What's the Matter with Michigan?

The Rise and Collapse of an Economic Wonder

In 1995, through an accident of scheduling, two separate meetings were merged at the Levy Institute, Annandale-on-Hudson, NY. It was an odd coupling: one group was of Georgists; the other was of economic advisers to Governor John Engler of Michigan, intent on cutting the property tax. Possibly, we speculated, some hurried planner had confused Michigan's "Single Business Tax" with George's "Single Tax." Still for three days we talked to, or at least past each other.

We warned Michigan about what had happened to California after Prop. 13. In Lansing, however, the die had been cast. Engler's advisors tuned out our words and went home to help him take public schools off the property tax and put them on a sales tax. Michigan's fatal downslide accelerated. Let us trace her path from adolescence and vigor through long dominance down to senility, where famous firms are dying, industrial cities rotting, great universities shedding, public services declining, public schools starving, unemployment soaring, and youth fleeing. Michigan's number of apportioned US Representatives has dropped from 19 in 1960 to 15 in 2000. The great University of Michigan now charges the highest tuition of any public university in the nation. Michigan's "Big Three" auto firms have crashed loudly and publicly.

Mass transit, high wages, and the birth of the auto industry

From 1890-1900 Detroit's population grew, in spite of the depression, by 40%. That was faster than almost all other cities except Cleveland. By 1910 it had boomed another 60%, leading the nation, and by 1920 another 113%. The auto industry did it, but why in Detroit? It helped that Michigan had produced horse-drawn carriages from its hardwood lumber, but so had other places. It was not low wages, for Detroit paid better than most, which of course is why so many people moved there so fast. It was not business-dominated politics, for Michigan was a Bull Moose* state, the first eastern state to adopt the Initiative and Referendum, an early Home-Rule-for-cities state, an early adopter of direct election of US Senators, a high tax state (in an era when most state and local taxes were property taxes). Governor Hazen Pingree's 1897 message to the State Legislature† is a strikingly radical document, even for its times.

Mayor, then Governor, Hazen Pingree (1840-1901), was an early Georgist Progressive. He found city taxes biased for the rich; he changed that, and pushed the single-tax principle. He was a mentor to and model for the Georgist soon-to-be Mayors Tom Johnson and Newton Baker of Cleveland, and Samuel Jones and Brand Whitlock of Toledo. Pingree reformed assessments and raised property taxes in order to provide vital services for working men and their families. Mass transit, then called "traction," was a central issue.

The Progressive and single-tax movements then went hand-in-hand with "traction" in all the growing cities of that,

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* "Bull Moose" was the nickname for the Progressive Party started by Theodore Roosevelt.

† http://books.google.com/books?id=RfnkAAAAMAAJ.

their Golden Age. Property taxes were to cover fixed costs, so as to keep fares low. Pingree could not sway enough allies to municipalize traction, so instead he subsidized a competing firm, forcing the older one to lower fares and extend service. It is ironic that the traction monopoly that Pingree fought was owned by none other than Tom Johnson.‡ It is one of history's Greek Tragedies: trolleys nursed the auto industry that was later to rise up and slay them.

Pingree plugged for public ownership of city monopolies and for low fares, an attitude that Harold Hoteling and other academics later rationalized as "marginal-cost pricing." Property taxes also paid for police and fire protection, public education, public health, public parks, water, sanitation, welfare — all the public services that make a big city livable, and its small industries viable. Property tax rates of 2.5% were normal; there were no sales, business or income taxes. Detroit's collection of small machine shops, little businesses and services provided a matrix for the famous innovators who were to spawn the auto industry. Jane Jacobs would have venerated it, as she did Tokyo and Birmingham — except that Jacobs dodged the tax side of it.

Land speculation and monopoly were problems, so in 1891 Pingree campaigned for "higher taxes on the vast landed estates of the city," and won. In 1893 a big industry threatened to leave town if its taxes rose. Pingree was losing this battle when he called on his Georgism and raised just the land assessments. This won the support of businesses he had previously alienated (when he had campaigned to soak the rich). Pingree saw that Detroit could raise revenues from industry without driving it away, simply by focusing assessments more on land, less on capital.

The crash of 1893 hit Detroit soon after Pingree became Mayor. The City was riddled with holes held by land speculators.

