THE 1978 TAX REVOLT: RHETORIC OR REVOLUTION

by Andrew D. McNitt and Richard Goodrick*

Is Proposition 13 a revolutionary change or a rhetorical illusion? Contrary to the fears of many in the public sector, there has not been an epidemic of Proposition 13's. Following the passage of Proposition 13 in June of 1978 many public officials feared that their states would soon be afflicted with similar fiscal maladies. Official concern focused on the way Proposition 13 drastically weakened the financial base of governments which depend on property taxes.[1]

The California amendment, according to the *New York Times* [9, p. 25], provided that:

> No property assessments could be taxed at more than 1 percent of its 1975-1976 market value.
>
> No property assessments could be increased by more than 2 percent annually unless the property is sold, at which time it would be assessed on the basis of market value.
>
> No local tax increases or new taxes could be enacted without a two-thirds majority vote of both houses of legislature.

The contagious nature of California's recent tax limitation was greatly exaggerated by the news media. Too often any fiscal proposal, no matter what its consequences, was equated with Proposition 13 which became a generic term for fiscal reform.

Actually, fiscal restrictions such as tax reductions and spending limitations were only on the ballot in twelve states in the fall of 1978. Four states voted on proposals similar to Proposition 13. In Oregon and Michigan the voters defeated these restrictions, and in Idaho and Nevada they approved the proposals. However, only the Idaho results are final. Nevada requires a second vote on an amendment before it is ratified, and this vote will not be held until 1980.

The other revisions of state and local taxing and spending laws on the November ballot also met with mixed success. Three of the questions were defeated. Arkansas voters declined to exempt food and drugs from the state's three percent sales tax; Colorado voters said no to a proposed constitutional amendment linking state and local expenditures to increases in the consumer price index; and Nebraska voters defeated an attempt to limit local governments to five percent annual budget increases according to the *Public Administration Times.* [10, p. 10]

[1]School systems are most dependent on property taxes. Property taxes provide approximately 46 percent of the General Revenue for schools, 33 percent for counties, and 31 percent for municipalities. See Maxwell and Aronson [7, p 137].

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A Theoretical Explanation of the Tax Revolt

Thomas Dye found that political variables have considerably less influence than socioeconomic variables on state level policy making. His study, however, did *not* look at the politics of constitutional revision. Dye [6, pp. 178-209] looked only at legislative action. Constitutional revision requires more than just legislative action. Consequently a different set of legal and institutional variables must be considered.

Some of the most important institutional variables which influence constitutional revision are the legal requirements for proposing a constitutional amendment. In some states only the legislature can propose amendments, while in other states amendments can be proposed by the initiative process also.

In this paper we argue that the presence of initiative procedures is a necessary precondition for the passage of tax revolt initiatives. Legislatures do not propose radical cuts in state taxes because the legislative process encourages compromise, and because the membership of the legislature has a continuing responsibility for providing services. The initiative process discourages compromise because it does not allow for the revision of the original proposal and because those interest groups which circulate initiative petitions do not have a continuing responsibility for state government.

We argue that socioeconomic factors can only contribute to the tax revolt if the constitutional preconditions are met. We see the tax revolt as a phenomenon which is largely restricted to the initiative states. Those states which allow constitutional initiatives and also are characterized by high state and local taxes will be on the cutting edge of the tax revolt.

TABLE 1 TAX REVOLT STATES

State	Nature of Amendment	Vote in Favor
Alabama	Limit property tax increases for local government	55.3%
Arizona	State spending limit	78.2%
Colorado	Spending lid for state and local governments	41.5%
California	Proposition 13	64.0%
Hawaii	State spending limit	66.8%
Idaho	Proposition 13-style amendment	58.4%
Illinois	Advised reduction in state spending	82.0%
Michigan	Proposition 13-style amendment	37.3%
	Spending limit	52.5%
Nebraska	Local spending limit	44.8%
Nevada	Proposition 13-style amendment	77.8%
North Dakota	Income tax cut for individuals and an increase for corporations	65.1%
Oregon	Proposition 13-style amendment	48.3%
South Dakota	Raise requirements to approve state taxes	53.0%
Texas	Limits on state spending	84.0%

Source: *Congressional Quarterly*, November 18, 1978, p. 3300; *Los Angeles Times*, June 7, 1978, p. 1; and the *Chicago Tribune*, November 9, 1978, p. 10.

