Tax Reform In California

By
Michael R. Peevey
Coordinator of Community Programs
Institute of Industrial Relations
University of California, Berkeley

EDITOR'S NOTE:

The following presentation is printed in the Utility Reporter as an educational service which can, if retained by our readers, provide a resource which will be of some value in making personal determinations on tax policy questions at election time.

Mr. Peevey's views and statements are his own and do not necessarily reflect the views of the editors of this publication. However, his views deserve careful consideration because they are set forth in a professional manner and are the product of competent research.

The Editorial Board of the Utility Reporter offers this detailed discourse on California's tax situation as an example from the largest populated State in the Union which can be reasonably related to situations which apply to other states and to the Federal Government.

Comments from our readers are invited and if received, will be printed in forthcoming issues of the Utility Reporter. We are indebted to Mr. Peevey for his kindness in allowing us to reprint his paper.

Ronald T. Weakley, Executive Editor

CALIFORNIA'S TAX STRUCTURE: THE NEED FOR REFORM

I. Introduction

Business and labor, homeowners and renters, rich and poor, young and old, liberals and conservatives—agree that California's state and local tax system needs major reform. As expected, however, near consensus on the need for reform is not followed by agreement on what changes are needed. Each group, instead, has its own, often contradictory, views of what constitutes tax reform.

Business and the wealthy, when they call for reform, usually seek a reduction in taxes, or a shift in the tax burden from themselves to others. They generally claim that changes in the state's tax laws are necessary to improve what is vaguely called "California's business climate." Yet they are not always consistent.

They were extremely vocal in 1965, for example, when the Governor unsuccessfully proposed an increase in the bank and corporation tax rate from 5½ to 6 percent. Curiously, in 1967 this same tax was successfully raised to 7 percent without significant business opposition. As a generalization, business and the wealthy prefer, if taxes must be increased, that *consumption levies*, such as sales taxes, be raised, rather than taxes on business or the personal income tax.

Most homeowners associate tax reform with reducing residential property taxes. A rebellion of homeowners against ever-increasing property taxes is apparent, as are suggestions by present and prospective office holders on how to cut property taxes.

Yet when a measure to cut property taxes in half, such as Proposition 9 last year, goes before the voters it is roundly defeated. Why? Aside from the fact that Proposition 9 was poorly drafted and was opposed by practically every major organization, most homeowners clearly were not sure they wanted their income and sales taxes increased greatly to offset a property tax cut.

Other easily recognizable groups, chiefly liberals and labor, criticize the tax structure on equity grounds, feeling it is unfair to low and middle income groups while unjustly rewarding the well-to-do. This basic charge, though true, often allows such groups to assume a "holier than thou" attitude

(Continued on Page Four)

utility reporter
AFFILIATED WITH INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS · ORGANIZED NOV. 28, 1891 · AMERICAN FEDERATION OF LABOR
VOL XVII, NO. 8 OAKLAND, CALIFORNIA JANUARY, 1970
Official Publication of I.B.E.W. Local Union 1245, AFL-CIO, P.O. Box 584, Walnut Creek, Ca. 94597

The above photo shows Frank White, right, presenting Local 1245 with a plaque honoring our active support in behalf of the United Bay Crusade. Frank White is the Labor Liaison Representative of the United Bay Area Crusade and he is shown presenting the plaque to President Ron Fields, left, and Ron Weakley, Business Manager. Ron Weakley is also a member of the Board of Directors of the U.B.A.C.

YOUR *Business Manager's* COLUMN

ELECTRIC WAGES—GAS MERGERS

By RONALD T. WEAKLEY

Two of the largest electric utility companies in the United States have recently settled their contract negotiations with I.B.E.W.

At Florida Power and Light, I.B.E.W. System Council U-4 has ratified a fourth offer after a ten-week strike. At issue were wages and other matters, including pension benefits.

The new climbing journeyman rate is $5.00 per hour. The former rate was $4.54 per hour. The effective date of the new rate was December 30th. The contract runs for two years and on November 28, 1970, the key rate will move to $5.37 per hour through an automatic second wage round. There were other gains made and the wage application was in three brackets:

First year: Upper rates 46 cents, middle rates 36 cents, lower rates 28 cents.

Second year: Upper rates 37 cents, middle rates 29 cents, lower rates 22 cents.

The strike was long and bitter with the usual hardships encountered but the erosion of wage levels in Southeast electric utilities has been materially corrected.

At Southern California Edison, I.B.E.W. Local 47 has ratified a 7½% wage increase, applied to all classifications in the I.B.E.W. bargaining unit, effective January 1, 1970.

(Continued on Page Two)

Please send any corrections of name, address or zip code to P.O. Box 584 Walnut Creek, Calif. 94597

(Name)

(Street Address)

(City)

(State and Zip Code)

PLEASE RETURN YOUR MEMBERSHIP SURVEY

The general membership of Local 1245 should have received by mail, a survey to be filled out immediately and returned to our office in Walnut Creek.

This is your chance to tell us how you feel about your contract and what your needs and interests are.

This survey will not replace the Unit recommendations. It will substantiate our position on Unit recommendations and allow us to analyze and weigh information to come up with a comprehensive proposal.

A complete explanation of the survey will be found on the first two pages of the pamphlet. The return has been good so far, but more will be needed to obtain a more realistic measure of the attitude and desires of the membership.

If you have not received your survey, contact your Shop Steward or Business Representative and we will send you one, but please hurry as they must be returned to the office by February 1, 1970.

-EDITORIAL-

ELECTION YEAR PROMISES

Thank God for election years. The race is on and would you look at everyone who is concerned about environmental pollution. Six months ago it was difficult to find a politician who would stick his neck out on this subject and now it is just as difficult to find one who hasn't made pollution his favorite cause.

It must be amusing to people like Senator Petris, Senator Nejedly, Assemblyman Knox and others, who have been fighting the good fight of pollution, to find themselves with so many allies, when in the past they were hard pressed to find votes for their bills.

Let's not knock it, but let us instead take advantage of this new interest in a field which has been overlooked too long. We must not allow these politicians to make "hot air" promises and conveniently forget them once they are elected. We must document their every promise and force them to live up to these promises.

There is one thing we must remember now that we have support for pollution control and that is that each law must be tempered with reason and not emotion. There are certain factions among conservation groups which would wipe out industry for the sake of a single tree and these people must be recognized and ignored. On the other side of the coin, there are certain industries which have polluted our air and water with no thought or concern about the people they are harming. They must also be recognized and stopped.

Pick the candidate of your choice and congratulate him on his interest in environmental pollution. Write to him and let him know that you will be watching his efforts in this area.

The thought of once again drinking clean water and breathing clean air should cause us all to rejoice.

YOUR *Business Manager's* COLUMN

ELECTRIC WAGES—GAS MERGERS

By RONALD T. WEAKLEY

(continued from page one)

A large majority of the voters expressed approval of the offer which resulted from negotiations on a wage opener in the second year of the current Edison contract.

The climbing journeyman rate is now $5.50 per hour. The 1969 rate was $5.115 per hour.

On the gas side, no reports have yet been received regarding recent settlements among the major companies.

One item of interest involves some developments just south of PG&E's gas service territory.

Pacific Lighting Corporation's two gas distribution subsidiaries are in the process of being merged by the holding company.

Southern California Gas Company and Southern Counties Gas Company will soon be one, according to published reports.

The merged distribution facility will, I understand, form the largest single gas distribution company in the United States.

Its relation to our situation will become even more important than in past years, when the two companies split this vast service territory between them.

The Utility Workers Union and the Chemical Workers Union will fight it out to decide which union will remain on the property. This is another example of merger problems which are affecting and will continue to affect many utility employees' wages, conditions and security benefits.

As the 1970 bargaining front warms up, we shall report what's going on in the industry in order to keep our members abreast of other situations as they contemplate their own situations.

We need a heavy return on our Membership Survey in order to better assess the opinions and desires of our people as we prepare for 1970 contract negotiations.

