The "Client" State

by Tom Bethell

Within days of coming out to California, I met three people who said they would like to sell their house but "couldn't afford to." One problem is that if you bought a house in the San Francisco Bay Area for (say) $50,000 in 1962 it may now be worth ten times that—in nominal dollars. But thanks to the state and federal governments' refusal to index for inflation, the nominal gain is treated as a capital gain and taxed accordingly. Thus the government stands poised to expropriate the homeowner who contemplates selling his house, even though he may have done little more than invest in an inflation hedge. For those over 55, there is an exclusion of $125,000, but this is insufficient to cover the loss in California's high-priced coastal areas.

Adding to the problem is an unintended effect of Proposition 13, which in 1978 limited property taxes to 1 percent of the purchase price (with a maximum 2 percent annual increase). Those who bought thirty years ago pay low property taxes if they stay in the same old house. But if they sell and move to a smaller one—as many old people would like to do—their property-tax bills may increase by a factor of four or five. Tax incentives, then, strongly encourage people to stay put. (Perhaps they do some remodelling—if they can get planning permission.) The result is that Palo Alto, close to Stanford University, and generally considered one of the most desirable parts of the Bay Area, is beginning to resemble an old folks' home. Older people can't afford to move out and younger people can't afford to move in. No-growth laws and environmental fanaticism see to it that not much new housing gets built. The result is a constriction of mobility and a stultification of the real estate market.

Do taxes affect behavior, then? Nah! According to the Clinton folk, that's just right-wing talk—trickle-down economics. But the Hoover Institution's Alvin Rabushka, a flat-tax supporter, told me the other day that H&R Block stock is up 11 percent since the Clinton tax bill passed.

Meanwhile the California real estate market has been dropping sharply, and if it goes down far enough it will take care of the "capital gains" problem. According to Jonathan Marshall of the *San Francisco Chronicle*, the price slide is the longest since the Great Depression. Since 1990, prices are down about 20 percent. It's not unusual to hear of top-end property selling for two-thirds of appraised value. I spent one afternoon talking to Scott King, who has a condo in a famous Art Deco building on Telegraph Hill overlooking the San Francisco Bay. (It was featured in *Dark Passages*, a Humphrey Bogart movie.) One unit in the building was bought by an experienced property developer, remodelled, and put on the market a year later. He asked $500,000, received $425,000.

King lamented the decline of San Francisco, which has lost 30,000 jobs in the past two years. "There's no consensus about what sort of a city it should be," he said. One of the freeways into the city has not been repaired since the 1989 earthquake. The liberals who run the city make the Clinton administration look like moderates, and they are ideologically opposed to freeways. They wouldn't mind getting rid of all of them so that we would be reduced to mass-transit. (King is a medical-technology entrepreneur and an *American Spectator* reader. He tells me that his company is close to finding the cure for insulin-dependent diabetes. When he does, he promises, he'll give me the scoop.)

Like many others, King deplored the phenomenal number of panhandlers who reproach you from every corner in downtown San Francisco. One evening I walked through the business district with my friend Carlos Grider, denizen of Pier Nine and longtime resident of the city. He pointed out the office-for-rent signs along Sutter and Geary Streets, the waterfront restaurant where the parking attendant parks half as many cars as formerly, and the fashionable arcades near Union Square that must be hosed down and scrubbed every morning because the ubiquitous tramps use them as bathrooms. Herb Caen, the *Chronicle* columnist, today mentioned "the urine smell that now pervades the downtown area," and earlier referred to Urine Square.

"The city offers a staggering array of costly social programs," *Forbes* reported two years ago. "For instance, it grants general assistance relief of $340 a month to a homeless person after only three days' residency in the city, which explains why adjacent cities routinely bus their indigents in."

Just to be sure that this was still true, I phoned the city's Department of Social Services. Bobbie Rifkin, a "section manager" in the General Assistance program, told me that, well, no it isn't. The monthly grant has now been increased to $345 and there is no residency requirement at all. "Never has been," she said.

"How many people receive this payment?"

"Approximately 15,000 every month."

Which comes to $62 million a year, by my math.

