

Keating: *Tax foes are underrated.*

Summary: Grass roots activism on taxes is growing and has scored victories in Montana and other states. Citizens are demanding that state and local tax increases be subject to a popular vote. Is there a lesson for the federal government?

One thing seemed certain in Montana last spring: Taxes were about to go up. Republican Gov. Marc Racicot had proposed, and state legislators had approved, Montana's first sales tax. Moreover, the lawmakers, concerned that the 4 percent tax might be rejected in a forthcoming referendum, had stipulated that its defeat would trigger an automatic \$72.7 million increase in the state income tax.

But Montana's political leaders misread the electorate's mood. The sales tax lost in a landslide; 74 percent voted against it in the June 8 referendum. And in the next few months, petitioners collected enough signatures to suspend the income tax increase and make it subject to a vote on the November 1994 ballot.

In addition, grass roots groups are

Voters Take

By Kenneth Silber

collecting signatures to place other tax-limitation measures on the ballot in Montana, including one that would put all future state and local tax increases to a popular vote. Faced with such determined opposition, the governor convened a special session of the Legislative Assembly to find ways to cut spending and balance the state budget.

Montanans are not alone in their efforts to limit taxes. Such activism is gaining strength in a number of states, marking the next phase of the movement that became a nationwide force in the late 1970s and ultimately helped put Ronald Reagan in the White House:

- Texans overwhelmingly voted to amend their state constitution to prohibit the government from imposing a personal income tax without voter approval. The amendment specifies that if such a tax is approved, revenues gained through it must be used for education and to reduce local property taxes. Voters also passed a measure granting property tax relief to companies that buy pollution control equipment.

- In Washington state, voters rejected a rollback of a recent tax increase, but narrowly approved an antitax measure that may have more far-reaching consequences. Under the new law, voter approval will be required for future tax increases that exceed a state spending limit linked to inflation and population growth.

- Oregonians, by a 3-1 margin, voted down a proposed 5 percent sales tax. It was the ninth time since 1933 that Oregon's electorate has rejected a sales tax.

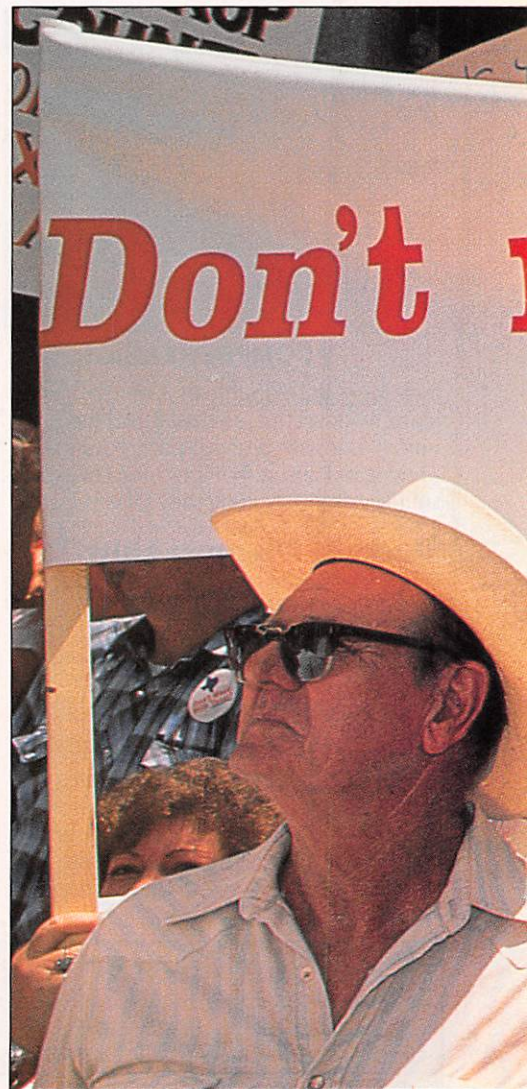
- In California, voters defeated a measure that would have facilitated the raising of local property taxes to pay for school bond issues. Californians did approve a half-cent sales tax increase, but earmarked the revenues for public safety services.

- Coloradans rejected the renewal

of a sales tax used to fund the state's tourism board — thus eliminating the board.

Such developments, often overshadowed by initiatives for term limits and school choice, have received relatively little attention in the national media. In fact, media coverage has focused on setbacks to antitax efforts, such as the failure of the rollback measure in Washington state.

The tax-limitation movement, however, is "one of the most under-



Grass roots antitax efforts venture where politicians fear to tread.

Control of Taxes

rated forces in American politics," says David Keating, executive vice president of the National Taxpayers Union.

A recent survey for *BusinessWeek* by Louis Harris & Associates found that 69 percent of Americans think their federal taxes are too high, considering what they get in exchange, and 67 percent feel the same about their state and local taxes. But opinion may not translate into support for candidates who promise to cut taxes; more than half the poll's respondents said such a pledge would have no impact on how they vote.

Voters "have been burned too many times by lying politicians who say anything to get elected and then do something different when they get into office," says Keating.