If you haven't returned yours, please do so at once. If you have lost, destroyed, or misplaced yours, please check with your Steward, your Business Representative or my office and you will receive a duplicate form. Deadline for return is February 1, 1970.

the utility reporter

Telephone (415) 933-6060

RONALD T. WEAKLEY	Executive Editor
KENNETH O. LOHRE	Managing Editor
L. L. MITCHELL	Assistant Editor
M. A. WALTERS	Assistant Editor
JOHN J. WILDER	Assistant Editor

Executive Board: Roland W. (Ron) Fields, Herbert E. Dickenson, Albert G. Callahan, Anthony Boker, James M. Lydon, James H. Fountain, C. P. "Red" Henneberry.

Published monthly at 1918 Grove Street, Oakland, California, CA 94612. Official publication of Local Union 1245, International Brotherhood of Electrical Workers, AFL-CIO, P. O. Box 584, Walnut Creek, CA 94597. Second Class postage paid at Oakland, California.

POSTMASTER: Please send Form 3579, Change of Address, to P. O. Box 584, Walnut Creek, Calif. 94597.

Subscription price . . . . . . $1.20 per year Single copies, 10 cents

The following list of U. S. Senators, Congressmen, State Senators, and Assemblymen are being printed in conjunction with the article on tax reform. It is important that you let them know that you are knowledgeable on the subject and that you want something done about it this year. The number to the left of each name designates the District which the man represents.

UNITED STATES SENATORS

George Murphy (*R*)	452 Old Senate Office Bldg., Washington, D.C. 20510
Alan Cranston (*D*)	Senate Office Bldg., Washington, D.C. 20510

REPRESENTATIVES IN CONGRESS

(Representatives may be addressed at their respective office buildings, Washington, D.C. 20515)

1.	Don Clausen (*R*)	1035 Longworth Bldg.
2.	Harold T. Johnson (*D*)	2347 Rayburn Bldg.
3.	John E. Moss, Jr. (*D*)	2185 Rayburn Bldg.
4.	Robert L. Leggett (*D*)	229 Cannon Bldg.
5.	Philip Burton (*D*)	428 Cannon Bldg.
6.	William S. Mailliard (*R*)	2336 Rayburn Bldg.
7.	Jeffrey Cohelan (*D*)	2446 Rayburn Bldg.
8.	George P. Miller (*D*)	2365 Rayburn Bldg.
9.	Don Edwards (*D*)	118 Cannon Bldg.
10.	Charles S. Gubser (*R*)	2373 Rayburn Bldg.
11.	Paul N. McCloskey, Jr. (*R*)	1511 Longworth Bldg.
12.	Burt L. Talcott (*R*)	1524 Longworth Bldg.
13.	Charles M. Teague (*R*)	1414 Longworth Bldg.
14.	Jerome R. Waldie (*D*)	408 Cannon Bldg.
15.	John J. McFall (*D*)	2445 Rayburn Bldg.
16.	B. F. Sisk (*D*)	2242 Rayburn Bldg.
17.	Glenn M. Anderson (*D*)	1132 Longworth Bldg.

STATE SENATORS

(Sacramento address: State Capitol 95814)

1.	Randolph Collier (*D*)	206 4th St., Yreka 96097
2.	Fred W. Marler, Jr. (*R*)	P.O. Box 2297, Redding 96001
3.	Stephen P. Teale (*D*)	5082 State Capitol, Sacramento 95814
4.	John F. McCarthy (*R*)	1299 4th St., Rm. 205, San Rafael 94901
5.	Albert S. Rodda (*D*)	4048 State Capitol, Sacramento 95814
6.	Alan Short (*D*)	2626 N. California St., Stockton 95204
7.	John A. Nejedly (*R*)	1393 Civic Drive, Walnut Creek 94596
8.	Lewis F. Sherman (*R*)	Rm. 1015, 1111 Jackson St., Oakland 94607
9.	Milton Marks (*R*)	State Bldg., 350 McAllister, San Francisco 94102
10.	George R. Moscone (*D*)	343 Sansome, San Francisco 94104
11.	Nicholas C. Petris (*D*)	Suite 7016, 1111 Jackson St., Oakland 94607
12.	Richard J. Dolwig (*R*)	181 Second Ave., Suite 400, San Mateo 94401
13.	Alfred E. Alquist (*D*)	Rm. 245, 777 N. First St., San Jose 95112
14.	Clark L. Bradley (*R*)	509 First National Bank Bldg., First and Santa Clara St., San Jose 95113
15.	Howard Way (*R*)	P.O. Box 724, Exeter 93221
16.	Hugh M. Burns (*D*)	P.O. Box 748, Fresno 93712
17.	Donald L. Grunsky (*R*)	211 Lettunich Building, Watsonville 95076
18.	Walter W. Stiern (*D*)	930 Truxtun Avenue, Bakersfield 93301
38.	Clair W. Burgener (*R*)	8690 Center Dr., Suite 3, La Mesa 92041
39.	Jack Schrade (*R*)	1904 Hotel Circle, San Diego 92110
40.	James R. Mills (*D*)	326 Broadway, U.S. Grant Hotel, San Diego 92101

MEMBERS OF THE ASSEMBLY

(Sacramento address: State Capitol 95814)

1.	Pauline L. Davis (*D*)	P.O. Box 1071, Portola 96122
2.	Frank P. Belotti (*R*)	Box 1025, Eureka 95501
3.	Leroy F. Greene (*D*)	3112 State Capitol, Sacramento 95814
4.	Ray E. Johnson (*R*)	352 Vallombrosa Ave., Chico 95926
5.	John F. Dunlap (*D*)	1520 Tennessee St., Vallejo 94590
6.	Eugene A. Chappie (*R*)	3173 State Capitol, Sacramento 95814
7.	John A. Nejedly (*R*)	1393 Civic Drive, Walnut Creek 94596
8.	Walter W. Powers (*D*)	P.O. Box 15265, Sacramento 95813
9.	Edwin L. Z'berg (*D*)	1501 W. Capitol Ave., W. Sacramento 95691
10.	James W. Dent (*R*)	89 John Glenn Dr., Buchanan Fld., Concord 94520
11.	John T. Knox (*D*)	3803 McDonald Ave., Richmond 94805
12.	Bob Monagan (*R*)	406 Bank of America Bldg., Main and Sutter, Stockton 95202
13.	Carlos Bee (*D*)	22734 Main St., Suite 1, Hayward 94541
14.	Robert W. Crown (*D*)	1111 Jackson St., Rm. 7018, Oakland 94607
15.	March K. Fong (*D*)	2730 73rd Ave., Oakland 94605
16.	Don Mulford (*R*)	Rm. 870, 2150 Franklin St., Oakland 94612
17.	John J. Miller (*D*)	6565 Shattuck Ave., Oakland 94609
18.	Willie L. Brown, Jr. (*D*)	666 Octavia St., San Francisco 94102
19.	Leo T. McCarthy (*D*)	350 McAllister St., San Francisco 94102
20.	John L. Burton (*D*)	350 McAllister St., San Francisco 94102
21.	Gordon W. Duffy (*R*)	208 N. Douty St., Rm. 202, Hanford 93230
22.	George W. Milias (*R*)	343 Village Lane, Los Gatos 95030
23.	John F. Foran (*D*)	350 McAllister St., San Francisco 94102
24.	John Vasconcellos (*D*)	100 W. Rincon Ave. ,Campbell 95008
25.	Earle P. Crandall (*R*)	760 N. First St., San Jose 95112
26.	Carl A. Britschgi (*R*)	2025 Broadway, Redwood City 94063
27.	Leo J. Ryan (*D*)	308 Linden Ave., South San Francisco 94080
28.	Kent H. Stacey (*R*)	P.O. Box 2232, Bakersfield 93303
29.	William M. Ketchum (*R*)	P.O. Box 2345, Bakersfield 93302
30.	Clare L. Berryhill (*R*)	112 Needham Ave., Modesto 95354
31.	Frank Murphy, Jr. (*R*)	P.O. Box 634, Santa Cruz 95060
32.	George N. Zenovich (*D*)	Suite 1310, 1060 Fulton Mall, Fresno 93721
33.	Ernest N. Mobley (*R*)	600 West Shaw, Suite 210, Fresno 93704
34.	Bob Wood (*R*)	32 E. Alisal, Salinas 93901
36.	W. Don MacGillivray (*R*)	Studio 117, El Paseo, Santa Barbara 93101
76.	Pete Wilson (*R*)	233 "A" St., Suite 1009, San Diego 92101
77.	Wadie P. Deddeh (*D*)	240 Woodlawn, Suite 8, Chula Vista 92010
78.	E. Richard Barnes (*R*)	Suite 101, 3320 Kemper, San Diego 92110
79.	Tom Hom (*R*)	Suite 739, 625 Broadway, San Diego 92101

Are Mutual Funds Useful for Retirement Savings?

buyers' bailiwick

By Sidney Margolius
Consumer Expert for
Utility Reporter

A number of families looking ahead to retirement in 10 or 15 years have asked for information about savings and investment programs.

