DAVID O. SEARS / JACK CITRIN

TAX REVOLT

Something for Nothing in California

ENLARGED EDITION

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Preface to the Enlarged Edition

This is a welcome opportunity to assess the meaning of the popular rebellion against the prevailing fiscal regime in California some time after the initial electoral dust has settled. The reverberations of Proposition 13 in California, in other states, and in Washington, D.C., resulted in a historic halt to the onward march of governmental expansion. Responding to the voters' mood, officials at all levels of government shifted from reform to preservation. How to live with less became the order of the day.

In analyzing the dynamics of public opinion leading up to the vote on Proposition 13, we concluded that the people wanted something for nothing. Tax relief was the fervent desire of the majority, not dismantling the structure of public service built up over three decades of growth. Proposition 13 owed its success to an unusual conjunction of economic and political factors—rapid inflation in the real estate market, a fiscal structure that automatically translated this into higher tax bills, generalized frustration with the size and competence of government, and the failure of state leaders to produce a plan for property tax relief. Once the fiscal reins had been slipped around their necks, public officials had to cope with the problem of meeting the continuing demand for services with revenues limited in supply by legal restrictions, electoral pressures, and economic recession.

We have written a new chapter for this paperback edition, briefly reviewing how government responded to this fiscal stress and tracing the interplay of public opinion and public policy in the aftermath of Proposition 13. The main conclusion is that the tax revolt in California led neither to the millennium promised by its supporters nor to the apocalypse predicted by its detractors. There has been a decline in the tax burden and in the size of government, which has aligned policy more closely with public opinion as it was expressed at the time of the passage of Proposition 13. But officials also have succeeded in preserving the core of existing programs, even in the face of complaints by the most ardent tax rebels. The public has in turn perceived these changes in policy rather clearly, and the intensity of discontent about the level of taxation has faded. Nevertheless, the underlying ambivalence in attitudes toward the proper role of government continues to prevail.

Our research suggests that this pattern of policy and opinion change is the rule in other states and in the federal context as well. There is a political logic to cutback budgeting in the present climate of opinion: the golden rule is to preserve as much of the programmatic status quo as possible without raising general taxes on individuals.

The aftermath of the tax revolt has shown that public opinion and elections do matter. Government remains constrained by the complex pattern of beliefs that we describe. Today, budgeting is more than ever controlled by the vagaries of the business cycle, and new programs must be carefully marketed. Howard Jarvis's unique moment in the California sun has had lasting effects. It is our hope that the additional chapter clarifies the nature of these consequences and the reasons for them.

We want finally to acknowledge the assistance of Donald Green in the preparation and analysis of new data and the usual efficient help of Carolyn Drago and Tony Kenney in the preparation of the manuscript.

Preface to the First Edition

We began this project as the Proposition 13 campaign struck gold in California. The victory of Proposition 13 appeared to us to be a watershed event in the history of California's politics, potentially marking the end of an era of strong commitment to building a public sector large in scope and high in quality. It triggered a chain reaction of protests against taxes and public spending at all levels of government in America, and this tax revolt challenged the long-run trend among industrialized democracies everywhere for government to increase the size and scope of its activities. In America, the national repercussions have now led to an historic shift in spending and tax policies. But as we began to probe the intentions of California's voters it was unclear whether the tax revolt of 1978 was more than a momentary pause in the steady movement toward the assumption by government of responsibilities once held by family, religious, and business institutions.

Our inquiry mainly focuses on the attitudes of individual voters and how these influenced their choices on ballot measures proposing to limit taxes and government spending in California. Our approach to the meaning of the tax revolt, therefore, is to assess directly the motives of the general public. What did the people want? What were they rebelling against? And how do they feel about the results of their rebellion?

This concern places our research in the tradition of survey-based studies of public opinion and voting. We do not pay systematic attention to a variety of other analytic approaches to the tax revolt that search for causes by comparing the political institutions, fiscal climate, tax regulations, spending policies, or demographic composition of the locales in which protests against taxes have variously succeeded or failed. Others are mining these lodes, and we have benefited from the results of their efforts, but our own study has a distinct preoccupation with the dynamics of the attitudes and actions of individual citizens.

We deal primarily with California, but move at the end to selected comparisons with other states and to the nation as a whole. As the largest state California is of course politically important in its own right. But it is also socially, economically, and politically heterogeneous, affording the opportunity of studying a fairly representative subsample of the nation's population. Too, the tax revolt in California has had its ups and downs, providing the occasion for analyzing the public's mood in dynamic rather than static terms. Finally, California has the reputation for being a political harbinger of things to come, a reputation that the elevation of Ronald Reagan and the implementation of his Jarvisite program seem to confirm.

