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One That Got Away

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California is noted for its system of direct democracy that allows voters to approve legislation and constitutional amendments by initiative.[1] Three Republican governors—Ronald Reagan, Pete Wilson, and Arnold Schwarzenegger—have used the initiative process in failed attempts to change the state's budgeting system. Schwarzenegger's Proposition 76 was defeated (along with three other associated initiatives) in 2005. It would have limited state spending based on a formula linked to prior revenue trends and given the governor certain emergency powers to cut spending. Pete Wilson's Prop 165 failed in 1992. Prop 165 would have allowed the governor, during certain specified fiscal emergencies essentially defined by the magnitude of the budget deficit, to cut spending. And Governor Reagan's Prop 1—the subject of this article—failed in 1973. It specified tax cuts and a limit on state taxes and spending linked by formula to state personal income.

It is not the case, however, that all initiatives aimed at changing the budget process have failed. Prop 13 was passed by voters in 1978. It drastically limited the local property tax but also made it more difficult to raise other state and local taxes. Prop 4 of 1979—which had similarities to Reagan's failed Prop 1—was passed by the voters, although it was later largely gutted by Prop 98 of 1988, which mandated minimum expenditures on K–14 education through complex formulas. However, neither Prop 13 nor Prop 4 was governor initiated. Indeed, in the case of Prop 13, much of the state's political establishment—including the governor—opposed Prop 13 before it went to the voters.

The lesson from the failure of the three governor-initiated budget propositions is that voters may view them as a power grab by the executive branch and may therefore be skeptical about voting for them. But when Reagan put forward his Prop 1 (the first time a California governor had sponsored a budget initiative), he had no way of knowing that voter skepticism would ultimately kill it. In contrast, Pete Wilson did not take to heart the lesson of Prop 1 and Arnold Schwarzenegger did not take to heart the lessons of Prop 1 and Prop 165. However, the question of why budget limitations by initiative were appealing to three governors is important. Why did these governors—all of whom had line-item veto power on enacted budgets and who, by constitutional mandate, initiated the budget process—feel compelled to attempt to change the state's fiscal institutions by initiative?[2]

In the Reagan case—the focus of this article—one answer is presidential ambition. As is often pointed out, Reagan's conservative rhetoric did not always match his results as governor.[3] It is well known that in his first year as governor (and later), he raised taxes substantially rather than cut them. Thus, Prop 1—had it passed—would have erased the tarnish on his conservative credentials.

However, that is not all there is to the story. It will be argued below that a school of thinking had developed among conservative economists that the democratic legislative process inherently led to overspending and deficits. Reagan, as well as Wilson and Schwarzenegger, was influenced by this school which resonated with their own experiences as governor. In particular, the tax and spending increases that Reagan presided over were products of the governor's need to reach accommodation with the legislature in order to enact budgets. The idea of changing the institutional framework by initiative to tilt toward fiscal restriction would have been appealing to Governor Reagan (as it was to Wilson and Schwarzenegger). Had he succeeded, the notion of taking this approach to the federal budget as a presidential candidate would also have been appealing.[4]

The story of Prop 1 has been told in various forums.[5] However, missing from the story are three elements. First, exactly what impelled Reagan to raise taxes substantially in his first year as governor in contrast to his initial intentions? This episode was clearly a traumatic event, which conditioned his willingness to empower a group of conservative economists to lead an effort to change state budgetary dynamics. Second, Reagan's effort on behalf of Prop 1 was more than a California story. It was a national movement undergirded by theories based on developments in "public economics." The devotees of the new theory were anxious to put theory into practice, and Reagan was to be the medium. Reagan was indeed ambitious with regard to the presidency, but those who formulated Prop 1 were also ambitious.

Third, there is the question of management style. As president, Reagan's view on disarmament agreements with the Soviets was summarized by his well-known phrase, "Trust, but verify."[6] However, that phrase did not characterize his approach to managing, which in fact involved a high degree of delegation and aloofness from details. In the case of Prop 1, Reagan liked the principle of limiting government spending and taxing. But he trusted the details to underlings and outside economists without verifying that what they were producing was politically saleable.

