Unearned Increments and Reality in California's Recall Election
By Dr. Mason Gaffney

This article was first published in GroundSwell, a publication from Common Ground, USA. The Robert Schalkenbach Foundation has received approval from Common Ground, USA to republish this article at no cost for educational purposes.

Article citation:
Gaffney, Mason. "Unearned Increments and Reality in California's Recall Election." *GroundSwell*, Jul. 2003, pp. 10.

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INSIGHTS

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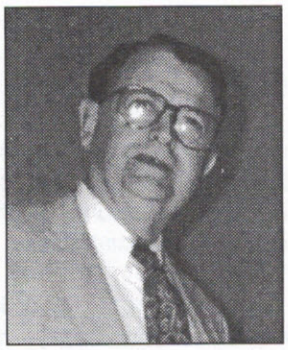

UNEARNED INCREMENTS AND REALITY IN CALIFORNIA'S RECALL ELECTION

California homeowners are wallowing in unearned increments beyond the dreams of avarice, while its governments are courting bankruptcy. Warren Buffett dared point this out, and overnight changed from the Oracle of Omaha into the Numbskull of Nebraska because he does not understand the "reality of California politics," the oxymoron du jour.

Most candidates for Governor fled like startled deer. Buffett's sponsor, well-tailored Mr. Muscles, recalled meeting a tearful widow who said she would have been taxed out of her home were it not for Prop 13. Poor thing, her home had risen in value. No one asked her name, or whether she knew what she was talking about, or had her claims audited - being a tearful widow "on a fixed income" insulates one from reality checks. The press chimed in with pix of poster oldsters, gazing from their multi-million dollar perches over the blue Pacific, fretting about Buffett's solecism and its possible effect on them, never mind anyone else.

Fact is, unearned increments ARE income, at the time they accrue. Illiquid? They are better than cash income because you can turn them into cash by borrowing on them, and pay no income tax on the cash. If you have trouble with that, the tax man himself will arrange it for you by placing a tax lien on your appreciated home, rather than foreclose and evict you. This helps explain why we never actually see one of these evicted widows suffering from unearned increments - they are maudlin figments for mythmakers. The evictees we do see are renters who couldn't pay, and had no equity to mortgage. Who cries for them?

Several rich candidates would pay more under a revived property tax than they pay in income taxes. Mr. Muscles, like previous Hollywood idols, gets most of his income as land appreciation. This income is not taxable unless he sells, and not then if he hires good lawyers, which of course he does, to play his cards right. Arianna Huffington lives in a $7 million home, but reports little net taxable income. Warren Buffett himself, like the owners of so much California land, resides and reports his income out of state. These facts should tell us something about who pays most of the property tax, but no candidate is inferring principles from mere facts.

Governor Gray Davis, supposedly fighting to close a deficit, chimed in endorsing Prop 13, citing the mythical widow again to explain why non-residential property, about 2/3 of the tax base, should enjoy low rates. Faced with a negative poll, he backed right down from his "land tax on wheels," the higher vehicle registration fee. No one has said a word about a severance tax on oil and gas, although California is the only major producing state without one. No one has crusaded for a severance tax on water withdrawals, although it would solve both our revenue and water crises in one stroke. No one has said word one about taxing the taboo lands used for golfing, timber, or farming.

Only Cruz Bustamante has proposed any specifics. He would begin dismantling Prop 13 - still not menacing the mythical widow - by raising assessments on industrial/commercial property. A whispering campaign right off has it that Bustamante is leading an Hispanic conspiracy to take over the southwest and turn "white, European" Americans into a minority to kick around. We observe mixed marriages on every hand, and Spain is still European, but this is California, where "reality" means mythology. May Warren Buffett continue to get in our faces with facts.

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[editor's note: For anyone who hasn't been following the California Governor's recall, here's a quick synopsis. Recall petitions were filed with over 1-1/2 million voters signatures for a recall vote on California Gov. Gray Davis (D). The ballot on Oct. 7 will have two questions. First, voters will be asked whether Davis should be recalled; second, they will be asked to choose a successor from the list of 135 certified candidates should Davis lose the first vote. The leading contenders if Davis loses the first vote are Lt. Gov. Cruz Bustamante (D), a former speaker of the state assembly, and film star and Mr. Olympia title winner Arnold Schwarzenegger (R). Billionaire investor Warren Buffet, Schwarzenegger's financial adviser, criticized Proposition 13, the 1978 ballot initiative that slashed property taxes in California, which currently has a $38 billion budget deficit.] □