They are concerned about the erosion inflation is making in future buying power, and hope to increase their savings yield to at least compensate for the inexorably rising prices.

This is a sound attitude. But it is noticeable that almost all of the people who recently asked about corporate bonds, mutual funds and investments other than traditional savings accounts and government bonds, have little knowledge of these more sophisticated plans. An innocent small investor can get hurt in what sometimes is a high-pressure business run by people who arrogantly are resisting closer government regulation.

Let's start with some basic information.

"What is your opinion of mutual funds as an investment savings program?" Mrs. C. B. M. asks. "My husband has 12 years until retirement. What rate of return can one expect from mutual funds?"

First of all, savings and investment plans should be divided into two groups:

1. Fixed-value savings, like credit union and bank accounts, annuities, government bonds and mortgage investments, will pay you a fixed return. The value of your investment does not change. These plans offer maximum safety, although no growth potential other than the compounding of interest. Nor, except for E bonds, do they offer much "tax shelter" (opportunity to save on taxes on the earnings).

2. Fluctuating investments, like mutual-fund shares, stocks and even the corporate bonds now yielding as much as 9 per cent, may be higher or lower in market value at the time you want your money back. Such investments are not for your real backlog but may have value in protecting you—although sometimes erratically—from inflation.

It's safest to keep a foot in both camps and not put most of your money into fluctuating investments.

The potential usefulness of mutual funds is not so much their dividends. They often pay only 2-4 per cent dividends. They strive, rather, for growth in value of shares.

One problem with mutual funds for retirement purposes is that many charge a high sales commission or "load," usually of 8-9 per cent of the money you invest.

Thus, if you invest $3,000 you really get only $2,760 worth of shares. Assuming the fund earns 4 per cent, it would take about two years to recover the sales fee without considering possible gain or loss in the value of the shares themselves.

Also, as we have warned before, many mutual-fund sellers want you to sign a contract to invest so much a month for a specified number of years. In most states you may have to pay a heavy penalty if you do not complete the contract; for example, 35-50 per cent of your investment if you drop the plan in the first year.

There are a number of mutual funds that charge no sales fee at all other than a redemption fee of 1 per cent when you cash in the bonds. They have no salesmen but offer their prospectuses in newspaper financial pages and financial magazines.

Examples of these so-called "no load" funds include those sponsored by:

American Enterprise Fund, New York; American Investors Fund, Greenwich, Conn.; Beacon Hill Mutual Fund, Boston; deVegh Mutual Fund, New York; Drexel Equity Fund, Philadelphia; Energy Fund, New York; Guardian Mutual Fund, New York; General Securities, Inc., Minneapolis; Hubshman Fund, New York; Ivy Fund, Boston; Johnson Mutual Fund, New York; Loomis-Sayles Funds, Boston; Mates Fund, New York; Mathers Fund, Chicago; One William Street Fund, New York; Penn Square Mutual Fund, Reading, Penn.; Pennsylvania Mutual Fund, New York; Pine Street Fund, New York; T. Rowe Price Funds, Baltimore, Md.; Rittenhouse Fund, Philadelphia; Scudder, Stevens & Clark, Boston; Securities Fund, Philadelphia; Stein, Roe & Farnham, Chicago.

This list should not be considered a recommendation but only as examples. Nor should your only consideration be the sales fee. Some fee-charging funds have better performance records than some of the "no loads." But you usually will find several of the no loads among the most successful mutual funds listed in annual compilations in **Nuveen's Investment Companies** Book, United Business Service reports, and such investment magazines as **Fundscope, Forbes and Financial World.** The publications are usually available in public libraries.

"Performance" is the main way to select a mutual fund. How well a fund has performed in the past is no assurance of future success, but it is a sign of effective management. Read the prospectuses of various mutual funds. These, by law, state their past record of gains and earnings. Compare these records, both for a short recent period as the last year or two, and longer periods as the last five or ten years.

Another no-load, no-redemption fee mutual fund is the Fund for Mutual Depositors sponsored by savings banks. Shares are sold only to depositors in "Certifying Savings Banks" in some states (so far, Del., Maine, Mass., Alaska, Conn., Minn., N.H., N.J., N.Y., Pa., R.I.).

A depositor at a certifying bank must get a certification of his depositor status from the bank. Depositors can get more information from their savings banks or from P. James Riordan, Fund for Mutual Depositors, 200 Park Ave., New York, N.Y. 10017.

One of the most comprehensive and sincere investment books available is the 95-cent paperback 350 New Ways to Make Your Money Grow, by Faye Henle, the well-known financial analyst and radio commentator. This book has easy-to-understand information on all kinds of savings plans.

GOVERNMENT PROGRAMS BOOST FOOD PRICES, ESPECIALLY MILK

By Sidney Margolius
Consumer Expert for Utility Reporter

Your food could cost a little less if the government stopped supporting farm prices by buying up so-called "surplus" commodities to help the farmers.

The commodity-purchase and other government price support programs especially hurt moderate income families now that the price of milk has taken another jump this winter. Milk now costs 30-35 cents a quart in most areas. A family with two children that hopes to use the nutritionally-recommended 21 quarts a week finds its milk bill alone is in the neighborhood of $7 a week.

It's impossible, of course, to pay this much out of a total food budget of $38 a week that a family of this size might spend for a moderate-cost food plan. (In fact, $38 a week for food itself is impossible for the average industrial worker currently earning $117 a week.)

Some farmers do need financial assistance, all right. But the government spends three billion dollars a year on buying commodities and the public then pays additional untold billions in the form of higher prices, Meyer Parodneck, President of the Consumer-Farmer Milk Cooperative, points out.

Some part of those billions is your money, too. You pay in the form of taxes to take the commodities off the market, and then in higher prices for the price-supported foods.

Instead of buying up commodities to keep up prices, direct subsidies would cost the government only about half as much, Parodneck, a long-time co-op milk distributor, points out. The government would save the extra costs imposed on "surplus" commodities by brokers, warehouses, processors and others in the daisy chain of food distribution. Much of the money the government spends to supposedly help the farmers goes to these people.

You would save too as retail prices found their own level. One of the most scandalous programs involves the price support of butter. This costly program "not only encourages the production of a product consumers do not want but makes those who do want it pay double its value," Parodneck charges.

The government's support of the price of butter is one of the reasons why the price of milk is high. "But when the consumer seeks to escape this trap by buying 'filled milk' (milk from which the butterfat has been extracted and vegetable fat substituted) the Agriculture Department then classifies this product as Class I milk carrying the same price as fluid milk," Parodneck points out.

Some of the butter bought up and stored to keep up the price of milk even then is wasted. In fact, some "surplus" butter which turned rancid in past years has been sold for use as axle grease, Parodneck reports.

Another way that the price of milk you buy is forced up is through the double-price system used in the milk marketing orders. These orders regulate the price the farmer receives. Milk sold for use as drinking milk, called Class I milk, is sold at a higher price than Class II milk sold for manufacturing into dairy products such as cheese and ice cream.

The theory behind this double-price system is that the milk for manufacturing purposes is "surplus" or leftover milk. For example, farmers

(Continued on Page Seven)

TAX REFORM IN CALIFORNIA — FACTS,

(Continued from Page One)

thereby avoiding being involved in the complicated legislative bargaining that ultimately may produce reform. Also, they may overlook the legitimate demand of other groups that the tax system not mis-allocate resources or impede economic growth.

Thus, while all major groups are united in their belief tax reform is needed, the shape such reform must take is a matter of widespread disagreement. Before exploring possible reforms and their consequences, however, a brief review of California's state and local tax structure is desirable.