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‡ The relationship was complex, but this is part of the process that converted Johnson to become the most prominent Georgist politician — and beloved, successful mayor — of his decade. Think Epiphany on the road to Damascus.

Pingree prevailed on them to let the unemployed plant vegetables there, and "Pingree's Potato Patches" won national renown, inspiring other cities to do likewise. To Pingree, this was a graphic way to demonstrate to his voters, fresh from following the plow, what people can do when given access to land (a goal he had for all industries). He used tax money on welfare for the unemployed, a move that kept labor on hand to man the next industrial boom. His majorities increased with each election.

Pingree also supported academic freedom, a fragile seedling in that era before John Dewey and Alexander Meiklejohn had founded the American Association of University Professors (AAUP) to uphold academic freedom.. He did not quail at retaining economist Edward Bemis, whom Rockefeller's new University of Chicago had just fired for the solecism of supporting the Pullman strikers in 1894. Polite academicians just didn't do things like that then, and seldom do even now, if they want to flourish with the power elite.

In 1897 Pingree became Governor. He centralized the assessment of property taxes, and had the State Board of Tax Commissioners revalue all property. They found so much untaxed land, especially railroad holdings, to put on the rolls that they actually lowered tax rates even as they raised more revenue — a feat that inspired Robert LaFollette across the lake later to emulate in Wisconsin. (Much later, Arthur Laffer failed to duplicate the success in Washington — because Laffer and his boss, Ronald Reagan, never got the point that was so obvious to Pingree: lower bad taxes by raising the good one.)

In the midst of reforms, Pingree died in 1901. He had not worked alone, however, and in 1904 new Governor Fred Warner resumed Pingree's work and in 1908 won his third term. In 1909 Michigan adopted a new constitution with many basic progressive reforms. Detroit grew from 205,000 souls in 1890 to 1,850,000 in 1950, a faster percentage growth rate than any other city, rising to be America's fourth biggest city. This was an extreme case of a national pattern of cities with pro-labor Georgist leadership outgrowing cities run by the opposition. As for urban sprawl, Pingree favored growth without annexation — a principle that later growthmen were to forget, to their sorrow.

Urban sprawl in the 1920's

By 1930 Detroit had 68% more people than in 1920, again leading the nation. 1920s leaders, however, were not like the Progressive Republicans of yore; they were New Era Republicans of what Michigan's Professor Kenneth Boulding was to call "The Cowboy Economy." They twisted Pingree's ideas by growing in area more than they grew in people. Detroit's best-known product, marketed to millions, let builders sprawl over outskirts and suburbs to a degree hitherto unthinkable. Detroit's rich tax base, misspent, helped them do it.

Michigan Business Professor Ernest M. Fisher, normally given to timid understatement, documented the damages in monographs and articles that became minor classics of boom and bust in urban expansion. Most American cities underwent the same process, but Detroit was even more obsessed than most with its new toy, the auto, in which its civic leaders and role models gloried. So, it sprawled beyond the average. Hard-luck Flint became a poster-child victim of sprawl and land speculation, singled out for attention by leading planner Edmund Bacon (1940, "A Diagnosis"). Harold S. Buttenheim, Georgist editor of the then-influential *American City* Magazine, focused on Detroit. Recently, as GM closed down Flint's life-support, Michael Moore republicized Flint as a poster-child. Neither glare of publicity has cured Flint's problems, however. That would require rediscovering the secrets of Hazen Pingree.

Michigan in the Great Depression

Like many cities, Detroit crashed in the "Dirty Thirties," but it did better than most, growing by 3.5%. The world was still discovering the wonders of cars, tractors and trucks. Still, its people knew hard times, and searched for new ideas and leaders. It produced at least three prominent new men from outside the establishment, who led it in the New Deal direction. These were Charles Coughlin, Frank Murphy, and Walter Reuther. Coughlin and Murphy flashed across history's sky and faded. Reuther, working in the grubby trenches and staying home, was to have the more lasting impact.