The Limited Nature of the Tax Revolt

Most of the taxing and spending proposals that were approved in November (1978) did not come close to the dehabilitating affects of the California reform (see Table 1). Nor did they, with the possible exception of North Dakota's income tax reduction of 37 percent, require a significant tax cut. Elsewhere there was little indication of an epidemic of drastic tax reduction or even significant cutbacks in spending. In Michigan, where a Proposition 13-style amendment was defeated, voters opted instead to limit state spending to the current fiscal year level of 9.4 percent of the state's personal income and the growth of local tax revenue to the consumer price index. In Hawaii and Texas voters approved similar budget ties to economic growth; while in Arizona voters approved a state spending limitation of 7 percent of personal income. Ironically, in Arizona "state spending is currently 6.5 percent of personal income and has never exceeded 7 percent" according to *Nation's Cities*. [8, p. 26].

In other ballot action, Alabama restricted increases in property taxes in any county to 20 percent. Massachusetts voted to tax residential property at a lower rate than commercial property. And South Dakota raised the majority required to approve a tax increase from a simple to a two-thirds majority of both houses of the legislature. At the same time West Virginia made it easier to raise taxes by reducing the majority required to approve school bonds from 60 percent to a simple majority reports the *Public Administration Times* [10, p. 10]. Of these amendments, only the North Dakota and possibly the Alabama propositions can be characterized as part of a tax revolt.

Voters in Illinois passed a proposal calling on the state to reduce spending. However, the Illinois proposition was only *advisory* because of constitutional restrictions on initiative in that state.

The Routine Nature of Fiscal Reform

The attempt to credit all of the modifications in state and local taxing and spending laws to the political environment created by California's Proposition 13 overstates the importance of the "Golden State." Taxing and spending laws are routinely modified by the states. In fact, the *Book of the States* publishes a yearly list of these changes. The Advisory Commission on Intergovernmental Affairs reported in 1978 that "since 1970 at least 15 states and the District of Columbia have established some form of new control over local fiscal powers." [3, p. 30]

Also, state legislatures have routinely been enacting circuit breaker legislation for elderly and low income residents. Wisconsin enacted the first circuit breaker in 1964. "By 1977 every state in the nation had undertaken some form of tax relief" either a renter property tax credit, circuit breaker or a homestead exemption maintained the *ACIR*. [3, p. 27]

Susceptibility to the Tax Revolt

Although opinion polls conducted during the summer of 1978 indicated that a majority of Americans, both nationwide and in every region, favored Proposition 13, only a relatively small number of states were involved in the tax revolt. Why were radical tax reduction proposals on the ballot in *so few* states?

One of the most important points to remember when analyzing the 1978 tax revolt is that public preferences are not directly translated into government policy. A proposal must first obtain a place on the political agenda before it can become law. Decision rules and political institutions often make it difficult for policy proposals to gain immediate serious consideration.

There is considerable variation in the procedures for adopting constitutional amendments at the state level. Although 48 of the 50 states require a public vote to ratify an amendment, there is a major division between those states where only the legislature can place an amendment on the ballot and the 16 initiative states where amendments may also be placed on the ballot by petition [5, p. 278]. The legislative process encourages compromise because it provides numerous opportunities to reconsider, modify and even block policy proposals. The initiative process is much more rigid. The original proposal which appears on the initiative petition cannot be changed during the public debate over its passage. The initiative process requires the acceptance or rejection of the entire policy proposal. Consequently, the initiative states are more likely to have extreme tax proposals on the ballot. To test this constitutional model of the tax revolt we correlated the proposal and passage of tax revolt amendments, both Proposition 13-style tax cuts and the more moderate spending limitations, with the method of proposing constitutional amendments. We hypothesized that initiative states would be more likely to have tax revolt amendments on the ballot in 1978.

Another way to explain the tax revolt is as a response to state fiscal conditions. Political leaders reacted to the passage of Proposition 13 by advocating new programs of tax reduction and fiscal restraint. Both state and national leaders used the tax revolt as an excuse for not expanding social programs. To test this fiscal model of the tax revolt, we correlated several measures of taxation with both the proposal and passage of the 1978 tax revolt amendments. Information on statewide property tax rates, [4, p. 12] state income tax rates, [2, pp. 27-35] per capita sales tax collections, [13, p. 8] tax collections per thousand dollars of personal income, [14, p. 22] and changes in property tax assessments between 1973 and 1975 [12, pp. 6-10] were used to directly measure the extent of state taxation. We hypothesized that high property, sales and income taxes and above average tax revenue per thousand dollars of personal income in a state would all be positively associated with the tax revolt.

