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California Journal of Politics and Policy

Title

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Permalink

<https://escholarship.org/uc/item/12w9k73w>

Journal

California Journal of Politics and Policy, 1(1)

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Publication Date

2009-04-20

DOI

10.5070/P2V88K

Peer reviewed

THE CALIFORNIA *Journal of*
Politics & Policy

Volume 1, Issue 1

2009

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FDR and Reagan**

John Fund
Wall Street Journal

Abstract

Opponents of Prop. 13 make a political miscalculation as serious as that which conservatives did with Social Security. For 30 years, they have tried to dismantle Prop. 13, or modify it. Their efforts are as doomed as the efforts to change Social Security, because Prop. 13 is considered part of the basic social fabric of California. Today, 70% of Californians support it. Some may not like those numbers, but they should understand them rather than fight them.

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

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Proposition 13: A Watershed Moment Bridging FDR and Reagan

John Fund*
Wall Street Journal

Proposition 13 had a profound impact in my life. It taught me an awful lot about politics and governance in one short summer.

In 1978, I was an intern in the California State Legislature. In late May, Paul Priolo, who was the Assembly Republican leader, told his caucus members he had just come back from a town hall meeting in his Ventura County district. “I’ve been holding these town hall meetings for years,” he told them. “I was there to explain to them that Prop. 13 would be a disaster, reminding them that out of 120 California state legislators, only four endorsed it.” But Priolo said his message didn’t sell. “I stood up before 800 people, the greatest number that had ever shown up at a town hall meeting, and I said to them if Prop. 13 passed it would decimate local services. It would destroy their schools. It would lead to disaster. I said that if they voted for it it would end local government as they knew it.” The reaction he got stunned him. “I got my first standing ovation, ever,” he recounted. “I knew something was wrong.” He then looked at his fellow Republicans and said, “Guys and gals, we’re in trouble. It’s time for us to follow, not to lead.”

That event taught me something very valuable in politics. Our political leaders say they’re leaders. In reality, they’re mostly followers, and that applies to both political parties.

Proposition 13 had a profound impact nationally. Not only did it set off a nationwide tax revolt, but a very careful student of California politics was paying attention. Ronald Reagan may have opposed or stood silent when a series of property tax reform measures were unsuccessfully proposed in the 1970s. But after Prop. 13’s landslide win, he decided to make tax reduction the centerpiece of his presidential campaign in 1980. He embraced Kemp-Roth, a dramatic cutting of marginal income tax rates. He won; he implemented Kemp-Roth and changed much of America’s fiscal history.

*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.

The political success of Prop. 13 has made it difficult for people to view it objectively. One of the hardest things in politics is trying to understand voting trends you profoundly disagree with. That goes for both sides of the political spectrum.

In 1929, we had a crisis of capitalism, the Great Depression. We could argue about its sources and its causes and how much the New Deal helped recovery. But regardless of that debate, it is clear Franklin Delano Roosevelt was elected to do something about people's suffering.

People were very insecure in their lives, especially senior citizens. Seniors are very concerned about security, and they vote in much higher numbers than the general population. Roosevelt tapped into that. A cornerstone of the New Deal was the 1935 Social Security program, a social safety net for those people in their retirement years. The average age of death at that time was 65, so Roosevelt was very cleverly proposing a program that most people wouldn't benefit from. He didn't foresee the great life expectancy increases we enjoy today. But it nonetheless proved to be an extremely popular program.

Conservative Republicans hated this program. Business hated it because rather than have the taxpayer pay all of the cost, half of it was disguised as an employer tax, even though ultimately it was going to be passed on in the form of lower wages to employees.

For 40 or 50 years after its passage, an unstated—and sometimes stated—goal of many conservatives was to undermine and ultimately roll back Social Security. The Republican Party kept running up against the rocks and being destroyed because of this goal. It became the third rail of American politics. What people did not understand, if they were conservative critics of the program, was that Social Security had become a basic tenet of our social safety net, and it was not going to be touched. It could be supplemented. You could certainly have 401(k) plans and IRAs, but Social Security was inviolate.

If anyone was in any doubt about that, they were disabused in 2005 when President George W. Bush broached the idea of allowing workers to invest part of their payroll tax payments in mutual funds and relatively safe investments in the stock market to get a higher return. That went nowhere so fast; it never even got a vote in a House or Senate committee. It went much less further than even Hillary Clinton's healthcare reform plan of 1994.

Now it's true that 25 nations have adopted private pension programs, but all of them are parliamentary democracies, a far different mechanism by which to effect social change than we have. I think there is a future in expanded private pensions, but the basic Social Security system is inviolate.