Fr. Charles Coughlin was pastor of a small church in Royal Oak, a small inner suburb of Detroit. He mastered the new medium of radio, and amassed a huge national following in the early depression years. He saw social salvation in the 1931 Encyclical of Pope Pius XI, *Quadragesimo Anno* (40 Years Later), a rehash/update of Pope Leo XIII's *Rerum Novarum*, 1891. He popularized those messages as never before, partly through good timing: 1891 had been a boom time, while 40 years later, 1931, was a year of bust and social unrest. Both encyclicals bear an uncanny likeness to FDR's New Deal, much of it framed by Irish and other Catholics whom they touched through Coughlin. However, Coughlin's Michigan springboard rocketed him so fast to international prominence that he had little specific role in Michigan.

Frank Murphy, Detroit's Mayor 1930-33, was "a New Dealer before there was a New Deal" (Sidney Fine, biographer, 1984), and helped elect FDR. By all accounts he was of high character and ambition. FDR bundled him off to the Philippines as Governor-General (possibly to exile a potential rival?) Murphy returned to become one of Michigan's few Democratic Governors. During his tenure (1936-38) Walter Reuther's fledgling UAW pioneered the sit-down strike at GM's plant in Flint. Governor Murphy called out the national guard, but refused to authorize violence. Instead he negotiated a settlement that legitimized the UAW, using the new national Wagner Act. It was "The strike heard round the world." UAW membership exploded from 30,000 to 500,000. "Industrial unionism" had arrived to rival and later join the old AFL.

Walter Reuther (1907-1970) was a socialist from a socialist family, and a beaver who came up the hard way, organizing unions in a time of violence when employers controlled the police and the FBI. He survived beatings by strikebreakers, and two assassination attempts, before dying in a mysterious plane crash in 1970. He couldn't get elected even to the Detroit City Council, yet *TIME* magazine included him with the 100 most influential people of the 20th Century. He turned Republican Michigan into a union state, and his union into a major national political force. After 1939 he became a Democrat, increasingly on intimate terms with Party leaders. Even in 2008, Senate Republicans opposed bailing out Detroit auto-makers to avoid helping out Reuther's creation, the UAW.

All this time, with all this excitement, with boom and bust in the land market, Michigan depended mainly on the property tax. From 1932, other states were turning to sales taxes for "property tax relief," but not Michigan, not yet. Doughty Ben Smith of Grand Rapids churned out reams of essays and tables of data demonstrating that states progressed economically in the measure that they used the property tax to finance government. It is tragic he didn't survive to polish and package his works better. They are diamonds in the rough, just waiting for some graduate student to repackage and update them.

Detroit in the arsenal of democracy, 1940-50

After 1941, with "Lend-lease," and especially after Pearl Harbor, FDR naturally turned to Detroit to convert its assembly lines and supply sources to war production. The whole nation revived, but Detroit grew by 14% while most cities grew by much less, and some shrank. This was the age of Rosie the Riveter, but Rosie favored Detroit over most other venues. Walter Reuther the anti-fascist converted to a regular Democrat; Reuther the German-American squelched wildcat strikes against the war effort; Reuther the born Marxist purged communists from his unions, joined the cold war, and rated high in Washington. He was a man for his times. It appeared that Detroit and Michigan were back on the fast track — but not for long.

Famous Governors and meager results, 1950-70

From 1950-60, Detroit shrank by 10%, the first break in its sensational upward trajectory. What could the matter be? "Explainers" could blame the end of the war — but demand for autos and trucks was booming. America was pouring billions into the Interstate Highway System and urban and continental sprawl. The St. Lawrence Seaway was on track to open in 1959. Mass transit was dying. The causes must have been endogenous.

In 1952 Governor G. Mennen "Soapy" Williams was elected. He was the scion of an old Detroit family (Mennen toiletries), handsome, personable, an academic "prodigy," ambitious, cover of *TIME* and presidential timber. Like Murphy, he won as a Democrat in a Republican state. In 1952 the new Governor Williams allied with old labor warrior Reuther, and represented some of his views. He saw a need for more state services. Michigan had no state income tax at that time — only half the states did, and Michigan's neighbors and competitors Indiana, Ohio, and Illinois did not. Taxing "business" may have sounded good to Reuther, the intellectual steeped in Marxist economics.