We are indebted in many ways to Professor Merrill Shanks of the Survey Research Center of the University of California at Berkeley. As director of the center when our project began, Professor Shanks was instrumental in obtaining funds for the study, and he has led the development of Berkeley's innovative system for computer-assisted telephone interviewing, which we used for our Tax Revolt Survey. As co-principal-investigator of the tax revolt study, he collaborated with us on instrument design, data collection, and preliminary analyses. His own final analyses and conclusions from this study will appear in a separate report, along with data he has collected in subsequent nationwide studies of public preferences concerning taxes and governmental spending.

This research was supported by a generous grant from the Hewlett Foundation, to whose president, Dr. Roger Heyns, and board of trustees we express our deep gratitude. Final data collection costs were covered by supplementary support from the Survey Research Center's current director, Percy Tannenbaum. The data analysis and preparation of the manuscript were supported in part by funds from the Biomedical Research Support Grant and Academic Senate at the University of California, Los Angeles. We were also fortunate to have at our disposal the facilities and resource of the State Data Program at the University of California, Berkeley, including its valuable archive of Mervin Field's California Poll data, and the Data Archive of the Institute for Social Science Research, University of California, Los Angeles.

John Foley generously provided access to the data from the *Los Angeles Times* Poll.

We also wish to thank the staff of the Survey Services Facility at the Center for their careful administration of the Tax Revolt Survey. We are especially grateful to the many anonymous and unsung respondents in this survey who gave their valuable time for our purposes. They may have been mad as hell, but they consented to tell us why. Tom Jessor bore almost all the responsibility for executing the data analysis, and did so with exceptional intelligence, patience, and good judgment. Margaret Baker, Ilona Einowki, and Libbe Stephenson helped greatly in unearthing and analyzing a variety of state and national polls. The material on the history of the tax revolt in California included in Chapter 2 owes a heavy debt to the research and advice of Frank Levy. We also greatly benefited from careful comments on the manuscript by Thad A. Brown, Walter Dean Burnham, Donald R. Kinder, Richard R. Lau, Susan Fiske, and Steven J. Rosenstone. And finally, Carolyn Drago converted more illegible draft into clean copy in one year than any person should be forced to do in a lifetime. We are deeply and permanently grateful.

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1
Introduction

People are understandably readier to demand services from government than to pay for them. Resistance to new or rising taxes is as old as government itself and has punctuated American history from the very beginning. But in the late 1970s a new wave of popular protests against the rising cost of government erupted in many of the world's industrialized democracies. This book seeks to establish the boundaries of this ongoing tax revolt, its causes, and its likely future.

The steady expansion of the welfare state in both Western Europe and North America after World War II both reflected and reinforced rising aspirations for equality and security. Under the conditions of slow economic growth, inflation, and unemployment that have persisted since the energy crisis of 1973, however, the financial burden of ever higher government-protected minimum standards of income, health, nutrition, and housing has become controversial, and conservative complaints about the stultifying effects of the enlarged public sector have gained in support.

The results of the Danish general elections in 1973 dramatically exemplified the popular backlash against rising taxes and public expenditures. The newly formed Progress party campaigned for the abolition of the income tax and curtailment of the powers of the "wasteful" and "arrogant" civil service and won an astonishing 23 percent of the vote. A few years later, the Social Democratic parties of Sweden and Norway, architects of generous "cradle to grave" welfare systems, were cast into political opposition after more than three decades in office. In 1978, Britain elected as prime minister the Conservative Margaret Thatcher, who dedicated her government to cutting individual taxes and promoting the growth of private enterprise at the expense of the public sector.

The election of Ronald Reagan as president of the United States marked a watershed moment in this international trend toward governmental retrenchment. Mr. Reagan campaigned against "big government." Once in office, he proposed and Congress quickly passed budgetary changes that resulted in far-reaching cutbacks in social programs that had developed over the long period of Democratic political dominance beginning with the New Deal. The victory of the Socialists in the French presidential and parliamentary elections in 1981 shows that the movement to the right was not universal and that the previously mentioned electoral changes partly reflected antagonism toward incumbents, whatever their political coloration. Nevertheless, it is undeniable that the desirability of established welfare systems and the weight of the citizen's tax burden are salient and divisive issues once again.