Reagan's Political Background

There have been several biographies of Ronald Reagan and the details of his political career need not be repeated here.[7] He started as a liberal Democrat, conditioned in part by the Depression/New Deal experience and the economic difficulties of his childhood. Reagan's movie career acquired a political dimension when he became involved in the ever-turbulent Screen Actors Guild (SAG) and ultimately became that organization's president. Gradually, he moved to the political Right, arguing that the goal of government was "not to confer happiness, but to give men the opportunity to work out happiness."[8] The Cold War and the controversy over communists in Hollywood and SAG contributed to Reagan's political shift.

While he personally sent checks to individuals who wrote to him with hard-luck stories, Reagan felt that government should be limited in its role as safety-net provider for the needy. As a result, he shifted his political allegiance to the Republicans.[9] But he became governor at a time when, under Democrat Lyndon Johnson's Great Society programs of the 1960s, both federal and state governments were expanding that safety net.

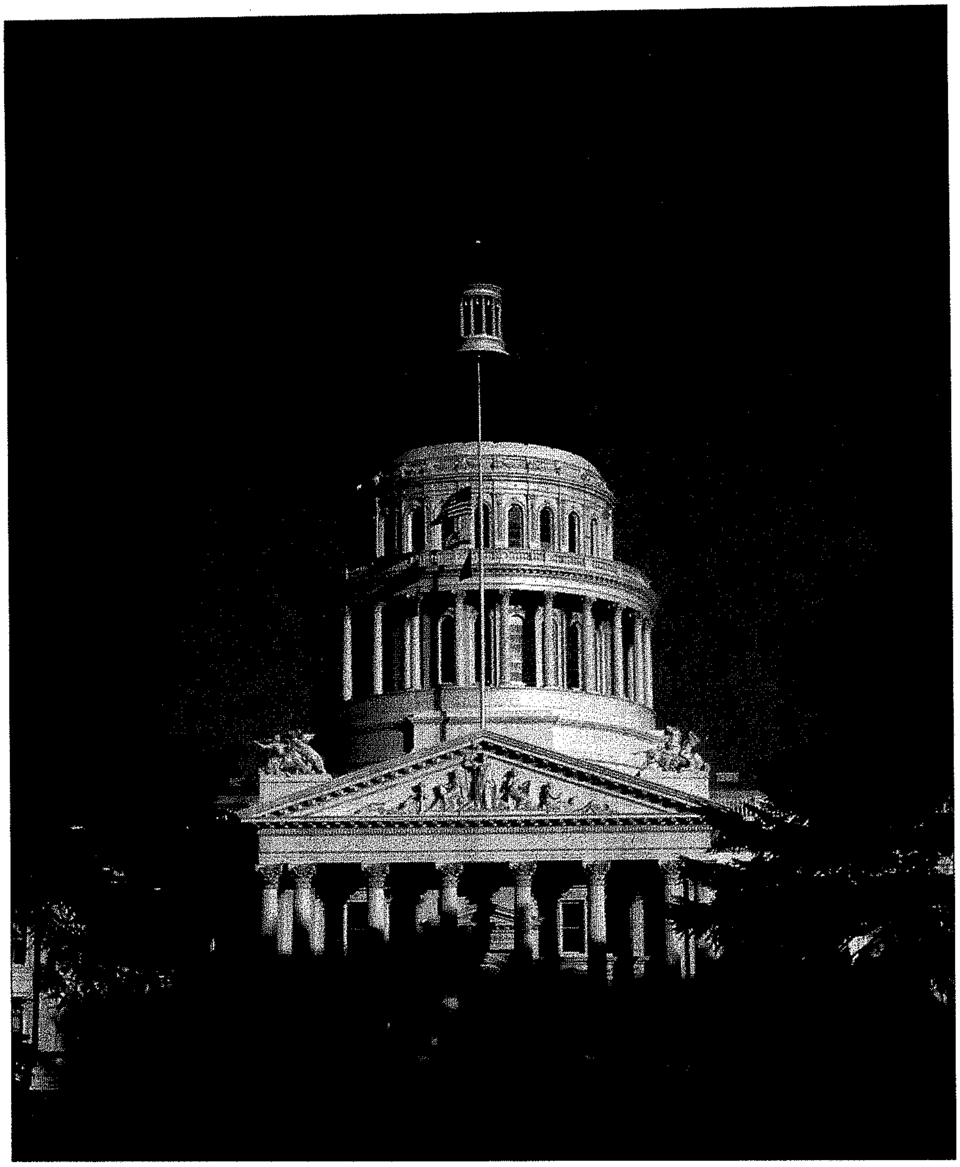
A group of political supporters—who came to be known as the "kitchen cabinet"—backed the Reagan candidacy for the California governorship in 1966 against incumbent Pat Brown and continued to provide counsel during Reagan's two terms as governor and subsequent terms as president.[10] Reportedly, Reagan had set his goal on the presidency even before running for governor.[11] Defeating Brown would give him a platform for a later presidential bid.