Williams' 1953 tax was called the Business Activities Tax (BAT). Technically it was an odd duck, a kind of modified VAT that "the business community" preferred to a tax on corporate income, which has a narrower base and therefore requires a higher rate. Michigan overall still grew, as Detroit was hollowing out; but Michigan grew slower than the national average, losing another Congressional seat. It stood still compared with, say, California. As for Williams, he was shuffled off, like Murphy before him, to minor foreign posts. He came home and ended his career as

Chief Justice of the Michigan Supreme Court. His lasting memorial is the long, expensive Mackinac bridge, a 1950s version of a "bridge to nowhere," for it links only to the economically barren Upper Peinsula, which is sterilized by latifundia.

The next famous Governor was George Romney, 1962-68. Boosters proclaimed him a hero because he had rescued American Motors by promoting the Rambler (although it was made in Wisconsin). Romney was a "liberal Republican" (as the term was then understood), loosely allied with Nelson Rockefeller who loaned him economic adviser George Gilder, co-author with Jude Wanniski of early "supply-side" works. Romney viewed Reuther as "the most dangerous man in America" because Reuther had a visionary and idealistic side. It bears noting that Reuther's UAW was integrated racially, and Reuther was a long-time supporter of both Martin Luther King, Jr., and César Chavez. Romney might better have sided with Reuther against primitive Jimmy Hoffa, Reuther's arch-enemy. Romney introduced a personal income tax to help support public schools and provide "property tax relief," a p.r. catchphrase that, alas, caught on. No one seemed to love the property tax, least of all economics professors at the University of Michigan, blind to its earlier role under Pingree and Warner in catalyzing Michigan's amazing growth.

Meanwhile, the property tax itself was degenerating, nationwide, into more of a tax on buildings, less on land, through confusion and corruption in the assessment process. One can trace this openly in professional and scholarly works on assessment. Manuals from the International Association of Assessing Officers (IAAO) grew increasingly muddled.* Detroit was assessing land values at next to nil, using assessments dating from the Great Depression, and no one was doing anything about it. Economists weren't even writing about it. Only one Michigan

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* A leading scholarly study from the Harvard University Press (Mabel L.Walker, *Urban Blight and Slums,* 1938) recommended wiping out property taxes altogether.

city, Southfield, made itself an exception with outstanding results, discussed below.

In 1967, a police raid on an unlicensed late-night drinking club in a black neighborhood triggered Detroit's notorious 12th Street riots, which destroyed over 2000 buildings. President Johnson sent in US troops. Police harassment of blacks was consistent with their use of force against the UAW, which Reuther had integrated. Candidate Romney courted blacks more than previous Republicans had, but he was a prominent leader in his Mormon Church. At that time (before 1978) this Church denied blacks its "priesthood" (full membership), and had a long if vague and arguable record of discrimination in its sacred texts, none of which sat well in the new era of civil rights. Governor Romney had been preoccupied during this, his last term, seeking the Republican nomination for US President. The 12th Street Riots damaged both Romney and LBJ so much that both of them dropped out of the race. Romney was condemned for opposing the war, and LBJ for waging it — so, it seems likely that their poor handling of the riots was a more important factor. They never recovered, and neither has Detroit.

In 1967, more quietly, Michigan dropped its "BAT" and replaced it with a regular corporate income tax.*

Southfield booms while Detroit busts

While Detroit hollowed out, its suburb Southfield boomed and grew as fast as Detroit had in its glory days. From

* That was a change for the better, but it lasted a mere 7 years, to 1974. It deferred Michigan's worst problems because employers deduct wages from taxable income. In addition they deduct many capital investments. Michigan's Professor Richard A. Musgrave, with co-author Evsey Domar, famously explained in a classic article that deducting capital outlays may lower the effective tax rate to or towards zero. The BAT, by contrast, is on *gross* income, with no deductions.

1950-70 Southfield grew from 19,000 to 69,000 people. It had a Georgist Mayor, James Clarkson, who made a point of raising land assessments and lowering building assessments. How can a mayor do that? Clarkson observed that there is wide latitude in the assessment process — which most assessors use to underassess land. Southfield had been valuing land at 10% or less of market value. In 1960 Clarkson, like Pingree in 1890, campaigned for Mayor to correct that. Meeting resistance, he hired a Georgist assessor, Ted Gwartney, and had him upvalue land and downvalue buildings. Gwartney had honed this skill while working for Dr. Irene Hickman, elected Assessor of Sacramento County, California, who was also a Georgist. Clarkson served four terms before the Michigan powers lured him away with a judgeship. Gwartney left to pursue a distinguished career elsewhere. Southfield immediately leveled off at 76,000 people and has not grown since.