She said the city has no intention of

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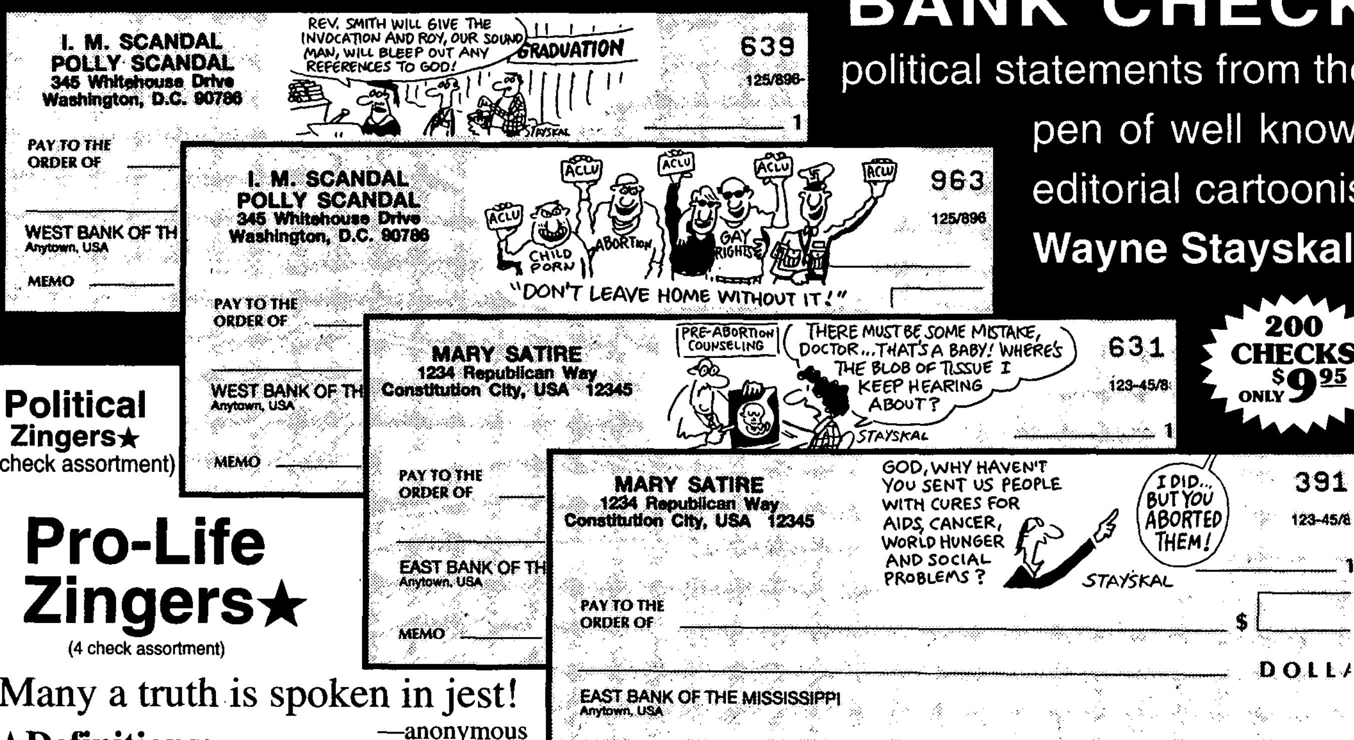

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cutting back on the grants but that through a ballot initiative this fall they do hope to make the program "more rational and accountable." In particular, they want to be able to fingerprint the "clients" so that they can match the prints with those of "clients" in other jurisdictions. There is some evidence that some of them roam about the state, collecting payments from different jurisdictions. Mostly, however, they come to San Francisco, where the payments are higher and the qualifications not very stringent.

A woman who works at the San Francisco Neighborhood Legal Assistance Foundation told me that to be eligible for General Assistance you must be 18 years old, legally in the U.S., ineligible for AFDC (the main U.S. welfare program), and "generally" must have no other sources of income. Your assets "have to be real low," she said. But you *can* own a car, provided it is worth less than $1,800, and you can own a home, if your monthly mortgage is less than the city's grant.

Need I say that the city's liberals, Herb Caen among them, have not taken kindly to fingerprinting? Wanting to spend other people's money on street people is a sign of great virtue in the peculiar moral universe of liberalism. Never mind the urine. The proposal to fingerprint has met with ostentatious bouts of indignation: the police state is back! *Chronicle* columnist Debra J. Saunders commented: "You would think homeless advocates would welcome a reform that would save money for this city's poor. But no, fingerprinting punctures the sugarcoating. It means admitting some recipients aren't complete victims."

Bobbie Rifkin told me that they only want to take an impression of index fingers, and as this is inadequate for police work, there's no danger they will be turned over to law enforcement anyway. "If they have nothing to hide, what's the big deal?" she sensibly asked. The mayor is in favor but the city's board of supervisors—Roberta Achtenberg was one of them, remember?—have said no, so the proposal will go to the voters in the fall.

Meanwhile the city keeps trying to balance the budget by raising taxes over and over again. The liberal attitude here was well demonstrated by Robert Scheer, a left-wing columnist with the *San Francisco Examiner* who used to be a *Los Angeles Times* reporter. He complained in a recent column that in even *hesitating* to raise taxes still higher, the city had "bought the blackmail—raise revenue and the multinational companies and hotels will flee. Excuse me, conventions and Fortune 500 companies are not going to Chico."