Pat Brown's Budget Dilemma

Today, Pat Brown's governorship (1959–1967) is often heralded as a period of great progress for California. Brown himself was something of a mirror image of Reagan; he started as a Republican but made his political career as a Democrat.[12] Although Brown has now acquired a kind of political sainthood, during his terms as governor he was often depicted as a vacillator, particularly with regard to socially sensitive issues such as the death penalty. The descriptive phrase "Tower of Jelly" (alternatively rendered as "Tower of Jello") was sometimes applied. Brown was blamed for student demonstrations at UC Berkeley and the 1965 Watts Riots. And in a 1964 referendum voters overturned a fair housing act he had pushed, the Rumford Act.[13]

While Brown was elected to his first term as governor by a wide margin in 1958, his victory was in part due to political machinations of his Republican opponent, Senator William Knowland. For a complex of reasons, Knowland had engineered a political switch, forcing incumbent Republican governor Goodwin Knight to run for Knowland's senate seat while Knowland sought to replace Knight as governor.[14] The result was a disaster for state Republicans. Brown won by a narrower margin, partly due to a relatively weak campaign by opponent Richard Nixon.

Since the 1980s, California state budgets have been negotiated among the so-called Big-5, the Democratic and Republican leaders of the two legislative houses plus the governor.[15] However, in Pat Brown's day—and carrying on into the governorship of Ronald Reagan—the assembly speaker played a disproportionate role in budget making. After 1961, the assembly speaker with whom Brown had to contend was "Big Daddy" Jesse Unruh.[16] Unruh and Brown had a contentious relationship, and friction between them increased when Brown decided to run for a third term in 1966.[17] Although there are conflicting views of what might have been promised, Unruh at least believed that he had assurances from Brown that he would step aside and open the door to an Unruh candidacy for



California State Capitol, Sacramento. *Photo:* M. *Ovnick.*

governor. In addition, prior to the 1966 election year, taxes and budgets had caused tension in the Brown-Unruh relationship.

Although in his first term Brown had pushed through a major tax increase to cover his various programs, by the waning days of his second term the state was running a deficit. Brown thought it politically imprudent to go for either a tax increase or a spending cut sufficient to erase the deficit. His ultimate solution was essentially a non-solution. Accounts of what was done often refer to a shift from cash to accrual budgetary methodology as a budgetary trick that papered over the deficit. It is sometimes said that the trick involved attributing eighteen months of revenue to the fiscal year. But there is more involved than that, and it is not clear that even the principals involved—particularly Brown and his finance director—completely understood what actually took place. Once Brown lost to Reagan, however, it was the new governor who had to deal with the budgetary legacy left by Brown. So it is important to look at the 1966–67 budget methodology in more detail.

Cash vs. Accrual and the Withholding Controversy

Although California had an income tax like the federal government, the state version at the time did not entail tax withholding. Estimated federal income tax payments were withheld from paychecks. At the federal level, therefore, the tax liability that stemmed from a given period, i.e., "accrued" in that period, was roughly balanced by actual cash receipts from withholding. But with some exceptions, California taxpayers had to settle their liabilities to the state each April 15. Thus, the state faced an annual cash-flow problem. A significant source of revenue arrived each spring—although it accrued mainly in the prior calendar year. Yet state expenditures were more evenly spread throughout the fiscal year.