Harvard Law Professor Oliver Oldman, a leading tax authority, scoffed at the evidence at a meeting we both attended. In his view, Southfield was merely taking advantage of Detroit's problems, exploiting white flight. Oldman believed that Southfield was engaging in competitive undertaxation, a "race to the bottom." Such, unfortunately, has been the academic p.c. mindset — but it ain't so. Southfield's tax base actually rose by 20% per year under Clarkson/Gwartney, and it provided good utilities and public services. Even the landowners whose assessments Gwartney raised made out well, because the benefit of the relief of potential buildings from overtaxation was shifted to landowners in the form of higher market values. It was Detroit that was "racing to the bottom."

The "Single Business Tax" (SBT), 1975

In 1975 Michigan adopted its distinctive "Single Business Tax" (SBT), replacing the corporate income tax. This is a variety of VAT, a tax on gross receipts less certain deductions. First, as with any VAT, one deducts purchases from other firms, reasoning they have been taxed already on the value they added. Well and good — that is the virtue of VAT; it prevents "cascading." The awful vice, however, is that the taxed business does *not* deduct labor costs. So, what is touted as a tax on "business" is mainly a tax on the value added by labor, adding damage to deception.

Michigan's SBT has two more especially bad features. One is that unincorporated businesses, mostly small ones, are as subject to the tax as huge corporations. The other is that buying real estate, including land, is deductible as a current expense. This is illogical; land should not even be depreciable, since land does not wear out, and *a fortiori* should not be expensable in the year purchased. Imagine owners A and B selling a parcel of land to each other in alternate years, each buyer expensing it each time! It amounts to a great subsidy for holding land. By 1980 Detroit had dropped another 20% of its people from 1970.

Professors of Economics at the University of Michigan have not warned of or deplored these catastrophes. Rather, they join the power elites pushing the SBT and other variations of VAT. Joel Slemrod and James Hines lead Michigan's Office of Tax Policy Research (OTPR), a venue for dozens of protégés to tout the SBT as a model for all states, and the nation. They supply a toehold inside the USA for the "troika" of international organizations* that are imposing VATs on every other nation. Professor Slemrod, when Editor of the *National Tax Journal,* gave extraordinary fast-track treatment to a manifesto from the OECD pushing for a worldwide VAT. The OTPR has positioned itself at the center of the cobweb of "neo-liberal" research and publishing in public finance in our times. It pushes hard for VAT, in Michigan, in all states, and in the nation. No one at OTPR

* The European Central Bank (ECB), European Commission (EC), and the International Monetary Fund (IMF).

has accepted any responsibility for the crash of Michigan, or for Europe's steady decline that has coincided with its heavy reliance on VAT, even as OTPR and its many writers and protégés continue to sing the praises of VAT and urge all to adopt it.

Governor John Engler scuppers the property tax, 1995

In 1995 Governor John Engler decided to heal Michigan by taking its public schools off the property tax, putting them on a state sales tax. The national media commented favorably, crediting California's pioneering Prop. 13. Soon, however, Michigan got sicker. The press of March 11, 2007 reported the following:

☞ Michigan's unemployment rate had been at 7% for four years. Only Mississippi was higher; the national average was 4.6%. Some Michigan counties were at 10% when the Great Recession began. As old industries leave they are not being replaced.
☞ Michigan lost 300,000 jobs, 2000-2008.
☞ Personal income per capita dropped below the national average in 2000 and has stayed below.
☞ 22,500 people aged 18-24 left, 2000-2008.

Note again that first point, "As old industries leave they are not being replaced." What is left behind then but idle land? Once again, Detroit is riddled with holes, and in another of history's ironies people today are growing food in them to subsist — "Pingree's Potato Patches" again, 105 years later.

None of Michigan's postwar efforts at stimulative tax reform, save one, have done the job. That one is Southfield, 1960-1970, which scholars and politicians have studiously ignored. Bellwether Detroit lost 50% of its people between 1950-2000. Flint has lost 40%. Benton Harbor on Lake Michigan is a basket case. Then, to top it off, in 2008 Michigan moved on from mere decline to a Crash heard round the world.