II. California's Tax Structure

Last year over $27 billion in taxes were collected in California by all levels of government. The federal government collected about 62 percent of the total; local government 18 percent; and state government 20 percent. While the state government used a variety of taxes to raise revenue, almost 90 percent of the revenue raised by California's 58 counties, 402 cities, 1,484 school districts, and 3,990 special districts came from the property tax.

As Table 1 indicates, the state level California, to varying degrees, uses practically every major type of tax, with the exception of a tax on oil severance.*

Table 1. Estimated State Tax Collections, 1969-70
(in millions)

Type of Tax	Amount	Percent of Total
Sales	$1,730.0	30.4
Personal Income	1,223.0	21.5
Highway User	920.2	16.2
Bank and Corporation	539.0	9.5
Cigarette	242.0	4.3
Motor Vehicle License Fees	227.8	4.0
Inheritance and Gift	171.0	3.0
Insurance	137.0	2.4
Beverage Taxes and Fees	124.0	2.2
Horse Racing Fees	63.0	1.1
Other	306.4	5.4
Total	$5,683.4	100.0

Source: California Legislature, 1969 Regular Session, **Analysis of the Budget Bill of the State of California**, for the Fiscal Year July 1, 1969 to June 30, 1970.

*California, unlike some other states, does not levy a severance tax on natural resources such as oil and timber. They are instead liable to local government property taxes.

State tax revenues are broken down into two broad categories—the General Fund and the Special Fund. Of anticipated total revenues of nearly $5.7 billion in 1969-70, 76 percent will go to the General Fund. The remainder goes to the Special Fund.

Revenues raised by the sales tax, the personal income tax, the bank and corporation tax, inheritance and gift taxes, the insurance tax, and portions of the taxes on alcoholic beverages, cigarettes and horseracing go to the General Fund. Interestingly, about two-thirds of General Fund revenues of $4.1 billion finance such local government activities as education, welfare, and property tax relief.

Most of the Special Fund revenues come from motor vehicle-related taxes on gasoline, vehicle registration, and **in lieu** license fees. Special Fund taxes unlike those going into the General Fund, can be used only for specific targeted purposes, such as highway construction. In the case of the fuel tax, for example, the funds cannot be used to finance mass transit systems in urban areas. Needless to say, such retricted use of funds has come under sharp attack in recent years. It appears likely that eventually such taxes will be used to finance balanced transportation programs.

Over the past 36 years the sales tax has been the major source of state government revenue. In contrast, until 1967, the personal income tax was not considered a major tax source.

At the local government level primary reliance is placed on property taxes. In the 1966-67 fiscal year, for example, local government revenues were nearly $4.5 billion; over 88 percent came from property taxes.

Slightly more than one-half of property tax revenues goes to support elementary and secondary schools and community colleges. About 30 percent of the funds go to county government and 12 percent to the cities. The balance of property tax revenues, 6 percent, supports California's many special districts.

A major misunderstanding about the property tax is the belief that the single family owner-occupied home pays most of the tax. This is untrue. Owner-occupied single family residences represent slightly less than 30 percent of the property tax base. In fact, commercial and industrial property represent a bigger portion of the property tax base than does the owner-occupied single home, as Table 2 indicates.

Table 2. Distribution of Assessed Valuation by Type of Property, 1966

Type of Property	Percent
Single-family residences	
Owner-occupied	28.3
Rented	9.5
Multi-family residences	9.9
Total Residential	47.7
Non-Residential	
Farms	8.1
Vacant Lots	2.9
Commercial and industrial	30.4
Railroads and public utilities	10.9
Total Property Tax Roll	100.00

Source: See Table 1.

Against the above background, California's tax system can be gauged by comparing it with other states. Particularly appropriate is a comparison with New York, for it is most like California in terms of taxes raised, population, and the level of personal income. As Table 3 shows, comparing the General Fund revenues of each state, it becomes clear New York places much greater reliance on the income tax (47.8 percent compared to 27.1 in California) while California relies on the sales tax to a greater extent (40.8 percent compared to 15.9 percent in New York). The table also indicates that at the local level New York relies to a significantly lesser degree on the property tax than California. As the following section will indicate, clearly New York's tax system is more progressive, or "fairer," than California's.

Table 3. California and New York: A Comparison of State and Local Taxes, 1968-69
(in millions)

Type of State Tax*	California Amount	California Percent	New York Amount	New York Percent
Personal Income	$1,075	27.1	$2,100	47.8
Sales	1,620	40.8	700	15.9
Excise (cigarettes, alcohol, etc.)	347	8.7	556	12.6
Business	772	19.4	857	19.5
Other	157	4.0	184	4.2
Total State Taxes	$3,971	100.0	$4,397	100.0
Type of Local Tax				
Property	$3,936	88.4	$3,283	75.7
Non-Property	519	11.6	1,056	24.3
Total Local Taxes	$4,455	100.0	$4,339	100.0
Total State & Local Taxes	$8,426		$8,736	

*Highway Taxes not included

Source: See Table 1

III. Measuring California's Tax System

While nearly everyone agrees that any tax system, whether it be federal or state-local, should be "fair," there is little agreement among individuals and groups about the definition of "fair." When organized labor calls for creation of a "fair" tax system, for example, it means a system that places heavy reliance on the progressive income tax. Often, when businessmen talk of a "fair" tax system they mean one that favors investment, treats capital gains preferentially, and so forth.

Nonetheless, there does exist general agreement on the various concepts commonly used to measure the fairness and desirability of tax structures. One of these concepts is labeled "equity," the other "elasticity."

The equity concept is divided into two components. They are:

(1) **Horizontal Equity.** Under the principle, persons with the same level of income should pay the same amount of taxes.

(2) **Vertical Equity.** This principle concerns itself with whether a tax system is "fair" by measuring whether the overall impact is progressive, proportional, or regressive.

Most tax experts agree that all tax systems should provide horizontal equity by treating alike taxpayers earning or receiving annually the same amount of income, regardless of source. In practice, unfortunately, neither the federal tax system nor California's provide horizontal equity.

Moreover, it is difficult to create a perfectly horizontal tax structure. In the first place, people with the same income spend their money in varying ways. A young family with two children will spend a much larger portion of its income on items subject to sales tax, for example, than will an elderly couple with the same income. Secondly, as a society we have decided to tax some goods, services, and amusements at higher rates than others, thereby intentionally treating some taxpayers differently than others. The taxes on cigarettes, alcohol, and horseracing are examples of this form of tax treatment.

Beyond the above, however, there are other fundamental questions regarding horizontal equity. Much of the current debate on tax reform rages around such issues as the following:

(1) Why should capital gains income be taxed at lower rates than wage and salary income?

(2) Should wealthy persons now receiving tax-free income pay at least a minimum tax in the future?

(3) Does the depletion allowance on oil and other natural resources give the particular industries and individuals an unfair advantage over others?

(4) Should the sales tax apply to certain, presently exempt services, such as newspapers, containers, amusements, haircuts, etc.

In each of the above areas there is clearly room for improvement in California and each forward step would help to make our tax structure fairer.

When speaking of "vertical equity" the concepts of progressivity, proportionality, and regressivity come to mind. Under a **progressive** tax system, the proportion of a person's income going to taxes increases as his income increases. The California personal income tax personifies this concept. Under it, the tax brackets run from 1 to 10 percent of income, reflecting the view that as a person's income rises so does his "ability to pay." The basic philosophy underlying the **progressive**, or "ability to pay" concept therefore, is that as a person's income rises the tax rate on each increment of additional income should be higher.

A **proportional** tax, or tax system, extracts the same percentage of one's income, regardless of income level. Under such a system, for example, assuming a tax rate of 5 percent, a family with an annual income of

$10,000 would pay $500 in taxes (or 5 percent of their income) and a family with an annual income of $100,000 would pay $5,000 in taxes (again, 5 percent of their income). Although such a system may seem appealing at first glance, most tax specialists do not view it as desirable, choosing instead to support the "ability-to-pay" principle.

A **regressive** tax, or tax system, takes a higher proportion of the income of a poor person than it takes of a wealthy person. Using the above figures a regressive tax system would, for instance, take 10 percent of the income of the family earning $10,000 and 5 percent of the family earning $100,000. Such a system penalizes those with low incomes and says in effect:

> You must pay more proportionately in taxes than persons with higher incomes because you earn less.