Instead, citizens are turning to ballot initiatives as a means of limiting taxation, and they are becoming more ambitious in their goals. In previous years, ballot proposals generally lowered or capped a particular tax rate but allowed legislators to raise other rates or establish new ones. Now initiatives aim to place power directly in the hands of the electorate by requiring that new or

increased taxes be approved in a popular vote. Colorado and Oklahoma in 1992 both established "voter approved" tax policies.

In Oregon, a measure requiring a popular vote on all tax increases is expected to be included on the 1994 ballot. Efforts are under way to put similar measures on the ballots in Florida, Maine, Ohio and several other states, as well as Montana. "Voters are taking the power to tax away from politicians," says Keating, who predicts that the right to vote on tax increases will become as well established as traditional civil rights.



California Tax Tremors

It has been 15 years since Californians pioneered the modern tax revolt with the passage of Proposition 13, a measure that cut local property taxes and erected some barriers to future tax increases. Yet California's tax battles continue to rage.

The latest skirmish occurred in November. A ballot measure sought to weaken a requirement (established by Proposition 13) that local tax increases and bond issues for school construction be approved by a two-thirds popular vote, replacing it with a simple majority vote. It was defeated; 69 percent of voters opposed the measure. "The tax revolt is alive and well," says Joel Fox, president of the Howard Jarvis Taxpayers Association, a group named after the leader of the Proposition 13 campaign.

Yet voters also approved a measure making permanent a temporary half-cent increase in the state sales tax, with revenues earmarked for police and fire departments. Public support for the initiative apparently rose in the week before the vote, as fires rampaged through parts of the state. But the measure's proponents seemed to have successfully obscured the fact that the initiative was indeed a tax increase; the ballot summary referred only to creating a "dedicated revenue source" for public

safety. In any event, Californians expecting an increase in police and fire services may be disappointed. The initiative contained no clause for "maintenance of effort" to prevent officials from diverting existing public safety dollars to other purposes as the new funds arrive.

"Money is fungible," notes Fox. "Where exactly it ends up is very hard to say."

Meanwhile, Proposition 13 itself is the subject of continuing controversy. While supporters of the 1978 measure assert that it has saved taxpayers an estimated \$150 billion since its inception, critics bemoan the loss of government revenue. Prior to Proposition 13's passage, opponents warned that it would cripple local government and devastate the state's economy. Such worries faded in the 1980s, as California outpaced the nation in economic growth, but the state's growing fiscal problems during the past several years have sparked a new round of criticism. One commentator referred to recent cutbacks in public services as "the 15-year deferred anguish of Proposition 13."

Yet while Proposition 13 set limits on local property taxes, it failed to prevent state income and sales tax increases. Some Californians now argue that a more comprehensive tax-limitation measure is needed. — KS

"Once you have it in a state, I can't imagine the people ever giving it up."

Yet in some cases, antitax activists have found that the new emphasis on voter approval has alienated business groups that normally support tax limitation. "Our organization prefers to deal with the Legislature, rather than [with] votes of the people," says Donald C. Brunell, president of the Association of Washington Business in Olympia. His group lobbied for the state's rollback proposal but did not endorse the measure to put future tax increases to a popular vote. (The rollback proposal may have failed because opponents portrayed it as a windfall for the tobacco and liquor industries. The measure would have repealed \$1 billion in taxes and fees passed in the last legislative session, including ones imposed on alcohol and cigarettes as part of a state health care package.)

The politics of taxation can create strange bedfellows. In Texas, the move to encourage pollution control through tax breaks gained the support of business, labor and environmental groups. Frequently, however, tax-limitation efforts are driven by grass roots organizations representing average citizens. Most antitax ballot measures "are run on shoe-string campaigns," says Keating, adding that the opponents of such measures often include well-financed unions for teachers and other government employees. "It's a miracle any of them ever pass."

Such battles do not necessarily divide along partisan lines. Some recent grass roots antitax efforts have received little support — or encountered outright opposition — from Republican leaders. Dan Evans, a former Republican governor, spoke out against the antitax measures in Washington state, where the effort was led in part by KVI-AM, a Seattle talk radio station that broadcast frequent updates on petition drives.

In Montana as well, a number of Republican leaders supported the proposed sales tax, but after it was voted down the party took no position on subsequent efforts to overturn the income tax increase. "The hierarchy of the Republican Party was neutral. In fact, they were of no value at all," says University of Montana law Professor Robert Natelson, who founded Montanans for Better Government to spearhead the petition drive.