As a result of the cash-flow mismatch problem, there had been proposals that the state should adopt withholding on the federal model. Note that if the state converted to withholding, it would receive a one-time increment in cash received within the fiscal year of the conversion. That is, a conversion to withholding effective on January 1 of the state's July 1–June 30 fiscal year would bring in roughly six months of withheld taxes as well as the dollop of cash that would flow in on April 15 from the prior calendar year. Loosely, the state would receive eighteen months of revenue in the year of conversion. Thereafter, however, the state would be receiving the regular twelve months of revenue as it did before, although flowing into the treasury on a more even basis than before.[18]

The proposal for withholding was controversial. For several years as governor, Reagan resisted withholding on the grounds that taxes should be painful. He later reversed himself when confronted with strong recommendations from key members of his official staff—but that is another story.[19] And it should be noted that at the time Brown was running for re-election in 1966, withholding was opposed by some prominent Democrats; it was not just anathema to conservative Republicans.

What the legislature did do, however, was switch the state from cash accounting to an accrual system; that is, they counted as income, for budgetary purposes, the tax on workers' income for each month, even though it was only collected once a year on April 15. Of course, such a switch would not produce more cash. There are twelve months of *revenue* whether the accounting is cash or accrual; *collection* of the revenue occurred only once a year in either case. While there are some arguments for use of accrual, done properly, a switch to accrual should have only minor effects on budgeted revenue.[20] In a sense, accrual just pretends that cash is flowing in regularly, as it would actually do under withholding. But accrual does not produce actual cash, since taxpayers continue to pay once a year.

Perhaps the simplest way to illustrate these points is to imagine a tax liability of one dollar per month for each month of the calendar year but actually paid by the taxpayer after the year ended on April 15 of the next year. Under that system, the state would receive twelve dollars each April 15, i.e., twelve dollars per fiscal year. Under an ongoing withholding system, it would also receive twelve dollars but spread out evenly as one dollar per month. Once withholding was in place, i.e., the fiscal year after the conversion, the state would receive twelve dollars per year, but it would arrive more evenly than before. The conversion year for withholding would, however, produce extra cash on a one-shot basis.

Suppose the state switched to withholding on January 1 of some fiscal year. In the fiscal year of conversion from non-withholding to withholding, on April 15, the state would receive twelve dollars from the prior calendar year plus six dollars for the months January through June—a total of eighteen dollars. Thereafter, each fiscal year would bring in twelve dollars.

Now consider a switch from cash accounting (which measures what is actually received) to accrual accounting (which measures current liability). On a cash basis without withholding, the state receives revenue of twelve dollars each April 15 from the prior calendar year, i.e., twelve dollars per fiscal year. On an accrual basis, the state also receives twelve dollars each fiscal year, but it is the twelve dollars that accrued during that fiscal year. Still, twelve dollars is twelve dollars. A switch to accrual does not produce more revenue. But in the conversion year, the state would "book" an extra six dollars, for a total of eighteen dollars, even though no such cash would arrive. That is, in the conversion year the state would record the twelve dollars received on April 15 plus the six dollars accrued (but not yet received) for January to June.

Essentially, under the budget Brown proposed for fiscal 1966–67—the fiscal year that Reagan would inherit half way through in January 1967, the state pretended that switching to accrual was equivalent to switching to withholding. Since the state had revenues other than income taxes, the artificial and improper boost in revenue would not produce eighteen months of seeming revenue in twelve months. Not all state taxes were paid in at once. Sales taxes, for example, flowed into the state on a more regular basis from businesses. But there would be an artificial "bonus" in booked revenue, not actual cash but accrued paper revenue. If the state happened to have a large enough cash reserve, it could have financed the cash deficit by drawing down the reserve. But even had there been such a reserve, the state could not continue to draw it down indefinitely; either more revenue would have to be found in future fiscal years, or spending would have to be cut, so that twelve months of expenditure would be financed by twelve months of revenue.

The California constitution requires only that the governor propose a budget for the coming year and explain where the revenues will come from to cover expenditures. There is no specified methodology, but there is a requirement that borrowing through bonds be approved by the voters. Thus, if there are no reserves to cover deficits, borrowing is the only alternative to spending cuts and the electorate must eventually be confronted with that reality. Moreover, borrowing is not supposed to be used for covering operating expenses.[21] By producing a budget that switched to accrual but pretended that accrual was the cash equivalent of withholding, the Brown budget deferred the problem past the November 1966 election. Whoever took office in January 1967, therefore, would have to confront the nasty choice.

