THE CALIFORNIA *Journal of*

Politics & Policy

Volume 1, Issue 1 2009

Proposition 13 and the Transformation of California Government

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Abstract

Thirty years after voters ushered in the tax revolt by passing Prop. 13, it remains the third rail of California government. In the throes of the budget crisis of 2008, there was no serious talk of reforming the property tax system. Prop. 13 was opposed by the elite, supported by the masses, and attitudes have hardly changed in 30 years, despite substantial change in the composition of the electorate and years of handwringing about the effects of the measure on public education and other government services. But what fairly can be labeled a revolutionary event neither ushered in the millennium promised by its promoters nor brought on the apocalypse prophesied by its detractors. It did change the way of doing political business in California. Power shifted from local governments to the state, from the legislature to the governor, and from representative democracy to plebiscitary government.

KEYWORDS: Proposition 13, taxes, property tax, California politics

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Proposition 13 and the Transformation of California Government

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They say that nothing is forever. Except, perhaps, Proposition 13. Thirty years after voters ushered in the tax revolt by passing this initiative, the fiscal noose it placed around the neck of California government is not much looser. Proposition 13 is indeed the third rail of California government. In the throes of the budget crisis of 2008 and increasing fiscal disarray, there was no serious talk of reforming the property tax system. Proposition 13 was opposed by the elite, supported by the masses. And as Mark DiCamillo reports elsewhere in this book, popular attitudes have hardly changed in 30 years, despite substantial change in the composition of the electorate and years of handwringing about the effects of the measure on public education and other government services. This book's review of the effects of Proposition 13 on California suggests that what fairly can be labeled a revolutionary event neither ushered in the millennium promised by its promoters nor brought on the apocalypse prophesied by its detractors. What did change was the way of doing political business in California. Power shifted from local governments to the state, from the legislature to the governor, and from representative democracy to plebiscitary government.

Genesis

The seed for Proposition 13 was planted in 1965 when it was revealed that elected tax assessors were receiving "campaign contributions" from interested parties as they "reviewed and adjusted" assessments on business properties. Spurred by the outcry over this scandal, the legislature passed A.B. 80 in 1967. This law required communities to reassess all property at 25% within three years and then to

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This article appears in *After the Tax Revolt: California's Proposition 13 Turns Thirty*, ed. Jack Citrin and Isaac William Martin (Berkeley, Calif.: Berkeley Public Policy Press, 2009). The book is available at www.igs.berkeley.edu/publications and sells for $24.95.

conduct subsequent reassessments often enough to keep the ratio intact. No good deed goes unpunished. The unintended consequence of this reform was to increase the assessment for homeowners. Previously, commercial properties as a whole had been assessed at a higher ratio of market value than single-family housing. The application of the uniform rate meant that homeowners had to assume a greater share of the burden if the overall level of property tax revenues was to be maintained. And because residential property tended to turn over more quickly and assessors employed sales prices to establish the market value of similar properties, as long as real estate prices moved upward, shortening the reassessment cycle also added to the relative burden of homeowners.

In the 1970s, reform in the name of good government forbade the use of political discretion as a buffer between homeowners and inflation. For the tax collector, the ideal tax is neither seen nor felt, just collected. The property tax was the opposite: collected twice a year in large and increasing chunks. In the aftermath of A.B. 80 and rising property taxes, the Los Angeles County Tax Assessor sponsored initiatives in 1968 and 1972 to cut property taxes, to assign responsibility of all nonproperty-related services such as health, education, and welfare to the state government and, in the case of the second initiative, to increases sales and sin taxes. The state's political and business leaders, including then-Governor Reagan, opposed Philip Watson's initiatives and both were defeated, but not before the passage of legislation provided for homeowner exemptions and some limits on tax rates. Still, despite evidence of popular discontent neither Watson nor Paul Gann could collect enough signatures to put a new tax limitation measure on the ballot. So Proposition 13 must be viewed as a dramatic swing in the fortunes of the anti-tax movement.

Macroeconomic Change

Inflation was the carrier of the anti-tax spirit through the body politic. With the new assessment procedures in place, the boom in California real estate beginning in 1974 meant that rising values quickly were registered in higher tax bills. By 1977–78, property taxes in California were about 52% above the national norm. And inflation also contributed to the rise in the amount of sales and income taxes paid. While inflation and nominal incomes were increasing, a stagnant national economy stalled corresponding growth in real incomes. The result was bracket creep. People paid more in federal and state taxes, and elected politicians failed to compensate by lowering tax rates. Between 1975 and 1978, while personal income grew by 23%, total state taxes rose by 40%, with the largest increase (48%) in personal income taxes.