Here is the advice I gave to Gov. Engler's economic advisors at that 1995 Levy Institute conference:

What happens when a state radically slashes its property tax? Michiganders are saying they must wait and see, but California can show you 17 years of experience. To read your future, just study our past. Here is what has happened since California passed Proposition 13 in 1978:

The obvious direct results have been to cut public services, raise other taxes, and lose credit rating. Our school support fell from #5, nationally, to #40 in 1985 when last seen, and is still falling. County road maintenance is down to where my county (Riverside) is repaving its roads at an annual rate of once every 130 years. Once in 20 years is recommended here, and up north you need higher frequency. You can't just build infrastructure and then stop paying for it. Thanks to urban sprawl, a high fraction of our population now depends on these county roads.

In 1978 we had a surplus in Sacramento. Since then we have raised business taxes, income taxes, sales taxes and gas taxes, but go broke every June. Now our State bond rating is last among the states. One of our richest counties (Orange) has gone bankrupt; Los Angeles is on the brink of it, saving itself by closing emergency rooms and hospitals that serve as a last resort for the uninsured poor.

The private sector is doing badly, too. Raising income taxes, business taxes, and sales taxes is no way to stimulate an economy; they are all a drag on work and enterprise. Our per capita income was down from #7 to #12 among the states by 1992, then fell some more. From 1992-94, California was one of three states where median household income fell. Our unemployment rate (2008) is 9%, 50% higher than the national mean of 6%. Our poverty rate is 18%, compared to 14.5% nationally. Not surprisingly, therefore, the only government function that grows now is building and operating prisons. One of our few rebounding industries is cinema, the art of escaping from reality: we excel at that. Another thriving activity is that of auctioning off used *machinery for export to the east.*

In 1993 there was net outmigration (including international migration) from this state that has symbolized American growth since time immemorial. It is unheard of. Nearly 2% of the population, 426,000 people, were lost. This is a watershed change: imagine of all states California, America's trend-setter, our El Dorado, The Golden State, our Horn of Plenty, the safety-valve for job-seekers and retirees and entrepreneurs from everywhere, the end of the rainbow, losing population! It's almost enough to make a person click off the tube and think.

The fall of our per capita income is greater than appears from the purely monetary measure. Real pay has fallen more, because of the drastic rise of shelter prices. In San Francisco, shelter takes 50% of the median income, with many other cities, especially coastal ones, not far behind. The median home price rose 163% during the 1980s, to $258,000 (remember that is just the median *— the mean is higher). These rises are part of the cost of living for all renters and new buyers, a part not fully incorporated in standard CPI measures.*

Some cities are in desperate straits. San Bernardino in 1976 was chosen an "All-America City, a City on the Go." It went, all right: today, 40% of its people are on welfare.

California has always been earthquake country, but has always renewed itself, routinely. It was different after the Northridge quake in the San Fernando Valley, January, 1994. This is the upper-middle class neighborhood of Los Angeles, but now large pockets of ruined buildings remain, unreconstructed, inhabited only by vagrants and criminals: an instant Bronx West. These blighted sections, ominous portents, spread more blight around them.

It should give one pause. It is, however, if you think about it, the expectable result of what the voters did. They turned property from a functional concept into a sacred one. Instead of a commission to be enterprising, hire people, produce goods, and pay taxes, real property became a welfare entitlement. California's voters (whether they realized it or not) rejected the concept of a tax on inert wealth in favor *of taxing liquidity and cash flow. The predictable result is to inhibit economic activity, and encourage holding wealth inert and stagnant.*

We had a construction boom in the 1980s, but it was not healthy. It was marked by extreme sprawl, and extreme instability. Downtown LA was to become a great new financial capital, but now has nearly the highest office vacancy rate in the US, with of course a high rate of builder bankruptcies. Speculative builders were led on to over-build, in part, by anticipated higher land rents and prices. This Lorelei effect was magnified by national income-tax provisions luring on speculative builders, but we have to ask why California fell harder than other states, even with the object-lessons of the oil states in clear view.