Reagan's Choice

Exactly what Brown would have done if he had won a third term as governor can never be known. It is unclear whether he understood the budgetary sleight-of-hand that had occurred. While the technicians in the Department of Finance understood it, Brown's budget director, Hale Champion, a journalist by background, may not have.[22] A subsequent interview suggests he did not fully comprehend the difference between accrual and withholding as cash revenue generators. Had Brown won in 1966, he would not have faced a crisis of faith if he had subsequently raised taxes. That could not be said for Reagan. And it is particularly doubtful that candidate Reagan understood what the accrual shift entailed. However, Brown did not initially regard Reagan as the strongest of possible Republican opponents. Indeed, Brown intervened indirectly in the Republican primary to undermine another candidate—the mayor of San Francisco—presumably thinking that Reagan, as a politically inexperienced movie actor, would be easier to beat.[23]

Although the details of budgetary methodology were not widely comprehended, it was understood generally that the state faced a significant fiscal problem.[24] At one point in the 1966 campaign, when asked what he would do about the budget imbalance, Reagan indicated that he would hire A. Alan Post, the legislative analyst, as his director of finance, to produce a solution. Post was, in fact, not interested in becoming finance director and the irony of singling out Post as the man with the budgetary solution will become evident below in connection with Prop 1.[25]

But even if Reagan had no detailed solution, he spoke generally about cutting out the waste in government spending and trimming back programs as opposed to implementing tax increases. Brown seemed to believe that his accomplishments regarding freeways, waterworks, and university expansion would carry the day; voters would be co-opted by his vision of a great California and would not go for cutbacks. He even released a campaign book illustrating the wonders of the Golden State.[26] Nonetheless, on Election Day the voters chose Reagan, not Brown, to deal with a dimly understood budget problem.

As governor-elect, Reagan needed to start working on a budget proposal for early January. He would have to deal with both the current fiscal year and his proposal for 1967–68. Problems arose in finding a candidate for budget director. And the man who ultimately took the job—Gordon Smith—is often blamed for the indecision and flip-flop that ultimately occurred.[27] However, Smith was an accountant who understood cash versus accrual, even if he had problems balancing his own checkbook.[28] While Smith may have been a novice in the politics of budget making, the early problems in dealing with the budget were not really of his making. Because Smith was late in being appointed, the administration could not submit a complete budget in January 1967. There was not enough time, Reagan told the legislature. [29]

The new governor was initially committed to the idea of dealing with the budget imbalance through across-the-board spending cuts. Reagan in private joked about his budgetary ignorance on taking office.[30] A 10 percent cut was the number bandied about and what Reagan preferred to remember.[31] As biographer Lou Cannon put it, "Ronald Reagan's stories . . . are often instructive in what they omit."[32] In fact, the cuts were proposed but didn't happen.

Such items as debt service—about $64 billion in 1966–67—can't be cut. Even if Reagan had gotten his 10 percent cut across the board, he would have finished 1966–67 with a substantial deficit. At the end of the fiscal year, the state controller reported that the deficit was $351 million and that the General Fund was left with a carry-over debt of $194 million.[33] With General Fund expenditures of close to $3 billion at the time, a 10 percent cut would have been well under $300 million, not enough to end the deficit.

In any event, the legislature—and Jesse Unruh—would have to agree to mid-year cuts as well in the budget for the next fiscal year. The state was just then becoming the vehicle for such Great Society programs as Medicaid (Medi-Cal in California). Reagan tended to view such programs with suspicion as providing excessive benefits. But he also believed that government had a "responsibility to those less fortunate."[34] Ultimately, therefore, the idea of solving the budget problem by drastic across-the-board cuts dropped off the table, although there was a squeezing of various budget items along with a hiring freeze, controls on official state travel and equipment purchases, and similar moves.

Early in 1967, Governor Reagan issued an "audit" report by public accountancy firms.[35] Their report was not a true audit, but it said what was already known: that there was a significant cash deficit. In principle, the solution might have been explicit borrowing. But although that became the solution in the California budget crisis of the early 2000s, in

Jesse M. Unruh, Speaker of the Assembly, 1964. *Courtesy of The Bancroft Library. University of California, Berkeley.*

1967 it simply did not occur to the key people in the Reagan administration—or Reagan himself—to borrow for ongoing expenses. Reagan could, and did, blame his predecessor and argue that the state treasury had been "looted and drained of its resources in a manner unique in our history."[36] Armed with that defense and the audit report, Reagan's solution became tax increases.