I submit that Proposition 13 has taken on many of the same characteristics and political bulletproofing as Social Security. In the 1970s, we didn't have a crisis of capitalism as we did in the Great Depression. We had a crisis of government. After

Vietnam, after Watergate, after the Great Society programs were seen as failures or not fulfilling their promise, there was a crisis of confidence in government. As a result, when property taxes went sky-high in the 1970s, people reacted against that, especially senior citizens seeking security, especially people who were fearful that they would be forced out of their homes by rising property taxes. They sought security. Prop. 13, in its own way, was a search for security, just as much as the search for Social Security was a desire for security for people in their old age. People say their home is their castle. One of the biggest things that matter to people in their golden years is the safety of their home.

So I think opponents of Prop. 13 have made a political miscalculation as serious as that which conservatives did with Social Security. For 30 years, they have tried to batter down the doors and dismantle Prop. 13, or modify it. Their efforts, frankly, were as doomed as the efforts to change Social Security, because it was considered part of the basic social fabric of California after it passed. All you have to do is look at the poll numbers showing 70% support for the measure today to see that. Some may not like those numbers, but they should understand them rather than just fight against them.

I think Prop. 13 could be modified or improved. But rather than meet supporters of Prop. 13 halfway, its opponents have often taken the Brezhnev approach to political science. The late Soviet leader Leonid Brezhnev was once asked about the future of Europe, and he told western leaders, "What's ours is ours and what's yours is negotiable." Well, with Prop. 13 the message was, "Let's dismantle Prop. 13, because it's destroying the social egalitarianism of California." But what are you going to give the supporters of Prop. 13 today? They represent 70% of the people. You have to give them something as part of a political compromise or else you're not going to get anything.

Instead, in 1990, opponents of Prop. 13 dismantled the Gann spending limit, passed in 1979 by Paul Gann's group, which restricted growth in state government to population and inflation. For growth beyond that it required a vote of the people. It worked to contain the California state budget in the 1980s. We didn't have great fiscal crises in California in the 1980s, except for the recession year of 1983. In general it was a period of relative calm. After the Gann limit was removed in 1990, the state budget went up.

There is much doleful talk about the increases in pressure on state and local governments because of Prop. 13. Many of those problems are real, but let's look at the big picture first. Between 1978 and 2003, the first 25 years of Prop. 13, state school district revenue per student, adjusted for inflation and population increases, went up 30%. The schools may be hurting, but in part it's because there are more administrative personnel and fewer teachers in the classroom than there used to be. But revenue is up overall by 30% in real terms. During the same 25-year-period,

state government revenue increased 25% after inflation and population. City governments, which were the governments that were supposedly decimated by Prop. 13, went up 20%.

Now, what's happened since 2003, the year of this decade's first budget crisis? The state budget was \$77 billion in 2003. It's now over \$100 billion, an increase of 37%. Inflation in those five years has been 15%, population growth you add another 6%, that would lead one to predict a 21% growth rate to keep up with inflation and population growth. But the budget is up 37%.

Supporters of Prop. 13 look at that and say, "Wouldn't it make sense to perhaps contain the state budget deficit that is growing beyond our means of paying for it? Wouldn't a simple way of doing that have been to keep the Gann limit? If spending had to grow beyond that, the people would have to vote on it and that would give a greater legitimacy to the programs so approved."

Sadly, I suspect that kind of grand political compromise is not in the cards. We will continue to remain two camps—those who blindly support Prop. 13 and those who blindly are antagonistic towards it.

I'll conclude on a personal note. Proposition 13 really did mean security for a lot of people. It enabled my mother to stay in her house for the last 30 years, and she died only two weeks ago. She wanted to be at this conference because she felt Prop. 13 was very much an expression of *both* American self-reliance and security. Just as much as you think Social Security is part of the fabric of American security for a lot of people and part of our social safety net, Prop. 13 is just as much a symbol of security for those people. Without it I do think some people would have been forced out of their homes in the late 1970s. The alternative proposed by the legislature, Proposition 8, was viewed as a failed attempt by politicians to recover their credibility. But that credibility was destroyed when State Treasurer, Jesse Unruh, of all people, admitted the state was sitting on a \$6 billion surplus. When government failed in California in the mid-1970s, it was different than when the national government failed in the early 1930s. But you were still going to get a populist reaction. Proposition 13 qualified for the ballot by virtue of a record 1.2 million signatures of registered voters—700,000 more than was necessary.

After it passed, Assembly Republican leader Paul Priolo changed his tune, as did then-Governor Jerry Brown. They both agreed the people had spoken. As Priolo said, "This means public officials will have to go to work."

Now, populism has a bad taint in American politics. It's associated with demagoguery and high emotions. But populism properly understood is also an authentic expression of grassroots sentiment. That is what the drive for Social Security was all about.

That's also what the drive for Proposition 13 was about.