In the United States, the current movement to limit the fiscal authority of government began by aiming the weapons of direct democracy at state and local officials. This phase of the tax rebellion reached its apogee with the passage of Proposition 13 (the "Jarvis-Gann amendment") in California in June 1978 by a margin of two-to-one. Two longtime toilers in the tax-reduction vineyards, Howard Jarvis and Paul Gann, managed to place on the ballot and lead to success a radical initiative that amended the state's constitution so as to reduce property taxes sharply and to restrict their future growth. It soundly defeated a rival, more moderate measure (Proposition 8) developed by the state legislature and much of the state's liberal and centrist political establishment. Proposition 13 ushered in an era of plebiscitary budgeting in California and spawned a variety of imitative proposals in other states. In national politics, the success of Proposition 13 prompted leaders in both parties to speak in more fiscally conservative tones. The Republicans went further, and made Howard Jarvis's message the centerpiece of their 1980 presidential campaign: eliminating bureaucratic waste would make it possible to cut both taxes and public spending without the loss of valued services, and less government would enhance both the personal freedom and the personal finances of citizens.

Proposition 13 promised substantial tax savings to property owners and gave all voters a chance to strike a blow against officialdom. Its overwhelming victory resulted, as we shall show, from the economic anxieties and opportunities created by the tax structure in California, and from the accumulated mistrust and resentment of government at all levels that prevailed in California as well as nationwide. California's tax rebels won another campaign in November 1979 with the passage by 74 percent to 26 percent of Proposition 4 (the "Gann amendment"), which placed a limit on the allowable annual growth in state and local government appropriations. But in June 1980 the voters spurned their erstwhile hero, Howard Jarvis, and rejected Proposition 9, his proposal to cut the state's individual income tax rates in half, by a margin of 61 percent to 39 percent. At this apparent reversal in popular feeling, commentators turned from speculating about the genesis of the California tax revolt to explaining why it had run its course.

The recent events in California provide the raw material for a case study of the nature and underpinnings of popular preferences on taxing and spending issues and the significance of these attitudes for the future course of government social programs. The size and variety of California's population and the strength and diversity of its economy make the tax revolt there worth studying in its own right. Beyond this, moreover, the evidence of numerous surveys points consistently to the similarity of public opinion in California and in the rest of the nation. There is a widespread tendency among Americans in and out of the Golden State to desire simultaneously lower taxes and increased government services. It is not necessary to hold the view that California is representative or, alternatively, that it is the vanguard of the future, to believe that the motives and decisionmaking processes of voters there are widely shared.

Because Propositions 13, 4, and 9 enabled Californians to decide tax rates and levels of public expenditure directly, we can analyze voters' intentions and the meaning of their choices in a context relatively free of the muddying influence of the many other issues that come into play in partisan contests for executive and legislative office. And because the referenda, with their different outcomes, were held within a short period during which the public's basic values changed very little, the tax rebellion in California provides an unusual opportunity to explore the interplay of changing tax structures, government service commitments, and campaign events in determining the public's choices.

Alternative Images of the Tax Revolt

What stimulated the latest outbreak of protests against taxes in so many American states and localities? And how did voters choose their stance on proposals to cut taxes and limit government spending, with some emerging as fervent advocates of less government and others as staunch defenders of the public sector? No one disputes that the passage of Proposition 13 reflected at least a strong collective preference for lower property taxes. But this consensus dissolves when observers describe the intentions of voters in more precise terms. The many interpretations of the tax revolt can be crudely distinguished according to the relative weight assigned to economic self-interest versus broader political and cultural values as determinants of how people voted.

Economic Theories

Economically oriented theories predominate in efforts to explain the revolt. Almost everyone has some personal economic stake in matters of taxation and public expenditure: we all pay taxes and receive, or fail to receive, benefits from public spending.[1] Some pay more or receive less, to be sure, but everyone could potentially calculate a personal price for the bundle of goods provided by government and then decide if the price is too high. When a referendum or election gives voters the chance to make this decision explicit by asking them to vote on a proposal to limit the fiscal powers of government, they could conceivably calculate the tradeoff between taxes to be saved and services to be lost and then act on the basis of this personal "bottom line."

So, for example, it is argued that the rash of defeats for proposals to raise local-government revenue by bond issues in the early 1970s simply reflected the downward movement of the business cycle.[2] During periods of economic growth when real personal income is rising, citizens are likely to be sanguine about the growth of the public sector. When times are hard and individuals must retrench, they expect government to do the same. From this perspective, the current movement to reduce taxes is a natural reaction to the prevailing recession in the world economy. What is more, tax revolts are bound to be quite regular occurrences, tides of discontent whose ebb and flow are the wake of macroeconomic performance.