In addition to relating tax collections to the passage of tax revolt amendments, we also decided to look at who was being affected by the state and local taxes. Political lore has it that homeowners and the elderly are the two groups which are most directly affected by the property tax. The statewide rate of owner occupancy [11, pp. 41-47] and the percentage of a state's population over 65 years of age [15, pp. 294-305] were used to measure the relative impact of state property taxes. We hypothesized that if the property tax was the major cause of the tax revolt, that an increasing rate of owner occupancy and an increasing number of citizens over 65 years of age would be positively related to the tax revolt.

The tax revolt can be seen as a reaction to perceived government inefficiency. While it is extremely difficult to measure government efficiency, the existence of large state budget surpluses is an indication of a serious imbalance between taxation and the provision of services. A budget surplus means that taxpayers must not be receiving full value for tax dollars paid because the state is accumulating funds which will not be used to provide services. To test this efficiency model we correlated the dollar amounts of state budget surpluses [5, p. 278] with the tax revolt amendments. We hypothesized that the larger a state's budget surplus the more likely it was to have a tax revolt amendment on the 1978 ballot.

The results indicate that constitutional factors do a better job of explaining the proposal, but not passage of tax revolt amendments than do either fiscal or budgetary variables (see Table 2). The correlation between the proposal of tax revolt amendment, either a Proposition 13-style tax cut or some form of spending limitation, is greater for initiative (r= .47) than for any other explanatory variable.

Only one of the five measures of state taxation, the property tax rate, is significantly related to the proposal of tax revolt amendment (r=.33). All of the other measures of state taxation rates are so weakly related to the tax revolt as to be statistically insignificant. The finding of a relationship between property tax rates and the proposal of tax revolt amendments further underlines the unpopularity of this form of taxation. Property taxes then seem to be one of the driving forces behind the tax reform proposals.

The resentment towards property taxes is, however, not restricted to the most directly affected social groups. Neither home ownership rates or the proportion of a state's population over 65 is significantly related to the tax revolt. More is involved than just a reaction to this one type of taxation.

State budget surpluses also play a small role in the call for tax revolt. There is weak correlation (R=.23) between the dollar amount of state budget surplus and the proposal of a tax revolt amendment. While this suggests that some sort of government efficiency model may be a partial explanation of the tax revolt, we should be careful not to over-emphasize the importance of this finding because much of the correlation is the result of the very high California and Texas state budget surpluses.

The results are different when we shift our attention from proposal to pas-

TABLE 2
PEARSON'S CORRELATION OF TAX INITIATIVES WITH STATE POLITICAL AND FISCAL CONDITIONS
(all states n = 50)

	Property Tax Rate	Sales Tax	Income Tax	Taxes Per $1000 of Personal Income	Change In Assess-ments	Owner Occu-pancy	State Sur-plus	Initi-ative	Popu-lation Over 65
Tax Revolt Proposal on 1978 Ballot‡	.33*	.12	-.17	-.18	-.03	-.13	.23*	.47*	-.01
Passage of 1978 Tax Revolt Amendment*	.16	.30*	-.09	-.03	-.14	-.11	.20+	.27*	-.15

*Significant P≤.05
+Significant P≤.10
‡Tax revolt proposals are both major tax reduction and spending limitation amendments to state constitutions.

sage of the tax revolt amendments (see Table 2). None of the explanatory variables is strongly related to passage. The relationship between initiative and the tax revolt drops from R=.47 to R=.27 when we shift from proposal to passage. Once again only one of the measures of state level taxation is significantly related to the passage of tax revolt amendments. However, this time it is per capita sales tax collections (r=.30) instead of property tax rates. Finally, state budget surpluses also continue to play a small (r=.20), but this time only marginally significant role in the passage of tax revolt amendments.

Although the constitutional model is an adequate explanation for proposal, none of the models, constitutional, fiscal or efficiency, is a sufficient explanation for the passage of the tax revolt amendments. None of the independent variables by themselves is so strongly correlated with passage to constitute an adequate explanation of the phenomena. The tax revolt cannot be explained simply as a reaction to high taxes.

When viewed as a whole, the results in Table 2 suggest that a more complex model of the tax revolt should be considered. The high correlation between initiative and the proposal, but not the passage of the tax revolt amendments is consistent with the argument that initiative is a necessary, but not a sufficient, condition for the approval of a tax revolt amendment. The initiative states seem to be particularly sensitive to tax revolt proposals. Eleven of the 16 initiative states had tax revolt proposals on the ballot in 1978.