Democratic leaders were more eager to enter the fray on the side of an income tax increase, but to no avail. Montanans for Better Government



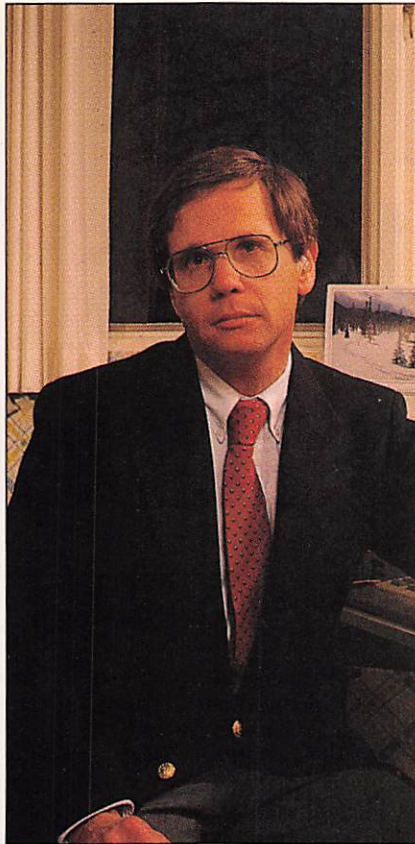
Californians launched a tax revolt with 1978's Proposition 13.

needed the signatures of 5 percent of the registered voters in 34 of the state's 100 legislative districts in order to make the tax increase subject to a referendum on the 1994 ballot. To achieve an immediate suspension of the tax until next year's vote, the group needed the signatures of 15 percent of the voters in 51 districts. The campaign far exceeded these requirements, gleaning 15 percent of the voters in 90 districts — 89,663 signatures, or more than one-fifth of the names on Montana's voting rolls. (According to Natelson, some opponents of his organization's campaign vandalized the mail of petition organizers and made harassing phone calls to their homes late at night. More rational opponents are seeking to reverse the tax increase's suspension on state constitutional grounds, a matter that may reach the Montana Supreme Court.)

Several other grass roots groups aided Natelson's petition drive, including the Montana branch of United We Stand America, the organization founded by Ross Perot. While United We Stand chapters in other states, like their founder, were focusing on the North American Free Trade Agreement, the federal budget deficit and other national matters, the Montana branch has concentrated on local issues. It is organizing its own petition drive for a state constitutional amendment requiring voter approval of all tax increases.

Meanwhile, Susan Good, a former chairwoman of the Montana Republican Party, is spearheading still another initiative, one that would require a two-thirds majority in the Legislative Assembly for any tax increase. Robert Abbott, petition coordinator of the state United We Stand effort, rejects such a solution, arguing that legislators are too susceptible to pressure from special interests to be trusted with the power to raise taxes. "The people of the state are the ones who pay the bills."

Why this burst of antitax activism in Montana? In addition to the defeated sales tax and the suspended income tax increase, Montanans have had to absorb increases in fuel and payroll taxes in the past year, as well as a sweeping real estate reappraisal that sent property taxes skyward. "People are very apprehensive all across Montana as to what their final tax bills are going to be," Abbott says. Federal tax increases have heightened concerns.



Natelson led Montana petition drive.

Montana ranks fourth in the nation in public employees per capita, and the state government owns a broad range of assets, including a large chain of liquor stores. "Despite the state's image as a place that's kind of wild and woolly, Montanans actually are very public-spirited people, almost collective-oriented," says Natelson, adding that the state's residents nonetheless have become fed up with a government they perceive as inefficient and unresponsive.

Public anger over issues not directly related to taxation also fueled the antitax movement. Lawmakers recently rejected a bill that would have imposed stricter ethics rules on the government, for example.

"There have been quite a few efforts to deal with these problems in other ways," says Natelson. "The reason they haven't worked is that nobody has ever taken taxes off the table."

Indeed, voters around the country are increasingly turning to tax limitation as a tool to improve government services. "The taxpayers are trying to figure out what they want from government, how they can make it more efficient and how they can get it to work for them rather than against them," says Brunell of the Association of Washington Business.

More and more ballot initiatives, such as those passed in Texas and California, earmark tax revenues for specific purposes. Voters are thus able to pressure their governments to put higher priorities on essential functions such as fighting crime. "People are willing to pay for cops and prisons," says Scott Mackey, an analyst at the National Conference of State Legislatures, a Denver-based organization. He warns, however, that measures directing funds to certain services often contain loopholes that allow some of the money to be used in other ways.

It has also become more common for tax initiatives to set limits on public spending — as was the case with the measure that passed in Washington state — linking spending to inflation and population growth. Such controls contrast with previous tax revolts, which were criticized for allowing government to continue expanding, financed by large increases in borrowing. "The states with the best controls have multiple checks and balances on the spending and tax power," says Keating.

So far antitax activists have focused on state and local issues. But many observers find in their efforts a message to the Clinton administration, which recently raised taxes on incomes, estates and gasoline. The administration's health care proposals are expected to lead to further tax increases. "Voters can't lash out at the federal government," says Mackey, "but they can lash out at what they have control over, which is state and local government."

Legal clamps on the federal government's ability to raise taxes might gain public support. Two congressmen, Republican Bob Smith of Oregon and Democrat Pete Geren of Texas, have proposed a constitutional amendment requiring a three-fifths congressional supermajority for any tax increase and limiting federal revenue to 20 percent of the gross domestic product.

Whether any candidates running in 1994 will benefit from the public's mood on taxation remains to be seen. The Republican Party, despite opposition to Clinton's tax increases, may not have fully repaired the damage to its antitax reputation caused by the Bush administration and Republican state governments. "The Republicans have gained more credibility on the tax issue," says Keating. "But certainly it's nothing like what it could have been had they kept to their pledges." ●