

South Dakota State University  
**Open PRAIRIE: Open Public Research Access Institutional  
Repository and Information Exchange**

---

Department of Economics Staff Paper Series

Economics

---

9-11-1980

## Major Tax Reductions and Public Education

Philip Favero  
*South Dakota State University*

Follow this and additional works at: [http://openprairie.sdstate.edu/econ\\_staffpaper](http://openprairie.sdstate.edu/econ_staffpaper)

 Part of the [Agricultural and Resource Economics Commons](#), [Macroeconomics Commons](#), and the [Regional Economics Commons](#)

---

### Recommended Citation

Favero, Philip, "Major Tax Reductions and Public Education" (1980). *Department of Economics Staff Paper Series*. Paper 6.  
[http://openprairie.sdstate.edu/econ\\_staffpaper/6](http://openprairie.sdstate.edu/econ_staffpaper/6)

This Article is brought to you for free and open access by the Economics at Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. It has been accepted for inclusion in Department of Economics Staff Paper Series by an authorized administrator of Open PRAIRIE: Open Public Research Access Institutional Repository and Information Exchange. For more information, please contact [michael.biondo@sdstate.edu](mailto:michael.biondo@sdstate.edu).

Major Tax Reductions and Public Education\*

by

Philip Favero\*\*

Economics Staff Paper Series No. 80-3\*\*\*

September 1980

---

\*Presented to the lay Boards of Education, North and South Dakota; Aberdeen S.D.; September 11, 1980.

\*\*Assistant Professor of Economics

\*\*\*"Papers in this series are reproduced and distributed to encourage discussion of research, extension, teaching, and economics policy issues. Although available to anyone on request, Economics Department Staff Papers are intended primarily for peer and policy makers. Papers are normally critiqued by some colleagues prior to publication in this series. However, they are not subject to the formal review requirements of South Dakota State University's Agricultural Experiment Station and Cooperative Extension Service publications."

The following discussion of tax reductions uses as an example South Dakota's own version of Proposition 13, the Dakota Proposition. In the discussion which follows, four major themes are developed. First, Dakota Proposition would have a very major consequence for public finance in South Dakota--beginning in 1982 and extending indefinitely thereafter. Second, Dakota Proposition and other major tax reduction proposals have a variety of origins--some particular to the relevant state, and some more general origins as well. Third, common misunderstanding and, indeed, ignorance exists about the benefits provided by public education and about taxation to support education. And finally, Dakota Proposition and other major tax reduction proposals offer us opportunities to improve general citizen knowledge of public finance of public education.

#### Content and Implications of Dakota Proposition

Dakota Proposition reads almost identical to Proposition 13. Provisions include the following: first, a tax reduction based on 1% of the full and true assessment on real property performed in 1977; second, a 2% annual growth limitation on real property taxes; third, a two-thirds vote in both houses of the state legislature for changes in the tax system so as to increase revenues; and fourth, a two-thirds requirement of the registered voters at the local level for any new tax, not to include any new tax on real property.

There are a number of implications of Dakota Proposition and we might classify these as being those implications more certain and those less certain. In the most certain category, our estimates suggest that the initial impact of the Dakota Proposition, if passed in 1980, would be felt in 1982 and that the magnitude of this tax reduction would be on the order of 120 million to 150 million dollars. This reduction would decrease by 50 to 60 percent property tax revenues which go to local units of government in South Dakota. To understand the magnitude of this figure, compare the sales tax yield for the same year, 1982. In 1982 our general sales tax in South Dakota is likely to be on the order of 200 million dollars or so. Dakota Proposition would thus lead to a tax reduction of about 60 to 75 percent of the sales tax yield in the same year. Owners of real property in South Dakota would obtain a very major windfall and local governments a very major shortfall in revenues in 1982.

We can also say with certainty that tax relief will, in general, be greater for owners of non-agricultural property than it will be for owners of agricultural property. We can also say that the revenue shortfall will be greater in the more urban units of local government in South Dakota. We can say that schools will be drastically affected since approximately 60% of the real property tax currently goes to school districts and, moreover, schools obtain about 65 to 70 percent of their revenues from the local property tax.

After 1982 there will be a reduction of the purchasing power of the property tax. This will occur because the 2% annual growth limitation is likely to be much less than the rate of inflation. As local units of government face prices rising on the order of 8, 10, 12 percent, this 2% annual growth limitation will quickly reduce the purchasing power of the property tax.