DOI: 10.2202/1944-4370.1013

So there is no great mystery about a primary cause of the tax revolt. It was higher taxes. People singled out the property tax as particularly onerous; in 1978, a poll found that 60 percent of homeowners said the amount they were paying was unfair. But Proposition 13 also appealed to those who did not pay property taxes directly by requiring a two-thirds majority for the imposition of any new taxes.

Political Disenchantment

As taxes were increasing, so were government spending and the size of public bureaucracies. Big government is a familiar demon in American political culture, and Howard Jarvis made government waste and inefficiency a theme in the campaign for Proposition 13. His sallies echoed during a period when public faith in the integrity and competence of all national institutions was declining. All national and state surveys showed a steady rise in political cynicism in the mid-1970s. More and more people said they only rarely trusted the government to do what is right and agreed that government was run on behalf of a few big interests rather than the people as a whole. President Carter used these data to speak about a national malaise. In California, popular disillusionment was accentuated by the failure of state government to deal with the obvious problem of escalating property taxes. In fact, Jarvis and Gann began circulating petitions for 13 only after the legislature's efforts to pass a tax relief measure in the 1977 session collapsed. Democrats and Republicans squabbled over how much tax relief to provide and the extent to which it should be targeted to low- and moderate-income families. With an election approaching, how to apportion political credit for a tax cut became an issue. Republicans suspected Governor Brown of allowing a surplus to accumulate in order to time a rebate to coincide with a reelection and the governor's own aloofness from the legislature made it hard for him to forge a consensual solution.

Only with the campaign for Proposition 13 underway did the legislature act, producing a proposal for a split roll and a tax cut about half of that proposed by Jarvis-Gann. This proposal appeared on the ballot as Proposition 8 and was denounced by Howard Jarvis as a cruel and cynical hoax the politicians were foisting on voters. One could vote for both measures, assuring oneself half a loaf. But in the end Prop. 13 passed by a 65 to 35 margin, while Prop. 8 was rejected by a margin of 53 to 37.

The Campaign

Proposition 13 had a natural base of support among disgruntled homeowners, but its organizational resources were slight compared to the opposition's. The

United Organization of Taxpayers, led by Jarvis, grafted their campaign onto local taxpayer and homeowners associations, mainly in southern California, and ultimately obtained financial support from some large developers and businesses. Nevertheless, arrayed against them were the governor, Speaker of the Assembly, state superintendent of schools, every local school official, prominent Republicans like Pete Wilson and George Deukmejian, large corporations like the Bank of America, Standard Oil, and Southern California Gas and Electric, the AFL-CIO, and the California State Employees Association.

The opposition campaign centered on the "devastating" consequences of the massive tax relief Proposition 13 would provide. Local services, especially public education, would be emasculated. There would be about 250,000 public sector jobs lost statewide and a resultant economic slowdown. The state surplus, whose size was downplayed, was not large enough to compensate for lost revenues, so other taxes would have to be raised. The prudent thing to do was to pass Proposition 8, which provided homeowners with relief and did not lock the state into a situation where needed future adjustments in tax rates would be impossible.

Jarvis's response was pungent. Lower taxes would stimulate rather than retard growth. Eliminating waste and the state surplus could compensate for lost revenue and assure that "needed services" would remain available. "And if a library here and there has to close Wednesday mornings between 9 and 11, life will go on. Who the hell goes to the library in the morning, anyway?" What mattered was to cut taxes and teach government a lesson.

The Field Poll showed that from February to May, about half the public said they favored Prop. 13, about one-third said they opposed it, and the rest were undecided. When respondents were read the standard arguments both for and against the measure, approval tended to decline by about 10%. In other words, some positive opinions were soft. And an April Field Poll showed Proposition 8 running slightly ahead of 13.

What changed the dynamic of the campaign and assured victory for Prop. 13 were the following climactic events. On May 16, "city officials" in Los Angeles announced that the new assessments would show that the total assessed valued of the property in the city had increased by 17.5% in just one year. Since only one-third of all property was reassessed each year, this meant that the average increase per reassessment would be far higher and many people faced the prospect of a tax bill double the previous year. The same day, Alexander Pope, the L.A. country tax assessor announced that voters could find out immediately how their property had been assessed rather than waiting until after the election in July. The next day the county board of supervisors ordered him to mail the official reassessment notices before the election.

