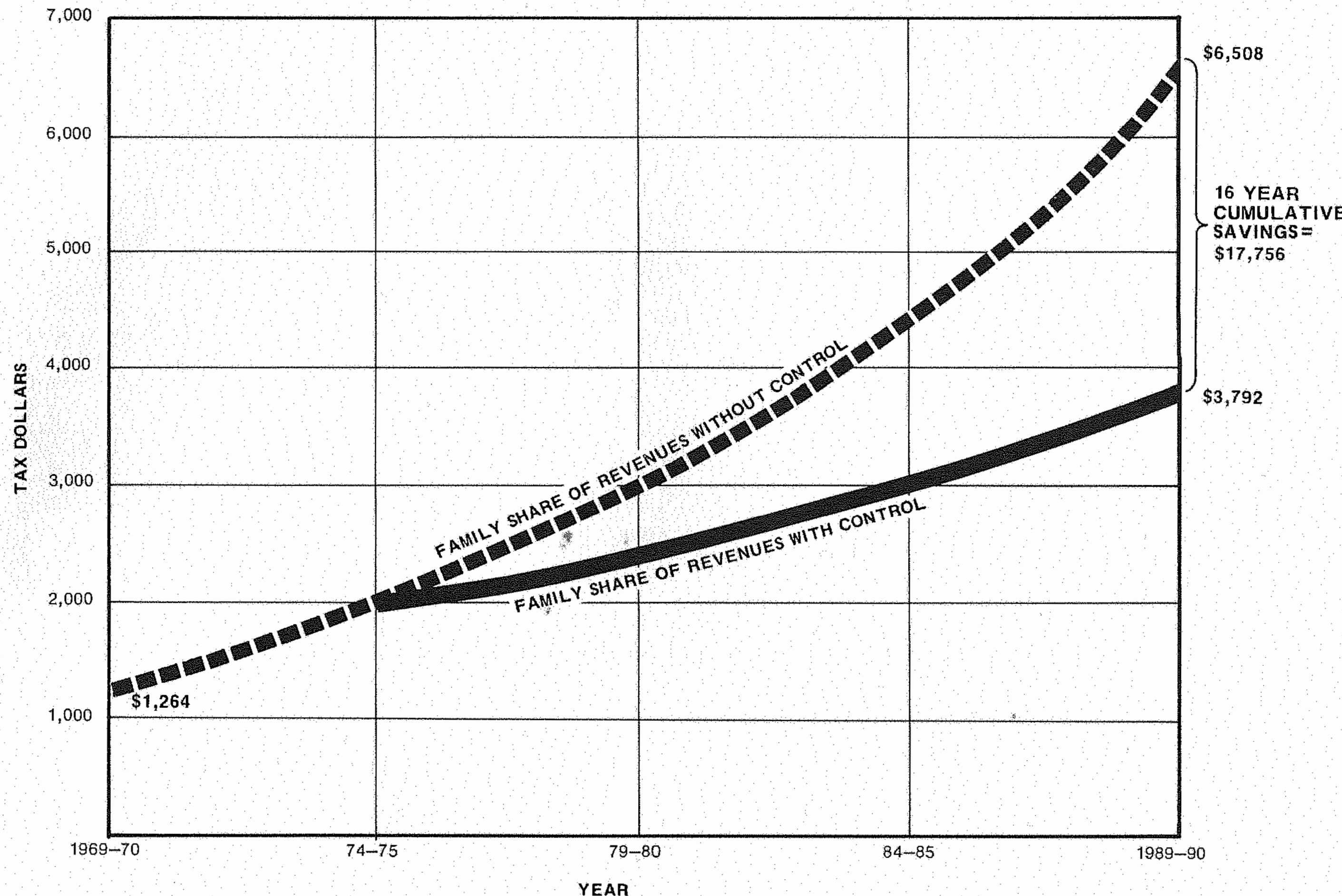

TABLE 6

EFFECTS OF TAX CONTROL PROGRAM ON AN AVERAGE CALIFORNIA FAMILY OF FOUR [1]