This idea is restated forcefully in Michael Boskin's identification of concern over "the *total* tax burden and the *aggregate* amount of government spending at all levels" as the main cause of the tax revolt in America generally and the passage of Proposition 13 in particular.[3] He argues that between 1973 and 1977 inflation and rising taxes resulted in the absence of any growth in real disposable income per worker in the United States; government spending soaked up virtually the entire increase in Gross National Product during this period. This shift in the balance of spending power between private individuals and government agencies, he claims, generated discontent among voters. And their unhappiness was reinforced by the conviction that inflation, for which government gets blamed, rather than unemployment, was now the main economic evil. Unless people acquire a new taste for spending on public rather than private goods, therefore, according to Boskin, demands for reduced taxes should persist as long as the growth in personal incomes remains sluggish.

Where Boskin emphasizes the total amount of taxes paid as a cause of current protests, others argue that what matters is the degree and rate of change in specific taxes. Harold Wilensky argues that the tax revolt is most intense where the government relies on highly *visible* taxes for funds and where these taxes increase steeply and suddenly.[4] Before people rebel, they notice that their tax burden has become much heavier. Since the property tax is notoriously visible, Wilensky's hypothesis seemingly accounts for the passage of Proposition 13 in California, where property taxes rose sharply and inexorably between 1973 and 1978, and of Proposition 2½ in Massachusetts, another state with disproportionately high property taxes.

In the years leading up to Proposition 13 there had also been a steady increase in the share of the local tax burden in California borne by individual homeowners as against owners of commercial property. Some observers have speculated that anger at this inequity was the underlying source of support for Proposition 13.[5] Indeed, George Break suggests that the vote for Jarvis-Gann indicated support for a tax *shift* rather than a tax *cut*, that people were not so much unhappy about the level of government spending as about who was providing the revenues. At first glance, this argument better explains the contrasting outcomes of Propositions 13 and 9 than the hypothesis that the overall tax burden is crucial. The argument is less successful, however, in accounting for the fact that even renters gave Proposition 13 a relatively high level of support.

We explore these variations on the general theme that high taxes produce tax revolts by using survey evidence to connect the individual's perceptions of his tax burden, both in general and with respect to specific taxes, to his stance on Propositions 13, 4, and 9. As Chapter 6 shows in detail, the more convinced the voter was that he was paying too much in taxes, the more likely he was to support any and all of these measures. Even a voter whose dissatisfaction centered on the property tax was disproportionately likely to support Proposition 9, which was aimed only at the state's income taxes. However, as the defeat of Proposition 9 implies and as our survey data bear out, support for a proposed tax cut varied with the amount of savings one anticipated. Concern for one's personal bank account, whether motivated by fear that taxes were devouring it, greed for the chance to add to it at the expense of the public treasury, or both, strongly influenced the course of the tax revolt—but clearly more than this was involved.

In November 1978 there were tax or spending measures on the ballot in thirteen states. In states where taxes were lower than the national norm, proposals to cut property taxes along the lines of Proposition 13 sometimes passed (in Idaho and Nevada) and sometimes failed (in Oregon). In Michigan, where taxes were high by national standards, the Tisch amendment, which called for large reductions in both state income taxes and local property taxes, lost by a three-to-one margin.[6] In November 1980, six states had measures limiting property taxes on the ballot; these lost everywhere except in Massachusetts.[7] Measures to limit spending or to require special legislative majorities for raising taxes were more successful: a combined boxscore for 1978 and 1980 shows seven of nine such proposals passing.[8]

These results, along with public opinion polls that found approximately two-thirds of the public preferring a balanced budget at current levels of taxation to reduced federal taxes, have caused some observers to argue that the roots of the tax revolt lie in negative reactions to the spending side of government policy rather than the taxing side. American government has grown dramatically in the last half-century; total government revenues constituted more than 25 percent of GNP in 1978 compared to only 11 percent in 1929. In the 1960s and 1970s government spending rose steadily at the state, local, and federal levels. Between 1969 and 1975 the annual increase in the spending of all states was 12.4 percent, for all local governments 11.6 percent, and for the federal government 10.3 percent.[9] Ironically, the growth of government slowed in the 1975–1979 period during which the protests against taxes and spending reached a crescendo, but even in these years it kept pace with or exceeded the increase in GNP.[10] This increase in government spending was, if anything, accentuated in California, where state and local taxes as a proportion of personal income reached 16 percent in 1977, compared to 12.1 percent for the rest of the country, and where direct per capita general expenditures for state and local government were 118 percent of the national average.[11]

