

We Will Be the Meatheads if Proposition 82 Passes

By

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Proposition 82, the initiative proposed by Rob Reiner (who played “Meathead” in the TV comedy *All in the Family*), which would finance universal pre-school for all four year olds with a large tax increase on “the rich”, is deceptively appealing. It is bad for California. It is bad spending policy. Bad governance. And bad tax policy. It would do serious damage to the state’s economy. It is unnecessary. Expensive. Bureaucratic. It would harm most of the children in the program, both in reducing the quality of their pre-school and in darkening their future economic prospects. Even worse, it is but the latest in a terrible trend of micromanaging the state’s budget and taxes by initiative to create unnecessary, inefficient multibillion-dollar programs financed by ever-higher tax rates. This trend has the potential to lay waste to the Golden State, turning it into a stagnant economy and sick society.

Prop 82 is bad spending policy. It would create a vast new bureaucracy, pressure parents to take their children to public schools for preschool, divert badly needed teachers from K-12 education to preschool, and, worst of all, spend the vast bulk of the funds subsidizing middle income and rich families. Less than

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10% of the funding from the new tax will go to high-risk kids that could benefit most from preschool and who otherwise would not have gone. Even for government work, that is atrocious effectiveness. Two-thirds of all preschool-age California children already attend preschool. Prop 82 would devastate the existing parentally-chosen preschool providers in favor of the same system that in large districts gets less than half the funds into the classroom for teachers and kids. The last thing we should want to do is replicate that mess for an unnecessary, duplicative, multi-billion dollar preschool program.

Prop 82 is bad tax policy. California already has the highest state sales taxes and state income taxes in the country. Prop 82 would take California's top personal tax rate to more than twice that of "Taxachusetts". In the modern economy, more and more people and more and more businesses have a wide range of options on where they locate. California's tax system already makes it uncompetitive for some such activity, and Prop 82 would considerably worsen the problem. Finally, most of California's small businesses are sole proprietorships, partnerships, LLCs, and S-corporations, which pay taxes on the same 540 schedules you and I use. Thus, Prop 82 would hit hard the most successful small businesses so important for job growth in California, depriving them of income they could use to hire more workers, raise pay, provide benefits, and invest in their future.

One need only look at other experiments in high taxes to conclude this is a road down which California ought not to go. Only a quarter-century ago, less than a generation, the Western Europeans were smug in the belief that their advanced welfare states and high tax rates were a superior form of economic model. But the economies of France, Germany and Italy, for example, have been sapped of their economic dynamism by high tax rates, have grown far less rapidly than America for the last quarter-century, and now suffer standards of living more than 30% below that in the United States. The last thing we should wish for California four-year-olds is to have them grow up into a state whose competitiveness is increasingly sapped by high taxes and government services crowding out more effective and efficient private activity at higher costs with poorer outcomes.

Prop 82 is bad governance. The state's education bureaucracy already has its hands full with our struggling K-12 system; why do we want to take something that is working well for parents and children and put it into that system? Worse yet, the revenue projections are highly debatable. State revenue has surged, largely led by higher revenues at the top end of the income spectrum, i.e., small businesses and the so-called "rich" are paying more taxes because of the booming economy and stock market, for example, a sizeable chunk of the state's higher tax windfall has come from "Google" workers exercising stock options and capital gains in the strong stock market. But we know this is not sustainable. Relying on an unstable revenue source from a

narrow segment of the population is only asking for boom-bust funding cycles such as the state experienced in 1999-2002, still higher taxes or cuts from K-12 education, roads, and other high priority programs, or parents paying to fund the shortfall. Good governance is a carefully designed program targeted at high-risk needy kids, likely to succeed in achieving its goals with little correlative damage, preferably by the regular legislative process. Initiatives should be used for broad goals, such as the overall levels of taxes and spending, not micromanaging every program and tax, eventually rendering the governor and legislature moot.

It would be hard to come up with a more ill-conceived policy than a government bureaucracy taking over an industry with government subsidies for middle income and rich people to pay for services they already are getting, financed by massive tax increases on small businesses and successful entrepreneurs. It is as if the 20th century never happened or democratic market economies did not succeed in the battle of ideas with state bureaucracy and central planning. We have a window on our future, as can be seen in the deterioration of the high-tax, government public sector-run east coast cities and the high-tax, welfare state western European economics. Their result: economic stagnation, double-digit unemployment and socioeconomic ossification, the opposite of the California dream of dynamism, opportunity and upward social and economic mobility. Unfortunately, it can happen in California too. If Prop 82 passes, we will be the meatheads. And this time, it won't be funny.