When the above concepts are used to judge California's major taxes the following conclusions emerge:

(1) The sales tax is regressive because low income groups, by necessity, spend more of their incomes on necessities. The exemption of foods and drugs, however, makes the sales tax only moderately regressive.

(2) The income tax, because its rates run from 1 to 10 percent, is highly progressive. The treatment of certain items such as capital gains, however, makes it less progressive than possible.

(3) The bank and corporation tax is progressive; the cigarette tax is regressive. Motor vehicle taxes, on the other hand, appear to be roughly proportional.

(4) Residential property taxes are clearly regressive, taking, as Table 5 indicates, over 4.3 percent of the annual incomes of persons earning $4,000 or less compared to only 2.2 percent of the income of persons earning between $50,000 and $100,000. Interestingly, before passage of Proposition 1A in 1968 residential property taxes were much more regressive. Proposition 1A, however, by granting a $750 property tax exemption to homeowners, reduced the amount of regressivity through aiding low and moderate-income homeowners.

Table 5. Percent of Adjusted Gross Income Paid in Property Taxes by Owner-Occupied Single Residences, by Income Class, 1969

Income Class	Percent
Under $2,000	7.2
2,000-3,000	5.1
3,000-4,000	4.3
4,000-5,000	3.5
5,000-6,000	3.1
6,000-7,000	3.0
7,000-8,000	2.8
8,000-9,000	2.9
9,000-10,000	2.8
10,000-11,000	2.8
11,000-12,000	2.7
12,000-13,000	2.9
13,000-14,000	2.7
14,000-15,000	2.7
15,000-20,000	2.7
20,000-25,000	2.9
25,000-50,000	2.7
50,000-100,000	2.2

Source: **Franchise Tax Board,** State of California

When all state and local taxes are combined, it becomes clear that California's tax structure is regressive. As Table 6 indicates, this is true because while all state-levied taxes combined produce a roughly proportional effect, locally levied taxes, primarily those on property, are sharply regressive.

Table 6. Effective Tax Rates Based on Family Income After Federal Income Taxes

Income Class	Total State	Total Local	Total State and Local
Under $2,000	4.85	13.91	18.76
2,000-2,999	4.29	11.70	15.79
3,000-3,999	5.29	10.13	15.42
4,000-4,999	4.60	8.67	13.27
5,000-5,999	4.43	7.73	12.16
6,000-7,499	4.59	7.74	12.33
7,500-7,999	4.66	7.06	11.72
10,000-14,999	4.93	6.21	11.14
15,000 and over	5.73	7.11	12.84

Source: Background paper prepared for the Advisory Commission on Tax Reform, Houston I. Flournoy, State Controller, Chairman, 1969.

To change California's overall tax structure from regressive to progressive obviously is a major undertaking. Such tax reform takes time; yet there are numerous areas in which immediate improvements can be made. They will be discussed in the section of this paper dealing with possible major tax reforms.

Before discussing various possible reform measures, however, the concept of elasticity should be briefly discussed. Elasticity can be defined as the average growth rate of a tax, or tax structure, compared to the average change in the total personal income of Californians. A truly "fair" tax system must not only be progressive, it should also raise needed revenues easily, without recurrent tax increases and subsequent budgetary problems. Fortunately, a tax structure with a high degree of elasticity and a progressive tax structure are generally one and the same.

Reflecting the fact that the California tax structure presently is not progressive, every few years the state suffers another "tax crisis." At such times, of course, the advocates of budget-cutting are vocal and effective and the general public, often confused and angry, votes down state and local bond issues with regularity. Yet this need not be the case.

Typically, state General Fund expenditures grow faster than revenues; in recent years the former increased at an annual rate of 10 to 11 percent, while the latter grew about 7 percent. This difference between outgo and income periodically created a revenue gap which had to be closed by an increase in tax rates. The major tax increases in 1967 and 1969 were solely to close such gaps.

Over the past 12 years the average annual increase in the personal incomes of Californians has been 7.2 percent. Now, because of the increased role of the personal income tax following in 1967, General Fund revenues are increasing at an annual rate of 7.6 percent. Thus, the General Fund has a growth rate slightly above the growth in personal incomes. This is expressed as an elasticity relationship of 1.05 (i.e., the growth in taxes is 1.05 percent of personal income growth).

Table 7 indicates the wide differences in the growth rates of certain types of taxes. At one end of the scale is the personal income tax with an elasticity factor of 1.55; at the other end of the scale is the cigarette tax at .40.

Table 7. Elasticity of General Fund Tax Revenues

Tax	Elasticity Factor	Average Annual Increase in Revenue
Personal Income	1.55	11.2
Inheritance and Gift	1.50	10.9
Insurance	1.25	9.0
Retail Sales	.85	6.2
Bank and Corporation	.85	6.2
Alcoholic Beverage	.80	5.8
Private Car	.75	5.4
Horseracing	.60	4.3
Cigarettes	.40	2.9
	1.05	7.6%

Source: See Table 1

An important conclusion to be drawn from Table 7 is, to avoid periodic tax increases, California should make the personal income tax the dominant source of tax revenue for the General Fund. This could be done, of course, by increasing its role to approximately that of the personal income tax in New York. There nearly one-half of state tax revenues come from this progressive, highly elastic tax. Likewise, Table 7 makes clear that placing reliance on such inelastic taxes as those on retail sales, cigarettes, and alcohol means that periodically revenue falls short of expenditure needs, thereby causing such taxes to be continuously raised. The political, social, and economic consequences of repeatedly having to raise taxes are not difficult to fathom.

IV. Possible Tax Reforms

Today's challenge is to devise and enact a meaningful tax reform program that would sharply reduce the role of regressive levies while greatly increasing reliance on progressive, "ability-to-pay" tax sources, principally the personal income tax. Without such a development it is questionable whether school districts will be able to provide a truly good education for all students; cities provide cleaner air and water, mass transportation, urban renewal and safe streets; and counties provide adequate social services.

Fortunately, there are numerous ways California's state and local tax structure can be reformed. Although the specific details of any reform package will differ, most of the following potential reforms should be included in any basic overhaul of the state's tax structure:

(1) **Personal Income Tax.** As indicated earlier, this tax, with graduated rates, meets the "ability-to-pay" criteria and is highly elastic. Accordingly, if its role as a revenue-raiser were increased to the point where at least one-half of all state General Fund revenue came from it, two objectives of tax reform—making the tax structure more progressive and elastic—would be achieved.

From the standpoint of tax fairness, the personal income tax has unique advantages. First, it is the most effective way of exempting the poor from some of the state and local tax burden. In this regard through the use of credits or rebates, it can be used to return to low income groups some of the consumption taxes they have paid.

Secondly, the personal income tax permits a good share of the tax burden to be adjusted, through the use of exemptions, to family size. Neither sales nor property taxes make allowance for family size.

In the fiscal year 1969-70, the personal income tax will raise over $1.2 billion in revenues. Its role in the state tax structure could be greatly increased through adoption of a 50 percent surtax, by increasing the individual graduated rates, or by reducing the size of the brackets (which are now $3,000 for a married couple; $1,500 for an individual).

A 50 percent surtax would raise **$600 million** in additional state revenues; these funds could then be used to reduce the role of regressive taxes in the overall state-local tax structure. Yet, for a family of four earning $10,000 a year, this would mean an increase of only $32 (about equal to what the same family would pay if the sales tax were raised from 5 to 6 percent). For a family with annual earnings of $7,500 it would mean a $2

(Continued on Page Six)

Proposed Tax Reforms For California

(Continued from Page Five)

increase. For persons earning above $20,000 the increase, of course, would be considerably more.

Even if a major increase in rates for all income classes now paying the tax is not adopted, however, other changes in the personal income tax are desirable. Three, in particular, stand out.

First, a pay-as-you-go, or withholding system, should be adopted. A withholding system patterned after the federal system would have the following benefits:

(a) It would improve taxpayer equity by reducing tax evasion by those who should pay but do not, often by leaving the state prior to the filing period.

(b) It would provide a more convenient means of tax payment because tax payments would be deducted from pay checks throughout the year, thereby avoiding one lump-sum payment each April.

