



To Tax or Not to Tax

M. Dane Waters

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It's a tough time fiscally for the states – 40 of them are having moderate to severe financial problems. California alone will have a budget deficit of almost 25 billion dollars. Washington and Oregon are suffering mightily as well. What these three states have in common, other than all bordering the Pacific, is that they have the citizen initiative process.

Critics of the initiative process have tried to make the claim that the severe budget problems that these states are facing are due to the initiatives that have been adopted by the voters. However, there are several fundamental problems with this assertion. First, 40 states are having fiscal problems but only 24 states have the initiative process. Second, the state with best fiscal situation is Wyoming – a state which possesses the initiative process; and thirdly, in almost every state with the initiative process lawmakers have the ability and authority to override an initiative if they wish. Simply put, if lawmakers feel that initiatives have caused their states fiscal problems, they could simply overturn the initiatives or ask the voters to rescind the appropriations they made via the initiative process.

However, regardless of whether or not the initiative process has wrought undue fiscal problems to the states, the question at hand is whether or not these fiscal problems will impact the types of initiatives making the ballot in 2004. Will tax cutters force the states to deal with more revenue cuts? Will the citizens who want more money put into education, the environment and infrastructure improvements push initiatives that put more demands on existing state budgets? It is too early to know for certain though many initiative experts and political pundits believe that potential initiative proponents understand the political reality – that most voters will be unwilling to increase the fiscal pain that the states are feeling. So the question then becomes how do advocates of greater state spending on specific reforms get what they want?

The answer is simple. Initiatives that are designed to increase funding for a specific program must also contain a new tax, fee or revenue source to pay for it. This isn't a new concept. Over the last several election cycles proponents of health care reform and certain education reforms have proposed initiatives that would require new taxes on tobacco to pay for them. It is likely that this election cycle will be witness to initiatives that raise taxes more than any other in the last decade. Tobacco companies are the most likely targets but other "sin" taxes will probably include new taxes on alcohol. Businesses may also be targets with new consumption taxes and payroll taxes being imposed upon them to pay for new reforms. The bottom line is that almost any non-governmental entity that has an income stream is a potential target.

But what will the conservative side of the aisle do this election cycle? Will they pursue their tax cut and smaller government agenda via the initiative process? It is hard to be certain at this point but it is unlikely. The political reality is that tax cuts will be hard to

sell to the voters anytime soon. It's not that the voters don't want more money in their pockets, it's just that it will be issue to demagogue any new proposed tax cuts. Lawmakers and the groups who would be opposed to such initiatives would try and make the case that any new reductions in revenue would lead to disastrous cuts in education, law enforcement, etc, etc. Whether or not these claims would be true is irrelevant but the voters would most likely take the cautious route and vote no during these uncertain times. It is this political reality that will push the conservatives to propose more social and non-fiscal initiatives in 2004 and temporarily abandon their tax cutting smaller government agenda.

But the same fate may hold true for the progressive agenda in 2004. The voters showed us in 2002 that caution was the word of the day. They weren't in the mood to green light many new huge spending programs unless they specifically pertained to education. Therefore, any new initiative that advances the progressive agenda that is non education related might be in for a rough ride.

The political reality is simple – for the foreseeable future, the voters will view any initiative that deals with fiscal issues skeptically – regardless of which party or political ideology is behind it. This cautious behavior is likely to continue until the issues of war, terrorism and the stock market tumble are dealt with and confidence is restored in the American economy.