In addition to these certain implications of the proposition, there are some uncertainties as well. How would the property tax be divided among local units

of government? It's impossible at this time to say. We do know that local units of government presently begin the taxing process with a budget hearing and that mill rates are then attached to assessed values of property in order to fund those budgets. We know that, in contrast, with Dakota Proposition, we will begin with a certain fixed amount of revenues available to be divided by the local units of government. In all likelihood, the legislature will have to decide how that revenue pie would be divided.

Also, at this time, it is impossible to answer what services would be reduced or eliminated. We do know, again, that schools would be drastically affected. There are some guidelines which suggest how cuts might be made. First, some services are required by Federal law or by the South Dakota Constitution. These services are most protected. Other services are required by state law. Still other local services are not required by law and these become most vulnerable when taxes are severely reduced.

We can also look at budgets and recognize that large portions of school budgets, for example, go to the payment of teachers and administrators. Large portions of county government budgets go to roads. Teachers and roads are thus put in a vulnerable position by severe revenue reductions.

### Origins of Dakota Proposition and Other Major Tax Reductions Proposals

#### Specific Origins

Some of the origins of Dakota Proposition are obviously particular to South Dakota itself. Recognize first that we have a burdensome property tax in South Dakota--that is burdensome when compared to other states. Recognize, also, that there are equity problems with a property tax, especially with a heavy property tax. The property tax is not necessarily tied to the ability to pay. The property tax may also tax equal income earners unequally. We have in South Dakota a tax system that, in general, tends to be regressive since the major sources of revenue, the property tax and the sales tax, are both regressive taxes.

Some have also argued the property tax does not correspond with benefits received. This last argument needs to be considered with some caution since the benefits of services are not only to the direct recipients but often indirectly to others as well. For example, it enhances the quality of one's life and even the value of one's property to live in a community with a good school system whether or not one has children in school.

#### General Origins

There are also some general origins of Dakota Proposition and other major tax reduction proposals. We have had first, in recent years, rapidly rising costs for government just as we have had rapidly rising costs for families and for businesses. Government is no less affected by inflation than is the private sector. We have also had, in recent years, a decline in the growth of real incomes for most individuals. We have had the circumstance wherein nominal incomes have

grown rapidly but these larger incomes have not stretched, in general, to make expected purchases.

Another factor may well be the belief that world events seem somehow out of control and that nation states have failed to solve basic problems. This results, it seems, in movements such as "back to the earth" or being independent and self sufficient, and the popularity of books on how to be a winner and beat the system. We are at a low ebb in our sense of community in this country. There is great distrust of the notion that we can solve problems collectively.

There is also presently a general lack of knowledge about the benefits of public services, especially education. Let me suggest some quotes of statements made at meetings I recently attended. Maybe you have heard something of the same. "Government is a leech on the private sector." "Public employees sit in the wagon while those in the private sector do the pulling." "Only the private sector creates wealth." Those statements, I believe, are born out of ignorance. Our mixed economy is based on mutually supportive private and public sectors. Wealth is stored value and what is more valuable to our society than our human knowledge and skill--much of it created, obviously, by public education.

Public education has several social benefits. It prepares and involves young citizens in their communities and society. It helps older citizens make more knowledgeable decisions about public matters. It elevates our general culture. It reduces social and class divisions and, in a round about way, creates new technology through research, development and extension. Basically, we tax to support education because private investments only would be insufficient to reap these social benefits.

### Conclusion

Dakota Propsoition and other major tax cutting proposals offer us the opportunity to teach and to learn about matters of public finance. Two issues seem of major importance. One is relative to public services. Do we have about the right amount and mix level of public services in South Dakota or do we not? What should we provide publically that we don't currently provide? What should be eliminated or reduced? And secondly, relative to public revenues; do we have a good revenue system in South Dakota? Is it not a good revenue system? Should it be changed? And if it should be changed, is the Dakota Proposition the way to change the system? I see great opportunity for those citizens who are concerned with and knowledgeable about public education to become part of the teaching and learning process about public finance. I recognize that there are some risks involved. I know from personal experience the sting of criticism that one can not be objective if he or she has a personal interest in public education. I know the frustration of seeing distorted news accounts of interviews. But again, I believe that we should participate in the dialogue. All that is required for democracy to fail is to have good men and women remain silent.