(c) It would closely match state income tax collections with personal income growth, thereby increasing elasticity. At present, because of the absence of withholding, the lag between growth and collection is as high as 16 months.

(d) It would improve the state's "cash flow" position (balancing tax collections with expenditures throughout the year) by providing for an even flow of tax revenues year-around.

In terms of income, a withholding system would produce about a **$135 million** recurrent increase in tax revenues, largely because of improved compliance and greater elasticity. Yet no taxpayers (except those practicing "tax evasion") would pay more state income tax; they only would pay it somewhat sooner.

Second, like the federal government, California treats capital gains preferentially by taxing only one-half of such income. This is the well-known capital gains "loophole." Although this obvious tax break has received considerable attention nationally, little light has been shed on it in California. Yet, even the spurious claim made at the federal level that capital gains should be accorded preferential treatment in order to spur investment cannot be made at the state level (because investment decisions are not made on the basis of California personal income tax provisions, but, if made at all, on the basis of federal tax law).

Removing the capital gains "loophole" from California law would mean an increase in state tax revenues of about **$160 million** in 1970. For the average wage and salary earner this would not mean any tax increase; for persons receiving a good portion of their income from capital gains it would mean, of course, that they would be taxed at the same rate as wage and salary workers.

A third possibility is to increase the top bracket of the personal income tax from 10 percent to 15 percent. The latter rate applied in California until World War II. Raising the top bracket to 15 percent would mean a tax increase for families with taxable incomes above $31,000 a year. Obviously, this relatively select group can afford to pay more in taxes.

Increasing the top bracket from 10 to 15 percent would increase state income tax revenues by about **$130 million.**

All told, adoption of withholding, closing the capital gains "loophole," and setting the top rate at 15 percent would increase state general fund fund revenues by about **$425 million.** These funds could be used to directly reduce regressive taxes, or to provide additional support for local government, or some combination of both.

(2) **Property Taxes.** Property taxes are the backbone of local government finance. The residential property tax is highly regressive. It is also unpopular because most home owners pay their property taxes only twice a year and hence make large lump-sum payments, and because the tax increases annually. There is now widespread agreement that the role of the property tax on residential property should be reduced.

One possibility is to divide the property tax base in two classes—residential and non-residential. The state then could levy a uniform statewide tax on business property. Since over one-half of all property tax revenues goes for school support, the proceeds from the state-levied tax on business property could be used to support increased educational programs, particularly in low wealth, high property tax districts. Under this concept, the state would, in effect, guarantee a certain level of support for education in each school district. Combined with other possible state programs of increased school financial aid, this would remove much of the upward tax pressure on residential property.

Other important advantages of dividing the property tax base into two classes, with the state levying a tax on business property, include:

(a) Eliminating the wide variations in business property wealth that now exists between various school districts.

(b) Removing the incentive for businesses to locate in one area of the state rather than another because the state-levied tax would be at a uniform rate.

Another means of reducing the role of the property tax is to shift the financing of specific local government functions to the state level. California's 58 counties this year will spend about $280 million as their share of the cost of social welfare. Social welfare costs are not the same in all counties, however, as Table 8 indicates.

Table 8. Estimated County Property Tax Rates to Support Social Welfare Costs

County	Tax Rate
Alameda	$0.51
Fresno	.73
Los Angeles	.52
Marin	.29
Orange	.13
Sacramento	.68
San Francisco	.78
San Mateo	.21
Ventura	.19

Source: See Table 1.

If the state absorbed the social welfare costs of county governments, the greatest relief would go to those counties currently bearing the heaviest tax rate burden.

As an alternative, the state could assume the costs of California's community college system. Local governments now spend about $250 million a year to support their community colleges. If the state were to absorb these costs, tax relief could be provided property taxpayers.

A major drawback in the case of the state absorbing the costs of various present local government programs, however, is that the ensuing tax relief would go to all property taxpayers. Yet single-family owner-occupied residences represent only 28 percent of the total property tax base and even when all forms of residential property is included, the percentage rises to only 48 percent.

For this reason it would be preferable to increase the present $750 homeowner's exemption to $1,500 or more. This way the tax relief would be targeted solely for those most in need—homeowners.

In addition, since at least 15 percent of the average rent check goes to pay the property tax of apartment house owners, renters could be aided by a state program of reimbursing low income renters for this portion of their rent payment. This could be combined with an increase in the personal income tax's standard deduction to $2,500 or more for a married couple.

(3) **Increase Taxes on Extractive Industries.** The special provisions of federal law dealing with the taxation of the oil industry and other extractive industries have come under sharp attack in recent years. The feeling among most tax specialists is that the "oil depletion" allowance and similar tax advantages in other extractive industries (such as iron ore, gold, copper, gravel, sand, and clay) are grossly unfair.

In the case of oil, for example, the depletion allowance permits an oil well owner to deduct annually from his taxable income 27½ percent of the gross value of the oil from the well, up to one-half the well's net income. This allowance is computed without consideration of the amount of investment in the well.

The well owner thus can recoup for more than the original investment in the well.

California tax law also operates in this manner. Closing this "loophole" in California by limiting tax recovery to actual cost, rather than allowing depletion to be taken forever, would increase state revenues by **$23 millions.*** It would also remove the competitive advantage owners of natural resources now enjoy over other types of business.

*At the 1969 legislative session AB834 by Assemblymen Burton, Sieroty, Dunlap, Brown, Murphy, Vasconcellos, Waxman, and Z'berg, and co-authored by Senator Petris, would have accomplished this objective.

(4) **Broader Use of "Special Tax" Revenues.** Presently revenues from the tax on motor fuels are "earmarked" for highway construction. The funds cannot be used for any other purpose. Since Special Fund revenues exceed $1.3 billion annually, there are strong advocates both for retaining "earmarking" and for using such funds for more general purposes. In recent years, however, the movement to use such funds for broader purposes, chiefly mass transportation in urban areas, has grown considerably.

Two major criticisms of "earmarking" are that it infringes on the policy-making power of the administration because it removes a portion of government activities from periodic review and control and that it leads to misallocation of funds. Clearly, there is much to be said for using a portion of special fund revenues for high priority state purposes. In the case of mass transit, for example, the use of gas tax funds for the partial financing of a system would help to reduce further upward pressure on property taxes.

(5) **Changing the Sales Tax Allocation Formula.** This year California cities will receive as their share of retail sales, cigarette, and motor vehicle in lieu taxes about $500 million; this is nearly 90 percent of the amount they will raise in property taxes. Widespread variations in local property tax wealth and expenditure needs, however, mean that often those cities most in need do not receive an adequate share of this revenue.

Clearly, the residents of some cities pay much more in property taxes, for example, because of higher welfare or police protection costs, than the residents of other cities. Yet the state, in the case of the sales tax returns revenues on a "point of sale" basis. This method of distribution of sales tax revenue favors those cities with large industrial sales tax bases and few people or problems.

Oakland and San Jose, for instance, are nearly the same size in population and differ but slightly in total assessed valuation, but the cost of govern-

(Continued on Page Seven)

POSSIBLE CHANGES IN CALIFORNIA'S TAX STRUCTURE

ment varies greatly. Oakland's police department costs twice that of San Jose's and its fire department 60 percent more. Reflecting these costs, Oakland's city tax rate was $3.16 compared to only $1.70 in San Jose. Yet the two cities received almost identical shares of state-collected motor vehicle in-lieu fees and although Oakland received a larger share of state-collected local sales taxes, these funds did not compensate for its much higher police and fire protection costs.

The above data indicate that a basic problem facing California's urban areas is high expenditure requirements but little flexibility in raising the revenue to finance these needs. The result: high proprty taxes.

To change this the state should adopt a different means of aiding municipalities; one that would distribute aid on the basis of need. To achieve this, the one percent locally-imposed, state-collected sales tax should be replaced by state collection and distribution of the tax on the basis of need.

6. **Other Reforms.** Two of the most glaring inequities in California relate to the bank and corporation tax and the tax on insurance companies. Unlike most taxes, the state constitution requires the bank and corporation tax can only be raised by a two-thirds vote of the legislature. In the words of the Advisory Commission on Tax Reform, headed by State Controller Houston I. Flournoy:

> "There is no justification for placing the Bank and Corporation tax in a preferential position. The legislature should be able to change this tax equally with other taxes."