Without the initiative process it may be extremely difficult to get a tax revolt amendment on the ballot. Constitutional procedures seem to be acting as a filtering device. The initiative states may well be the only states which are highly susceptible to the tax revolt.

If initiative is a necessary condition for the tax revolt, then this would obscure the relationship between state taxes and tax revolt amendments. To control for this possibility it is necessary to confine our analysis to just the initiative states.

When both the proposal and passage of the tax revolt amendments are correlated with the measures of state level taxation and budget surpluses for just the initiative states there is a major change in the pattern of relationships (see Table 3). There is a much stronger relationship between taxes and both the proposal and passage of the tax revolt amendments. In particular the property tax rates, per capita sales tax collections and tax rate per thousand dollars of personal income are now more strongly correlated with the tax revolt than they were for the national data set. The correlations for property tax rates (r = .52 and r = .31) can easily be explained by the high visibility and unpopularity of this tax. The high correlation between per capita sales tax collections and the tax revolt (r = .52 and r = .62) is more difficult to explain.

The correlation between sales tax and the tax revolt is misleading in that it obscures the fact that high sales taxes are the best indicators of high tax states. This situation evolves from the fact that the sales tax was cited in *ACIR* surveys from 1972-76 as the "best way" for state governments to increase their tax revenue [1, p. 16]. Hence the correlation between sales taxes and tax revolt can be explained in part as a natural result of the fact that high tax states rely heavily on what is perceived as the least offensive vehicle to raise revenue — the sales tax. The correlation between total tax revenue per $1,000 of personal income and both the presence and passage of a tax revolt amendment is also high, r = .45 and r = .50, respectively.

Finally, the finding that the proportion of a state's population over 65 is negatively related to the tax revolt is surprising only because of our general misconceptions about the extent to which California is a retirement community. California actually has a slightly younger population because of the extensive post-war migration than does the rest of the country. It is the more slowly growing northern states where young people are leaving for the sun belt in search of jobs that have the greatest proportion of residents over 65. The negative correlation between the tax revolt and the proportion of a state's population which is over 65 is further strengthened for the initiative states because Florida and not California is the true retirement state. Florida is the one sun belt state with a substantially greater proportion of its population over 65. Florida, one of the few initiative states which did not pass the tax revolt amendment has, according to the 1970 census, the highest proportion of residents over 65 of any state in the Union.

There is not a simple relationship between high taxes and the tax revolt. To be susceptible to the tax revolt a state must be both an initiative state and a high tax state. Constitutional limitations on state spending will not be placed on the ballot by a state legislature. Consequently, under normal circumstances, the more extreme manifestations of the tax revolt will probably be restricted to the 16 states which allow tax amendments to their state constitutions to be placed directly on the ballot by initiative.

Conclusion

The poor electoral record of the Proposition 13-types of amendments, the limited impact of the spending limitations, the routine nature of fiscal change and the restriction of the tax revolt to the initiative states are all indications of the failure of Proposition 13 to reach epidemic proportions. Idaho and Nevada are the only states to pass imitations of the California proposal. Proposition 13 did not sweep the country, the tax revolt hysteria did.

Too much emphasis has been placed, in the explanations of the tax revolt, on specific fiscal and budgetary factors. Although resentment of state taxes

TABLE 3

PEARSON'S CORRELATION INTIATIVES WITH STATE FISCAL CHARACTERISTICS
(Initiative States n = 16)

	Property Tax Rate	Sales Tax	Income Tax	Taxes Per $1000 of Personal Income	Change In Assessments	Owner Occupancy	State Surplus	Population Over 65
Tax Revolt Proposal on 1978 Ballot ‡	.52*	.52*	-.08	.45*	.20	-.36+	.20	-.50*
Passage of Tax Revolt Proposal ‡	.31	.62*	-.06	.50*	-.14	-.01	.22	-.45*

*Significant $P \leq .05$
+Significant $P \leq .10$
‡ Tax revolt proposals are both major tax reductions and spending limitations.

and spending practices plays a role in the tax revolt, the expression of that resentment was controlled by intervening political factors. Since taxes are universally disliked there is always a potential for a tax revolt. Consequently, who controls the kinds of proposals which can be placed on the ballot is of crucial importance. The initiative states seem to form a sort of national sounding board. Ideas which are not considered acceptable by the regular political leadership may become public policy in the initiative states if they can attach themselves to a popular movement via the initiative process.

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