David Shulman tersely summarized the distributive effects of Prop. 13 as he left us for Salomon Brothers in Manhattan: "it breached the social compact." Alienation is the result, and the Rodney King riots, arson and looting are the results of alienation. True, the Watts riots preceded Prop. 13, but they were part of a national epidemic. By 1967 there were riots with arson and looting in 70 or more American cities. The Rodney King riots were endemic to California, and spread over a much wider area of Los Angeles than the Watts riots did. The looters and arsonists were not all black, and the targets were not all white, but mainly Korean-Americans who just happened to be there minding their stores.

Conventional wisdom blames our bust on the end of the Cold War. Surely that is a factor, but as a causal explanation it is too pat, too easy and a-historical. Compare today with 1945. Los Angeles's economy depended much more on The Hot War, 1940–1945, than it ever did on The Cold War. Los Angeles's wartime boom had swelled its population as no other great city, 1940–45. After 1945 the US pulled the plug on defense spending far more abruptly than today. Jane Jacobs, in The Economy of Cities, *tells us what happened to military spending in Los Angeles after 1945. It lost 3/4 of its aircraft workers, and 80% of its shipbuilders. It lost its military and naval overseas supply and replacement businesses. Troops stopped funneling through. It got worse: petroleum and cinema and citrus, its traditional exports,* *all declined.*

Pundits forecasted a regional collapse. Yet Los Angeles never collapsed, nor missed a beat. The wartime immigrants stayed put here. They formed creative, innovative small businesses in large numbers, giving LA its deserved reputation for having the most dynamic, flexible, adaptable industrial base in the nation. Besides exporting goods, LA also became more self-contained, providing itself with more of the goods it previously imported. How could this be?

One of every eight new businesses started in the US were in LA, 1945-50. These were small, creative and flexible, too varied to classify. No Linnaeus could sort them in conventional categories: the new Angelenos simply stayed here and started producing everything for themselves, some things previously imported, and others never seen before. Eastern firms established branch plants here. Top eastern students came to California's great university system, and stayed behind to make careers and jobs here. There was a kind of regional "El Dorado Effect," as demand and supply grew together, and growing local demand allowed for economies of scale serving local markets. Food and shelter were cheap and abundant. Land for business was accessible, providing a basis for the whole self-contained phenomenon. A "continental tilt" developed in both interest rates and wage rates, drawing in eastern capital and labor.

Why is that not happening today, 1995? Because Proposition 13 makes it possible to hold land at negligible tax cost. In 1945 land was taxed at 3% every year, building a fire under holdouts to turn their land to use. Today that same tax cost is well below 1%. Using Gwartney's Rule of Thumb [for 1995 California assessments], it is about 1/8 of 1%: a rate of 1% applied to 1/8 of the true value.

Landowners are only taxed now if they use their land to hire people and produce something useful. Then they meet the drag of our high business and employment and sales taxes, necessitated by the fall of property taxes. A handful of oligopolistic landowners control most of the market; small businesses are squeezed out. This helps us segue from being at the cutting edge of industrial progress to a third-world *economy — from the New Hampshire model to the Alabama model — with no relief in sight.*

What was different then? One obvious difference was the high property tax dependence in 1945, and the lower burdens of sales tax, business tax, and income tax. We not only had high property tax rates, they were more focused on land then than now. In 1917, California tax valuers focused on land value so much that it constituted 72% of the assessment roll for property taxation — a much higher fraction than today. This became the California tradition.

In 1934 the "EPIC" campaign of Upton Sinclair included a strong Georgist element — he proposed to set up new factories on idle land. Meantime, Jackson Ralston was pushing a purer land tax initiative, 1934–38. Ralston lost, but the mere existence of such political action in California, when the movement was torpid elsewhere, tells us a lot. It reveals a large matrix of supportive voters and workers to whom politicians (including tax assessors) would naturally respond by focusing on land assessments.*

California displayed amazing growth up to 1978, and the resilience to shrug off the loss of war industries after 1945 and still grow "explosively" (as Jane Jacobs put it). After 1978 we had a string of reverses. The timing, a priori *causative analysis, and numerous direct observations support an hypothesis that the reverses were aggravated by Prop. 13. Michigan, be warned of our lot, and learn about taxes from us:* **This Could Happen to You.**

— *Groundswell*, November 2008

* EPIC, End Poverty In California, was the slogan for Sinclair's 1934 campaign for Governor of California.