Insurance companies are particularly favored in California. The Insurance Tax is 2.35 percent of taxable gross premiums. The tax cannot be changed except by a two-thirds vote of both houses of the legislature and a vote of the people. Again, in the words of the Flournoy Commission:

> "There is no unique basis for so favoring a particular industry or tax. The Constitutional provisions governing the insurance tax should be repealed and re-enacted as statutory provisions."

Also, insurance companies benefit from what is called the "home office" deduction. This allows the companies to deduct from their gross premiums tax property taxes paid on their principal office. This Constitutional provision should be repealed so that insurance companies must pay property taxes on their principal office.

V. Other Possible Changes in California's Tax Structure

The proposals for changing California's tax structure receiving the most attention in 1969 were made by the Governor. In April the state administration unveiled its ambitious proposals for changing the state's tax system. None of the program was enacted, however, except for a further, two-year reduction, in the tax on business inventories.

Some of the major provisions of the Governor's tax program included:

(1) **Voluntary Withholding of Income Tax.** Under this proposal employers, at the request of employees, would withhold workers' income tax. For new labor force entrants and new residents, however, mandatory withholding would apply. The benefits of such a proposal are unclear at best. The advantages of mandatory withholding—catching tax-evaders and increased elasticity—would not apply. Moreover, a voluntary system would produce numerous administrative problems for employers. Clearly, such a proposal, whatever its true objective, is a poor substitute for the type of withholding system in operation in all states having a personal income tax but California and North Dakota.

(2) **Extension of the Sales Tax to Containers, Magazines and Repair Services.** Besides the obvious undesirability, on equity grounds, of extending the sales tax to newspapers, milk cartons and the like, such a tax would present difficult administrative problems. In addition, a sales tax on newspapers and magazines, milk cartons and non-returnable cans cannot be called "tax reform," but can qualify as a nuisance.

(3) **Tax of One Percent on Adjusted Gross Income.** The Governor proposed a tax of one percent of adjusted gross income (i.e., gross income minus income from tax-exempt bonds, depreciation, 50 percent of capital gains, etc.) to be used to help finance the schools. If this proposal had been adopted a poor family of four with an annual income of $5,000, which presently pays no state income tax, would have paid $50.

It would also mean that a family of four with an income of $10,000 would face 156 percent tax increase; a family with a $15,000 income a 67 percent tax increase; but a family with income of $100,000 only a 14 percent increase. This, being the opposite of a progressive tax, is obviously inequitable.

(4) **Income Tax Exemptions.** At present, under the state income tax, a married couple receives a tax credit of $50 and an additional $8 per dependent. The Governor proposed eliminating these tax credits and substituting the use of personal exemptions of $1,200 for a married couple and $600 per dependent.

The graduated nature of California's personal income tax means that the Governor's proposal would result in a $38 tax increase for a married couple in the 1 percent tax bracket (because the present $50 tax credit would be replaced by the $1,200 exemption); for a married couple in the 10 percent tax bracket, however, the effect of the Governor's proposal would be to reduce their taxes by $70 (because 10 percnt of the $1,200 exemption is $120 reduced tax liability compared to the present tax credit system where the liability is reduced by $50).

All told, the effect of changing from tax credits to personal exemptions would be a $47.1 million tax increase for persons earning under $10,000 a year and a $47.9 million decrease for those earning above $10,000 annually. As in the case of the proposal for an adjusted gross income tax, this proposal runs counter to the "ability-to-pay" proposal. The two proposals, combined, can fairly be labeled as "soaking the poor."

(5) **Notification of Renters.** The Governor, in proposing, through various offsets, a reduction in property taxes, did not specifically call for adoption of a measure allowing renters to benefit from such cuts. Instead, the administration proposed that

> "...landlords be required to notify their tenants of that portion of the monthly or annual rent which can be directly attributable to reduced property tax costs ... this will encourage the landlord to share his property tax reductions with the tenant through reduced rent."

Roughly 40 percent of California households rent; they are generally low-income people and are often minority group members. Unless landlords are more altruistic than commonly believed, it is difficult to perceive how renters would benefit, under the Governor's proposal, from a reduction in their landlord's property taxes. Surely, this proposal would provide much less relief than an increase in the personal income tax's standard deduction.

VI. Conclusion

As stated at the outset, most Californians want tax reform. Yet there is little agreement on what constitutes reform.

Moreover, as the Legislative Analyst, A. Alan Post ably puts it:

> "... it is impossible to design a tax reform package which will satisfy all groups, because each seeks a tax reduction."

Tax reform and tax reduction are not synonymous. Short of permanently reducing the cost of government, any tax reduction for one group of taxpayers must result in an increase for other taxpayers.

Fortunately for California, meaningful and lasting tax reform is possible. While the fine details of any successful reform legislation will be determined by legislative compromise, true reform is possible only if much greater reliance is placed on the personal income tax. This can be done by closing present "loopholes," such as the preferential treatment accorded capital gains, adopting a withholding system and increasing the tax rates. The goal sought is that at least one-half of California's General Fund revenue come from this tax source.

Greatly expanding the role of the personal income tax would allow the state government to provide much more aid, directly and indirectly, to local governments, thereby reducing the impact of the regressive residential property tax on homeowners and renters alike. Such a change would, of necessity, result in a fairer, more elastic, overall tax sturcture.

The real challenge now is to overcome the many obstacles presently blocking reform and to meld, from among the many conflicting groups having a strong interest in taxes, a broad coalition with the willpower and ability to bring about change. Of the many groups and organizations in California, only one, the labor movement, is broadly-based and represents enough of the total community to be the catalyst in building a coalition for reform. Accordingly, it has a particular responsibility to fulfill if it is to express the needs and aspirations of its members and the general public for tax justice.

Editor's Note: We hope the above information has given you greater insight into the tax reform problem in California and the United States. Many of the principles applicable at the State level, also apply at the Federal level. We hope that you are now prepared to pick the areas that concern you most and write to your representatives in California and Washington. For those members who live outside of the State of California, please contact your Business Representative and he will furnish you with the names and addresses of your Assemblymen and Senators. For our members who live and work in California we are printing a list of U. S. Senators, Congressmen, State Senators and Assemblymen. **You will find this list on page two.**

GOVERNMENT PROGRAMS BOOST PRICES

(Continued from Page Three)

currently are paid 15 cents a quart for milk to be sold as "drinking" milk, but only 10 cents for "manufacturing" milk, even though they are the same milk.

Ironically, when the high price of "drinking" milk forces families to reduce their use of it, the dairy-products manufacturers benefit since there then is more "surplus" milk they can buy at a low price.

The way milk is priced is obsolete and cost-raising in another way. The recent White House Conference on Food, Nutrition and Health recommended that milk be priced on the basis of its nonfat solids rather than its butterfat content.

But also, milk prices need to be reduced by eliminating barriers such as artificial local "sanitary regulations" impeding the flow of milk from Midwest dairy states to large population centers; through economies in retail distribution; through encouragement of competition and active surveillance and prosecution of local milk price fixing, and through encouragement of low-cost milk stations such as those sponsored by the Consumer-Farmer Milk Co-op in New York City in conjunction with settlement houses in low-income neighborhoods.

What can you do to protect yourself, especially if you live in one of the higher-cost milk cities? It is noticeable that even in the same region milk costs a lot more in some towns than in others nearby; for example, 27 cents a quart in Cleveland compared to 29 in Cincinnati; 30 in Baltimore compared to 33 in Philadelphia and 34 in Atlanta.

For one thing, don't try to boycott milk as one inquirer asked whether we should. If not as reasonable as it could be, it still is a reasonable food compared to many others. A quart of milk is 2.2 pounds. So figure it costs you 13-14 cents a pound.

If you can't afford to buy all the fluid milk your family needs, then use non-fat milk powder to make reconstituted milk at 11-12 cents a quart, and mix this with fresh milk. Also use the nonfat milk powder in cooking and baking to add extra nutrition to desserts, soups, meat patties and loaves, etc.

