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Has Proposition 13 Reduced the California Tax Burden?

In 1978, Californians passed Proposition 13, severely restricting the ability of local governments to raise revenue through property taxes. Since then, voters and public officials have engaged in an almost continual tug-of-war over public finances, with state and local governments seeking creative ways to increase their revenues and taxpayers frequently using the initiative process to prevent it.

One question that has arisen in the debate over public finances is whether citizens are paying more today in taxes and other public fees and charges than they were in the high-tax years preceding Proposition 13. Michael Shires, John Ellwood, and Mary Sprague answer this question in *Has Proposition 13 Delivered? The Changing Tax Burden in California*. Examining fiscal data between 1978 and 1995, they find that, in absolute terms, taxpayers paid the government much more in 1995 than they did in 1978. However, when inflation and relative income are factored into the equation, the public revenue burden for citizens in 1995 was lower than it was in 1978.

Measuring the Revenue Burden over Time

In the first phase of this study, the researchers identify the specific taxes and charges that constitute the financial burden that California governments impose collectively on state residents. They find that the overall public revenue burden for Californians increased significantly over the 17 years of the study, jumping from $30 billion in 1978 to $93 billion in 1995.

To be properly understood, these statistics should be considered in light of the tremendous demographic and economic changes that have reshaped the state and its fiscal landscape over the past two decades. California's population has grown 41 percent, inflation has driven consumer prices up nearly 150 percent, and the overall income of residents has grown by more than one-half trillion dollars, with per capita personal income increasing from $8,951 in 1978 to $23,279 in 1995.

In the second phase of the study, the researchers focus on these issues, measuring the revenue burden in relation to the state's growing income and population. Table 1 shows the results of the income-based measure for five points in time. The results were obtained by dividing the total revenue burden by the overall personal income in the state in each given year.

Table 1—Public Revenues as a Share of Personal Income

1978	1981	1988	1992	1995
15.0%	11.4%	12.2%	13.2%	12.5%

As the table shows, the public revenue burden has varied significantly over time. In 1978, when the voters approved Proposition 13, the public paid 15 percent of its income to state and local governments. By 1981, the governments' share of personal income had fallen dramatically to 11.4 percent. Although it is likely that much of this decline is attributable to Proposition 13, a statewide recession and significant state-level tax cuts also contributed.

During the 1980s and early 1990s, however, the public revenue burden grew, rising to more than 13 percent of total personal income in 1992 when, in response to a deep recession, state and local policymakers increased revenues through fee and tax increases. The revenue burden has since declined to approximately the same level it was in 1988, dropping to 12.5 percent of personal income.

Table 2 presents the results of the population-based measure, obtained by dividing public revenues by the state population in a given year. The table shows total tax revenues per person in the state.

Although Table 2 may accurately characterize what average Californians experience when they pay their tax bill from year to year, it does not necessarily serve as a good indicator of the revenue burden, because it fails to take into account the reduced buying power of money over time. When the results are adjusted for inflation, as shown in Table 3, the trends correspond quite closely to those in Table 1. Revenues decline dramatically after the implementation of Proposition 13, then rise gradually through the 1980s, peaking in the early 1990s, then declining by 1995 to levels comparable to those in 1988.

Table 2—Per Capita Public Revenues (current dollars)

1978	1981	1988	1992	1995
$1,340	$1,421	$2,298	$2,864	$2,910

Table 3—Per Capita Public Revenues (constant 1995 dollars)

1978	1981	1988	1992	1995
$3,305	$2,498	$2,944	$3,057	$2,910

Conclusions and Policy Implications

The consistency of the study's findings across measures and time demonstrates that how one measures the changing revenue burden should not be a central issue in the public finance debate, as it has been at times in the past. Rather, it would be better to focus attention on a more crucial policy question—what is the appropriate size for the state and local revenue burden?

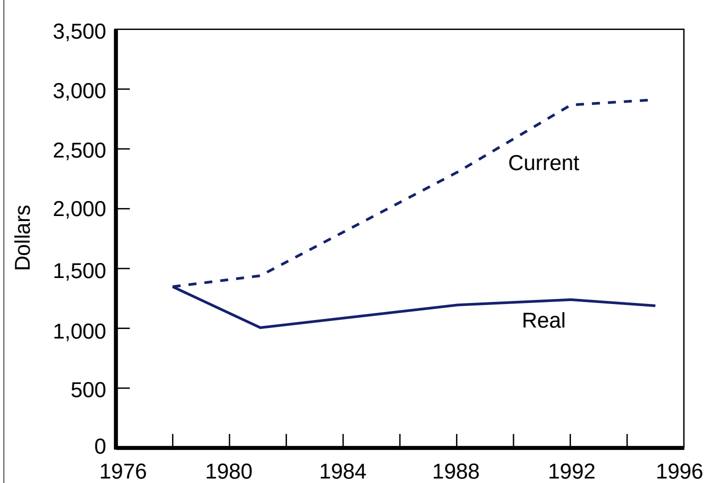
The study has also shown that Proposition 13 did contribute to a significant rollback in the public revenue burden. Although the effects of this rollback continue today, they have been partially offset by rising public revenues during the 1980s and early 1990s.

The revenue burden has never returned to the high levels seen before Proposition 13. Nevertheless, the passage of Proposition 218 in November 1996 suggests that the electorate remains concerned about the growth of public revenues. This initiative mandated supermajority voting requirements for many local assessments and charges.

A number of explanations may account for the public's perception that they are contributing more to the public coffers every year. For example, much of the growth of the revenue burden in the 1980s and 1990s came from new assessments and increases in local taxes, regulatory fees, and service charges. These high-profile revenues would be likely to create a direct response from the voting public.

Another contributing factor could be the effect of inflation discussed above. As shown in Figure 1, public revenues in noninflation-adjusted dollars have risen relentlessly, even in the period immediately following Proposition 13—and taxpayers and voters are far more likely to think in terms of current dollars than inflation-adjusted dollars. Thus, unless the mood of the public changes, the flat rate of growth in real revenues identified in this study will probably persist.

Figure 1—Per Capita Public Revenues in Current Dollars and in Real 1978 Dollars



The steady rise in current dollar revenues may explain why taxpayers continue to feel the need to curb government taxing and spending.

This research brief summarizes a report by Michael A. Shires, John Ellwood, and Mary Sprague, Has Proposition 13 Delivered? The Changing Tax Burden in California. *The report may be ordered by calling (800) 232-5343 [mainland U.S.] or (415) 291-4415 [Canada, Hawaii, overseas]. A copy of the full text is also available on the Internet (www.ppic.org). The Public Policy Institute of California is a private, nonprofit organization dedicated to independent, nonpartisan research on economic, social, and political issues that affect the lives of Californians.*

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