There you go—taxes don't affect behavior. (But windfall profits apparently do: Scheer was among many *L.A. Times* writers who left when offered a one-time-only salary buyout.) Maybe Scheer could get a job with Clinton's top economist, Laura Tyson. Leftists constantly accuse businesspeople of greed, but they also oddly assume that greedy people will not bother to take evasive action when their pockets are picked in order to sustain the destructive behavior of the liberals' favorite clients. Anyway, the city did raise taxes once more—a special payroll tax on gross receipts will now take effect at a lower ($100,000) threshold.

In his recent three-part series, Reinventing California ("Nation's Land of Promise Enters an Era of Limits"), *New York Times* reporter Robert Reinhold gave no explanation for the state's decline other than a reduction of defense spending. Southern California will show us, he wrote, "whether it is possible to transform the American economy from one based on cold war military spending to one based on peace." Keynesianism endures in such analyses. Not people working, but government spending is what drives an economy. There is no evidence for this, nor does Reinhold offer any. If it were true, the District of Columbia would be another Hong Kong by now.

In particular, he failed to mention the big state tax increase pushed through by Governor Wilson two years ago, amounting (on a static revenue-estimate basis) to about 17 percent of California's total state tax revenues, according to a recent study by A.B. Laffer, V.A. Canto & Associates. "If the Federal government today were to enact such an increase," the study explained, "this would be a one-year tax increase of over $200 billion, or a tax increase nearly four times larger" than Clinton's ($207 billion over four years). The top state income-tax rate is 11 percent, and if mandatory fees are taken into account, the tax burden in the state is now one of the highest in the nation.

Two years ago in this space, at a time when the news media were gushing over Wilson's tax increase, I quoted Laffer as saying the state was in for "an unpleasant surprise." Today he talks about the California "depression." Yet to come: the impact of Clinton's tax increases on top of Wilson's. The Clinton taxes will hit California harder than elsewhere, because there are (or were) more rich people here, and Clinton plans to soak them, remember? At the same time, there is a stubbornly persistent tendency among state officials to believe that there must be no more smoke, mirrors, or voodoo economics (tax cuts), and that belts (ours, not theirs) must continue to be tightened by the addition of more taxes, fees, and assessments. In short, there is a crying need for political leadership from someone who can articulate the virtues of the free market.

What else? Semiconductor manufacturers in Silicon Valley have shed over 10,000 jobs in the last two years. High taxes, a growing climate of regulation intended to discourage growth, and high real estate values make the Valley uncompetitive with burgeoning high-tech centers in other states. One of the partners at a moving company called Glen Hunter told me they had plenty of business moving people *out* of state, but then there was the cost of those empty trucks coming back in. In addition, workers' compensation insurance is now up to 30 percent of payroll, he said.

In July, the media trumpets sounded (much as they did two years ago with the tax increase) because the workers' comp law was revised. This sent a message to job creators, said Gov. Wilson: "California is coming back—this is a state friendly to employers and workers." But the fine print disclosed that weekly benefits for disabled workers will increase from $336 to $490 over three years, so let's reserve judgment. Supposedly, the new law will make life a little harder for workers' comp lawyers. Psychiatric injury on the job ("stress") will have to be "predominantly" work-related, not ten percent, as before. But it will be surprising if w.c. lawyers—Sen. Barbara Boxer's husband is one—are not able to figure out a way around the word "predominantly." ❐

Who Is Janet Napolitano?

Not to mention Ricki Seidman, Wendy Sherman, and many other anti–Clarence Thomas alumni determined to work under Bill and Hillary. It won't come easy if Senate confirmation is required, as Napolitano is about to find out—even with Senator DeConcini as her sponsor.

by David Brock

Shortly before last November's elections, Senator David Boren of Oklahoma made discreet inquiries with his Democratic colleagues on the Senate Judiciary Committee on behalf of the stalled nomination of Frank Keating, the former assistant attorney general and counsel to HUD Secretary Jack Kemp whom President Bush had nominated to be a judge on the Court of Appeals for the 10th Circuit, a district that includes Boren's home state.

The Keating nomination had been left in a typical pre-election confirmation limbo, as the Democrats hoped to capture the presidency and put their own people in. Boren, however, was somewhat startled to learn who one of these people might be. When Boren asked about the hold-up, Senator Howard Metzenbaum of Ohio, the committee's canny liberal operative, told Boren, "That's Anita Hill's seat."

For several months, it was impossible to tell how seriously Metzenbaum's comment was to be taken. Then, in March and April, other discreet inquiries were made; the Clinton administration was seeking to gauge the reaction of Judiciary Committee senators to the prospective nomination of Professor Hill to fill the Tenth Circuit vacancy.

But once again the seriousness of Hill's boosters was in question. Clearly some in the new administration—perhaps even Hillary Rodham Clinton, who had praised Hill lavishly in an appearance at the American Bar Association Convention the previous summer—favored recognizing and rewarding the otherwise unaccomplished Hill for her role in the Clarence

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