Changes in the pattern as well as in the amount of government spending preceded the recent protests. As state and local government budgets expanded in the 1960s and 1970s, the expenditures devoted to activities whose benefits are available to everyone, at least in principle, declined relative to what was spent on services with specialized constituencies. Nationally and in California, universal services such as police, fire protection, sanitation, parks, and local schools received a diminished share of public funds compared to welfare, health, and higher-education programs, which have more restricted clienteles. For example, between 1956 and 1976, nationwide the share of state and local government spending devoted to local schools fell from 30.4 percent to 26.5 percent, while the share devoted to public welfare rose from 8.6 percent to 12.3 percent of total expenditures and the share devoted to higher education rose from 4.8 percent to 9.5 percent.[12]

According to the "spending side" interpretation of the tax revolt, the average middle-class voter, presumably made aware of these trends by direct experience or by the mass media and mobilized interest groups, had by the late 1970s learned that he was paying more, but for services used by others. From this perspective, the victory of Proposition 13 in California and the election of President Reagan represented protests against what government was *doing* as well as what it was *costing*. Unfortunately, we know little about the accuracy of popular beliefs concerning the distribution of public spending. But the public's apparent consensus, revealed repeatedly in public opinion surveys, that government should maintain or increase the activities that make up the bulk of its expenditures does run counter to this anti-spending theory of the tax revolt.

A third economic interpretation, already hinted at above, holds that anxieties generated by the overall state of the economy rather than feelings about particular taxes or spending programs motivated the tax revolt. Inflation is singled out as a particularly significant factor. An inflationary psychology encourages people to buy now since everything will almost certainly cost much more later. This belief and the accompanying resentment over the prospect of not being able to attain one's promised due—the home, second home, college education for one's children, or vacation abroad—is thought to enhance the propensity to sacrifice public expenditure in favor of private consumption. The obvious counterhypothesis is that the coexistence of high rates of both inflation and unemployment prompts people to demand more government protection to arrest their slide into the economic abyss. Our own evidence, while not definitive, does not suggest a central role for such factors, however.

Political Theories

The theories outlined above treat the tax revolt as a considered response to genuine economic grievance. In these accounts voters soberly calculate the personal costs and benefits of particular proposals to limit taxes or public spending and then act to maximize their resources. By contrast, what we for convenience label political interpretations view the tax revolt as a symbolic protest against broader targets. In other words, while voters might rationalize their choices as based on financial need (or greed), reactions to the tax revolt more truly express long-established values and deeper passions than are engaged by campaigns over seemingly technical fiscal measures.

One widely held hypothesis is that the tax revolt gained support in the late 1970s because it provided the opportunity to give vent to accumulated feelings of disaffection from all levels of government.[13] The statistics of declining confidence in government beginning in the mid-1960s are by now very familiar.[14] For example, the University of Michigan's biennial national election surveys show that in 1978 only 30 percent of the public said they trusted the government in Washington to "do what is right" all or most of the time, compared to 76 percent in 1964. In the same period the proportion of the public regarding most government officials as competent fell from 69 percent to 41 percent. Moreover, this rise in political mistrust was an across-the-board phenomenon manifesting itself in all demographic, partisan, and ideological subgroups of society. Thus proposals to cut taxes or limit spending were readily supported as convenient clubs with which to beat victims ranging from "wasteful" local bureaucrats to national politicians responsible for Vietnam and Watergate, and opposition to such proposals may have been muted by the tendency of even people who had a personal stake in their defeat to share in the general disenchantment with government.

The California electorate's gratuitous rejection of Proposition 8, the "official" alternative to Proposition 13, indicates the strength of public antagonism toward the political class.[15] Proposition 8, after all, only promised a cut in taxes. But Proposition 13 explicitly and deliberately slipped a fiscal noose over the heads of legislators and administrators. In the words of Howard Beale, the evangelical newsman in the contemporaneous movie "Network," and Howard Jarvis, Proposition 13 would send them a message from "the people" that "We are mad as hell and we're not going to take it any more."

We shall argue that the tax revolt in California, particularly in its early phase, incorporated important elements of a populist crusade against the established political and economic institutions in the state. The campaign for Proposition 13 began as a grass-roots movement led by men on the political fringe. Opposed by both political parties and by both corporate and labor leaders, Jarvis and Gann were able to mobilize latent antigovernment sentiment into passionate support for their cause. In this they were helped by the inept, if not provocative, actions of important public officials. Whatever mass character the tax revolt possesses, then, appears to be largely a function of generalized political cynicism.

Other politically oriented explanations have emphasized the role of partisanship and political ideology in shaping reactions to the tax revolt. A fundamen-