The Safety Scene

Recipe For A Holiday Disaster

You know the feeling. The Christmas tree has been up for a couple of weeks or more. The pile of packages under it has been growing larger, along with the anticipation and excitement of the children, and then it happens. Christmas morning and the gifts have all been opened, and you start through a period of time, appropriately called the post-Christmas doldrums. This is caused by everyone in the family suffering a great big letdown together.

Well, if you are looking for some sort of activity, or excitement to pick up the family's morale, follow these ingredients closely:

First you take a toy pistol that has a small plastic bullet stuck in the barrel. You mix generously with a boy, preferably of the 7½-year "gunsmith" variety, and Bingo, you have a finished product!

And if it hadn't been for quick thinking on the part of this lad's father, it would have been a finished and sad Holiday Season, along with many more to come.

Following is an account of a near-fatal accident for young Ronnie Owen. Ronnie is the son of Orville and Lois Owen. Orv is a Business Representative for this Local Union, in San Jose Division.

It was about 6:10 p.m. on December 29, 1969. The family had finished dinner and the children had left the table. Ronnie went upstairst to his bedroom to play with a toy pistol that had been a Christmas gift. The problem arose when one of the plastic bullets became lodged in the barrel. Ronnie figured if he placed the end of the barrel in his mouth and sucked on it the bullet would slide out and he could catch it with his teeth. IT DID AND HE MISSED. The end result was the bullet was now stuck in his throat near the entry to his lungs.

Jeanine, Lois and Orv's 13-year-old daughter was in the living room when a commotion was heard upstairs. She was up the stairs in a second to see what had happened to her brother. Orv and Lois, hearing all this going on, were just starting up when Jeanine and Ronnie, pale and gasping for air, were starting down. Orv, assuming Ronnie had swallowed something, grabbed him by the heels and shook him upside down, hoping whatever it was would come out. NOTHING HAPPENED.

Orv then scooped him up and they, along with Lois, departed for the hospital. (Orv says he may have exceeded the local speed limits once or twice during the trip.)

All the way to the hospital Orv kept telling Ronnie to scream. This aided Ronnie in keeping his throat open and also gave him something to concentrate on besides getting sick. Orv knew that if he became nauseous and vomited it would be a sure thing that Ronnie would strangle.

Upon arrival at the hospital he was rushed into Emergency and after a half hour of probing the doctors came up with the bullet. All the while this was going on oxygen had to be administered to keep him alive. Although the whole operation by the doctors didn't take more than 30 minutes, Ronnie spent until the 31st in the hospital in an oxygen tent. The doctors feared he might develop pneumonia after their probing due to the area in which the bullet was lodged.

Orv was asked if he was worried about Ronnie going into shock prior to getting him to the hospital. He said, "No, Ronnie's a good little trooper," but added, "I was more concerned about his mother and myself going into shock."

And this is the main idea to get across. If you can keep your head in times of emergency, especially when the person involved is one you love dearly, then nine times out of ten, YOU'VE GOT IT MADE.

DON'T GAMBLE WITH DEATH

Due to recent accidents involving workmen in trenches, and the problem of cave-ins, we are printing here the rules governing correct shoring procedures for trenches that workmen must enter, set down by the State of California, Division of Industrial Safety.

Keep in mind, California Construction Safety Orders give minimum requirements only, but distinctly specify that all trenches which present a hazard to the workman must be guarded against the hazard of moving ground.

Fourteen times as many workers die from caving ditches, than from other construction work (in proportion to the number of disabling injuries).

* * *

Out of every 13 workers who receive a disabling injury from cave-ins, one dies.

Walls of earth may look quite harmless, but they are extremely dangerous unless held in place by adequate shoring and bracing.

* * *

Play safe! Don't bet lives on soil conditions! Provide adequate shoring and bracing.

HARD COMPACT GROUND

Trenches 5 feet or more deep *and* over 8 feet long must be braced at intervals of 8 feet or less.

A strut brace is required for each 4-foot zone into which the trench depth can be divided, with at least two braces for each set of uprights.

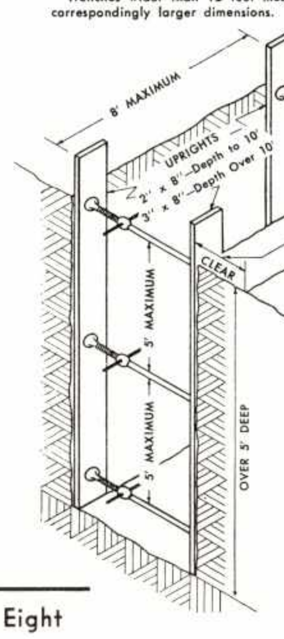
Steel screw-type trench braces must have a foot or base plate on each end of the pipe, placed horizontally and bearing firmly against uprights. Hydraulic metal jack units, properly maintained and of equivalent strength, also are acceptable.

Timber braces must be in good condition, free from imperfections affecting their strength, well cleated, and rigidly wedged.

Horizontal Strut Braces

Width of Trench Feet (Incl.)	*Size of Wood Braces*	*Size of Pipe Braces*
1– 3	4″x4″	1½″ STD
3– 6	4″x6″	2″ STD
6– 8	6″x6″	2″ STD
8–10	6″x8″	3″ STD
10–12	8″x8″	3″ STD

Trenches wider than 12 feet must have braces of correspondingly larger dimensions.

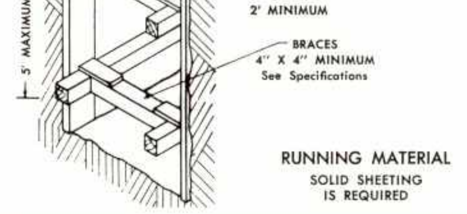


HARD COMPACT GROUND
5' OR MORE IN DEPTH

FILLED OR UNSTABLE GROUND

Sheeting must be provided, and must be sufficient to hold the material in place.

Longitudinal-stringer dimensions depend upon the strut and stringer spacing and upon the degree of instability encountered.



RUNNING MATERIAL
SOLID SHEETING IS REQUIRED

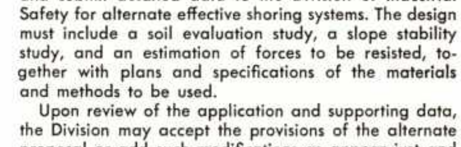
Trench Shoring Specifications

SOIL TYPE	DEPTH	UPRIGHTS		BRACES		STRINGERS	
	Feet	Size Inches	Horizontal Spacing, Feet	Size Inches	Horizontal Spacing Feet	Size Inches	Vertical Spacing, Feet
Hard, Compact	5–10	2×8	8	4×4	8	Where indicated	
	Over 10	3×8	6	4×6	6	Where indicated	
Unstable	5–10	2×8	4	4×4	4	Where indicated	
	Over 10	3×8	Solid	4×6	6	4×6	4
Running	4–8	2×8	Solid	4×4	6	4×6	4
	Over 8	3×8	Solid	6×6	6	6×6	4

ALTERNATE TRENCH PROTECTION

Sloping

Trench or excavation walls must be sloped no less than ¾ horizontal to 1 vertical as an alternate method to shoring. Soil instability may, however, require a flatter slope.



Protective Shields

Protective shields or welder's huts may be substituted for shoring systems to provide local protection for workmen in trenches. Approval of their design and construction shall be secured from the Division of Industrial Safety by the employer before use.

Design by Registered Engineer

A civil engineer, registered in California, may design and submit detailed data to the Division of Industrial Safety for alternate effective shoring systems. The design must include a soil evaluation study, a slope stability study, and an estimation of forces to be resisted, together with plans and specifications of the materials and methods to be used.

Upon review of the application and supporting data, the Division may accept the provisions of the alternate proposal or add such modifications as appear just and reasonable. See Plate C-24-a, b, Appendix, Construction Safety Orders, for engineering design alternate criteria.

ACCESS

In trenches five feet or more deep, ladders must extend at least 2½ feet above the top, unless a safer means of getting in and out of the trench is provided.

There must be a ladder within 50 feet of any worker in a trench.

PIPE INSTALLATION

Length or diameter of pipe being installed does not permit variance with shoring requirements. Shoring protection is required within at least 4 feet of any workman.

printed in CALIFORNIA OFFICE OF STATE PRINTING
23735-980 9-68 40M △ OSP