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A firestorm of protest ensued as the media graphically depicted the fear and anger of people anticipating tax bills they could not pay. Within a week, the board of supervisors endorsed a rollback of all assessments to the previous year's levels. This mobilized people who had been reassessed in the previous two years and now felt they were being treated unfairly. On May 26, Governor Brown, sensitive as ever to the tide of public opinion, proposed a statewide freeze on reassessments, but was forced to abandon the idea five days later. In the meantime, the polls recorded a spectacular increased in support for Proposition 13. The furor in Los Angeles was a godsend for the pro-13 campaign. It concentrated public attention on the reality of rising taxes and drowned out warnings of lost services. The confused and contradictory responses of politicians seemed to validate the charge that they were unable or unwilling to provide tax relief. In the words of Yogi Berra, one week before the election itself it was over. The fat lady had sung.

Deconstructing the Vote

Tax Revolt, a book I co-authored with David Sears, is subtitled "Something for Nothing in California." By this we were referring to an entrenched pattern of opinion. People want to pay less in taxes; a majority also says it prefers a smaller government, even if this means fewer services. But when asked whether government should spend more or less on a particular category of service, an overwhelming majority consistently says more for everything except welfare and "administration." Indeed, the most popular services, fire, police, and education, are the most labor intensive, have highly paid unionized employees, and thus are very expensive.

Tax relief was the main motivation of support for Prop. 13. In 1978 as now, owners were more supportive than renters, and the level of voting for Proposition 13 rose in tandem with the amount of anticipated tax savings. Public sector employees were more opposed than private sector employees. The elderly also were stronger supporters of Proposition 13 than the relatively young. And whites were more likely to vote for the initiative than blacks.

There also were predictable political underpinnings of the vote: Republicans were more supportive than Democrats; conservatives more pro-13 than self-described liberals or moderates, and people who said they preferred a smaller government were more in favor of the property tax reform than those who wanted the government to provide more services even if it meant higher taxes. Political cynicism, as indexed by expressions of mistrust in government and the belief that waste was rampant, also boosted support for Proposition 13.

The Aftermath

Soon after the passage of Proposition 13, the state legislature, burdened with an embarrassingly large surplus of $11 billion, cut state taxes by more than $1 billion by providing a one-time income tax credit, increasing tax relief for renters, reducing some business taxes, and partially indexing state income taxes. These reductions were partially designed to head off what became labeled as Jarvis II, a proposal on the June 1980 ballot to cut state personal income taxes by limiting rates to 50% of those in effect in 1978. In part because of the reduction in taxes, and in part because of the fear that this time such a large cut in taxes would lead to devastating cuts in services and public sector jobs, this draconian measure was defeated by a large margin, 61% to 39%.

Two years later, however, tax cutting resumed with the passage of initiatives fully indexing the state income tax, overriding a veto of similar legislation, and fully repealing the state's inheritance tax. In these heady days, voters rejected proposals for a special tax on the state's oil companies and a "tax-simplicity" initiative that would have shifted taxes from individuals to businesses. Proposition 13 and these successor measures thus protected Californian taxpayers from most of the tax consequences of inflation.

Proposition 13 had national repercussions as other states responded to the evidence of public discontent with high taxes in the context of slow economic growth. In most cases, legislatures acted. Isaac Martin provides a detailed account of the spread of the tax revolt. But in the first five years following the passage of Proposition 13, between 1978 and 1982, 43 states acted to cut taxes and limit the growth of expenditures. Clearly, Prop. 13 reinvigorated the initiative process nationwide, and it took on a more professionalized form and spread to other domains of policy, such as welfare reform, school vouchers, auto insurance, gun control, nuclear policy, and environmental protection.

Governing California after Prop. 13

Proposition 13 initiated a new era in California government and public policy. Liberal critics like Peter Schrag are unrelenting in their criticism, pointing mainly to cuts in spending on public schools, health services, and transportation and the concomitant boom in prison construction (Schrag 2004).[1] The proper balance between public and private spending is a value judgment, of course, but some facts are clear. In the past 30 years, California once a high tax and high services state in the rankings of American states moved down both ladders and now is in the middle of both tax and overall spending rankings.

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Thanks to Proposition 13, the composition of California's revenue stream has changed. Property taxes are a much smaller share on the total pie, and the state relies heavily on the highly volatile income and sales taxes. As a result, the coffers bulge quickly during booms and empty rapidly during economic downturns. Since the public continues to demand more services and spending formulas, labor contracts, and inflation drive spending upward, California, encumbered by rules that require two-third votes to increase general taxes and pass the state budget, has confronted episodic fiscal crises. Proposition 13 may have slowed the dreadnought of increased government spending but certainly has not reduced the overall size of government.

