

“After the Elections”

by Milton Friedman

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Public interest has naturally been focused on the Presidential election. But I suspect that a little-noticed item on the Michigan state ballot may have greater significance for the long-run future of the U.S. than who is elected President.

That item, labeled Proposal C, provided for an amendment to the state constitution that would limit taxes imposed by the state government to a specified fraction (8.3 per cent) of the personal income of the residents of Michigan in the prior fiscal year. Its other provisions were designed to assure that the limit is not rendered ineffective by the shift of functions from the state government to local communities without providing the necessary finance, or by the reduction of state grants to local communities. But the heart of the amendment is to enable voters to decide how much of their income they are willing to have the State of Michigan spend for them.

Do not the voters have that power without such an amendment? Yes and no. They elect representatives to legislatures and their representatives vote expenditures by strictly constitutional means. *But*—and it is a very big but—the political structure has a defect that biases results in the direction of larger total expenditures than the citizenry would vote for if it had the power to do so. The defect is that each spending proposal is voted on separately. The total budget is the sum of the separate appropriations.

In the case of each proposal separately, there tends to be a small group—which we call a special-interest group if we are not members of it—that has a large stake in its adoption. The cost is spread thinly over all taxpayers. Each special interest has every reason to spend heavily and to work hard for the adoption of its pet proposal. No taxpayer has a strong interest to oppose the measure. (A dramatic case on the Federal level is the \$600 million annual subsidy to the merchant marine amounting to \$12,000 per year for each of the 50,000 persons employed in the industry. No wonder the maritime unions are willing to make large political contributions and to lobby vigorously for such subsidies. On the other hand, the cost to each person in the U.S. comes to about \$3 a year. What taxpayer will regard saving that sum as a sufficient reason to vote against his representative?)

This defect in our political structure is present at both state and Federal levels. Programs have been adopted by an un-holy coalition of well-meaning reformers and self-interest groups. Once adopted, they have invariably disappointed the well-meaning reformers. Instead, they have been captured by special interests that the reformers would never knowingly have supported.

The result has been a ballooning of government spending—from about 10 per cent of the national income in 1928 (two-thirds state and local) to about 40 per cent today (two-thirds Federal). How many taxpayers—even those who benefit from one special-interest provision or another—believe they are getting their money’s worth?

Proposal C was designed to rectify this defect. It gave the taxpayer a chance to vote on the budget as a whole and to keep from being nicked and died to poverty by the piling on of one piece of special-interest legislation after another.

The need for such an amendment could not be better demonstrated than by the frantic efforts of its opponents. The Michigan Education Association spear-headed the opposition and raised a substantial slush fund (rumored to be \$300,000 to \$500,000) to spread flat misstatements about the proposal—statements that if made by a commercial firm would surely justify prosecution under truth-in-advertising legislation. Why did they do so? Look at the record. Spending on schooling has been rising all over the country. At the same time, the performance of students has been declining. Both are the common result of a shift of control from local communities to the states and from the states to the Federal government. The farther the source of funds from the local community, the easier it is for a concentrated interest to exert political pressure, and the harder it is for the taxpayer to exercise effective control over how his money is spent.

Another dramatic example of the attitude of the opponents is the following excerpt from an editorial in *The Detroit News* in opposition to the amendment:

“...Taxpayers don’t want to pay much,

“The more pertinent point is that government must spend what is necessary for the public welfare—not what we as individual taxpayers would like to contribute.”

Who, if not the taxpayers, should decide “what is necessary for the public welfare”? The officials of the Michigan Education Association? The editor of *The Detroit News*?

This is a call for an authoritarian government, an explicit rejection of democratic self-government. The editorial writer has let his special interest in inducing taxpayers in the rest of Michigan to subsidize Detroit get the better of his political beliefs. When he comes to his senses, he will be as appalled as I am at what he has written.

The tax-limitation proposal first saw light in California in 1973, when it was put on the ballot as Proposition 1, by a statewide petition drive led by Governor Reagan. It was finally defeated, after a campaign of misrepresentation and confusion like that in Michigan, spearheaded there by the political opponents of Governor Reagan as well as the same kind of special-interest groups active in Michigan.

This year Michigan is the only state in which a tax-limitation amendment was on the ballot, though active movements are under way promoting similar amendments in a dozen or so states, as well as at the Federal level.

I’m dismayed to have to report that Proposal C was defeated. In the State of Michigan, as in California three years ago, government employees and other special-interest groups have succeeded in bamboozling the naive taxpayer, in making him believe that down is actually up. This second defeat is no reason for giving up. On the contrary, the ability of those who feed at the public trough to persuade the taxpayer that Proposal C would raise his taxes rather than lower his taxes is the strongest possible indication of the need for a constitutional amendment that would curb their power.

We must redouble our efforts. Unless we can limit the cancerous growth in government, unless we can stop the shift of power from city hall to Statehouse, and from Statehouse to the White House, there is little hope of maintaining a free political system. The longer the delay, the harder the task, because the tribe of bureaucrats grows apace.

I am moved to paraphrase the call of the “Internationale”: “Arise ye prisoners of taxation, you have nothing to lose but the IRS.”

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