Fiscal Year [2]	*State Revenue* [3] *Share Without Control*	*Same State Revenue* [3] *Share Under Tax Control Program*	*Savings*
1970	$1264	$1264	
71	1304	1304	
72	1492	1492	
73	1652	1652	
74	1852	1852	
75	2020	1948	$ 72
76	2188	2036	152
77	2372	2132	240
78	2572	2232	340
79	2784	2332	452
80	3016	2440	576
81	3264	2552	712
82	3528	2668	860
83	3812	2792	1,020
84	4120	2916	1,204
85	4452	3048	1,404
86	4808	3184	1,624
87	5188	3328	1,860
88	5596	3476	2,120
89	6036	3632	2,404
90	6508	3792	2,716
Cumulative savings to family of four			$17,756

FOOTNOTES

FOOTNOTES FOR TABLE 1:

(1) Total revenues excluding all intergovernmental transfers derived as follows:

U.S. Bureau of the Census, U. S. Census of Government, 1957, Vol. IV, No. 3, *Historical Summary of Governmental Finances in the United States* (Local and State Revenues; Federal totals for corporation income taxes, customs and other)

U.S. Bureau of the Census, *Governmental Finances* series, (Local revenues; Federal totals for corporation, income taxes, customs and others)

U.S. Bureau of the Census, *State Governmental Finances* series (state revenues; federal employment and insurance trust revenue in California)

California Statistical Abstract 1970 and 1971 (Federal excise and estate and gift revenues in California)

Corporation Income Taxes, Customs, and Other revenues for California are derived from the Federal totals on the basis of percent of U.S. Total Personal Income attributed to California.

(2) Federal Fiscal Year. 1950 corresponds to State Fiscal Year 1949–50.

FOOTNOTES FOR FIGURE 2 AND TABLE 2:

(1) A previously published calculation of 43.84% for 1969–70 was based on 1969–70 revenues as a percentage of the average of Calendar 1969 and 1970 State personal incomes. All calculations in Figure 2 are based upon the State personal income of the calendar year which starts six months before the applicable fiscal year.

(2) For years 1949 through 1971 actual personal income figures taken from California Statistical Abstract of 1970, updated by California Statistical Abstract of 1971 and the 1973–74 Governor's budget.

(3) For years 1972 through 1974 projected data derived from estimates by the State Department of Finance.

(4) Projected figures based upon an 8% per year growth rate comprised of 3% real economic growth, 3% inflation growth, and 2% population growth. The average personal income growth in California over the past 20 years has been 8.02%.

FOOTNOTES FOR FIGURE 3 AND TABLE 3:

(1) Budget totals from the Governor's budget as submitted to the Legislature January 18, 1973.

(2) These totals include user fees, some of which will be excluded under the proposed constitutional amendment. Examples of excluded user fees are fees for use of State Park camping facilities, fees paid by students enrolled at the University of California and the State University system, hunting and fishing license fees and charges made for State owned parking lots. The total amount represented by these fees remains to be determined.

FOOTNOTES FOR TABLE 4:

(1) Federal Fiscal Year. 1974 corresponds to State Fiscal Year 1973–74.

(2) Projected on the basis of historical growth of revenues as a percent of State personal income from 1961 to 1974—an average increase factor of .22%. Alternative methods of projection for the same time period (1961–1974) yield expected 1990 revenues as a percentage of personal income in a range from 11.85% to 14.15%. Personal income growth calculated at 8% per year.

FOOTNOTES FOR TABLE 5(a):

(1) Federal Fiscal Year. 1974 corresponds to State Fiscal Year 1973–74.

(2) One-tenth of 1% per year reduction in percentage of personal income which the State can take in revenues.

FOOTNOTES FOR TABLE 5(c):

(1) Costs shown are only State costs and do not include Federal or local expenditures for these programs. Table assumes that each program maintains its present share of the State Budget: Education—34.9%, Health Care—11.7%, Welfare—8.5%, Transportation—9.0%, and Public Safety—5.6%.

(2) Federal Fiscal Year. 1974 corresponds to State Fiscal Year 1973–74.
(3) See Table 4 for explanation of projections.

FOOTNOTES FOR TABLE 6:

(1) Four per capita units using 2% per year population growth.

(2) Federal Fiscal Year. 1970 corresponds to State Fiscal Year 1969–70.

(3) Four per capita shares of state revenues based upon Tables 4 and 5 projections. Years 1970 through 1974 are identical since tax control program will not take effect until Fiscal Year 1975.

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