State and local governments have employed a range of tactics to replace the money seized by the tax revolutionaries: these include the passage of special taxes, especially, parcel taxes, fees and charges for a wide range of services, leasebacks, and bond financing. Taken together, these measures have filled much of the revenue gap engendered by lost property tax revenues; a long-time resident inspecting her annual property tax bill, in Berkeley at least, now sees a long list of charges for special taxes and bonds that together approximate the levy for the traditional property tax. At the same time, these special taxes and charges have an uncertain future; they depend on voter approval and typically are subject to renewal after a specified period.

After Proposition 13, California moved from representative to plebiscitary government. California adopted direct democracy in 1912. Between 1940 and 1970, there were 42 initiatives on the state ballot. From 1971 to 2005, there were 157 such measures, and the bulk came after the passage of Proposition 13. Moreover, these figures do not count the myriad of local and county ballot measures. As a result of Proposition 13, all major policy decisions in California have been settled by a popular vote or a threat of such a vote. Initiatives are used by segments of the public sector to guarantee their share of the budget. They are the weapon of policy entrepreneurs, such as the actor Rob Reiner and the present governor, Arnold Schwarzenegger, to promote pet projects. They are used by consumer activists to impose rules on business and by business to ward off such efforts. Gubernatorial candidates seek to ride on the coattails of popular initiatives. And of course antipolitical movements, sometimes funded outside the state, have used the initiative to limit the power of elected representatives.

An incomplete list of major post-13 initiatives include reform of inheritance taxes, guaranteeing the public schools a share of the state budget, taxes on tobacco to assure spending for health programs, auto insurance reform, abolishing affirmative action, passing a state lottery, term limits, an income tax surcharge on millionaires, the "three strikes" for convicted felons, and reform of bilingual education. Most of these measures were aimed at the status quo. A number of far-reaching initiatives have failed, of course. Redistricting reform is a good example. In that case, the majority Democrats in the legislature were able to retain control of the process after expensive campaigns in which Hollywood actors played a prominent role.

At the same time, politicians and powerful interest groups have learned to use direct democracy to market policies that could not pass the legislature. Infrastructure bonds are a good example. These are carefully crafted to give a piece of the pie to developers and environmentalists, unions, and the education and medical lobbies. The result is an expensive, complex, and comprehensive proposal that buys off the potential opposition but also raises the cost of doing business. In a sense, the bargaining and coalition-building that used to be a feature of the legislative process now has moved into the arena of direct democracy, stage managed by lobbyists and campaign consultants.

Incredibly complex policy matters are being decided by voters with limited knowledge and it is easy to point to unintended consequences that pose serious adjustment problems. And while the academic and political establishments rail against the excesses of the initiative process, no serous reform seems likely. The mistrust of elected officials that helped fuel Proposition 13 remains intact. Polls continue to show that a large majority of the public wants to retain the voice the initiative provides them and believes that policy made at the ballot box is superior to what would emerge from Sacramento.

Conclusion

Proposition 13 took dead aim at high taxes, fired, and scored a direct hit. Property and other taxes are lower than they would have been had the initiative failed. Prop. 13 essentially provided voters with an inflation security system in an era of escalating home values. It is this reliability, I think, that sustains popular support for the measure. People know what they will pay and even if neighbors who bought at different times have widely divergent tax burdens, this doesn’t seem to be too bothersome. I bought later than you, but someone else will buy later than me.

Despite its success in cutting taxes, Proposition 13 had other consequences that even its promoters probably regret. It shifted power from local governments, arguably closer to the people, to the states. It slowed spending but did not halt its growth. And the fiscal constraints on the legislature unleashed a mad scramble for money that has produced an incoherent, dysfunctional system of budgeting that makes it harder to react flexibly in times of fiscal stress. Finally, Proposition 13 boosted the role of direct democracy in deciding public policy. But this has not meant the triumph of grassroots democracy. The initiative now is in the hands of all major players and money matters as much as if not more than ever.

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The process began because of failures of the governor and legislature and now the chickens are firmly ensconced. Popular mistrust of California government rages on unabated, and thinking people are considering again the need for wholesale institutional reform. The essays in this book provide a wide-ranging look at the impact of Proposition 13, how California adjusted, and how to think about the future.

Notes

[1] Peter Schrag, *Paradise Lost: California's Experience, America's Future*. (Berkeley: Univeristy of California Press, 2004).