The Tax Increase

There were various avenues of cover for Governor Reagan. He was in the midst of an ongoing campaign to deal with student radicals at the University of California. The governor-versus-UC issue was preoccupying the press. By the time Reagan took office, the beginning of the later property tax revolt could be seen. One way to provide property-tax relief was to pay for it by raising other taxes. Reagan did propose some increases in the state sales tax and miscellaneous minor taxes during the negotiations with the legislature and Jesse Unruh on the 1967–68 budget.

Unruh, the governor discovered, was someone he could work with even though the two leaders were poles apart in political philosophy.[37] Tax increases of approximately $1 billion were imposed in the ultimate deal, but $190 million was earmarked for property-tax relief.[38] Pat Brown later conceded that a tax increase had been necessary, although he argued that Reagan overdid it, that $1 billion was substantially more than was needed.[39] Reagan's much later memoir briefly mentions the tax increase, an unpleasant memory, blaming it on "the fiscal mess left by the Brown administration."[40]

By 1967–68, the state's General Fund had a surplus of $296 million, enough to pay off the carry-over debt of $194 million from the prior year and still leave a significant positive reserve balance.[41] Nonetheless, the Reagan tax increase was a sore point for conservatives. Prior to running for governor, Reagan had written a book titled—*Where's the Rest of Me?*—a line from one of his films. As one conservative critic put it in a book entitled *Here's the Rest of Him*, "Governor Reagan reversed his position on 'no new taxes.'" He chose to go with the Democrats and at once, the phrase 'Reagan-Unruh Axis' was heard all over the legislature."[42] Meanwhile, liberals pointed with glee to the distress of such conservatives. [43] Fallout from the Reagan tax increase formed a backdrop for the push for Prop 1.

The Need for a Legacy

Pat Brown—like Reagan—imposed tax increases during his two terms. But in the end Brown bequeathed a negative reserve to his successor. Unlike Brown, Reagan bequeathed a substantial budget reserve to his successor, Jerry Brown. But that reserve was not due to notable frugality. Real per-capita state-government spending in California rose at an annual rate of 6.3 percent during the Reagan years compared with 6.0 percent per annum under Pat Brown.[44] Some of the discrepancy was due to "spending" on local property-tax relief. But the key point is that, as the end of his second term was coming into view, conservative Governor Reagan could not point to a substantial difference in the growth rate in state government relative to his liberal predecessor. The fact that Reagan would be leaving with a positive reserve, therefore, could only be due to a more rapid growth in tax receipts under Reagan than under Brown.[45] From Reagan's viewpoint, this fiscal outcome, embarrassing from a conservative perspective, was not his fault; it was a product of the system in which he was enmeshed, which forced him to compromise with the legislature if there were to be a budget.

There had been property-tax-cutting initiatives on the ballot during Reagan's governorship, but he had *opposed* them on the grounds that if local property taxes were cut, the role of the state would be enlarged in local affairs. These propositions were the so-called (Philip E.) Watson initiatives (Prop 9 of 1968 and Prop 14 of 1972). The Watson initiatives were the predecessors to Prop 13 of 1978, the initiative that sparked the national property-tax revolt.[46] Reagan's opposition to Watson's Prop 14 in particular had reportedly "stunned" its supporters.[47]

Being a better tax collector than Brown was not a good legacy to be leaving with the Republican national convention of 1976 looming.[48] After two terms as governor, Reagan could not be charged with being a politically inexperienced actor as he was when he first ran for state office. But to appeal to conservative Republicans he needed a better legacy as a governor who reduced the role of government. Although Reagan could not change his past record, he could in principle set in motion a process that would reduce government in the future.

As noted above, Reagan did provide property-tax relief during his governorship. His approach was to use state tax rebates financed by tax increases to offset local property taxes. That way, local governments would continue to collect their property taxes and to make decisions on spending. In 1972, the legislature, in a deal with the governor, passed SB 90. Among other features, SB 90 raised the state sales tax by one cent (to 6 percent) effective July 1, 1973. The idea was that the funds would be used in part for local property-tax rebates. But the compromise of raising one tax to offset another was not appealing to conservatives who wanted to reduce government activity generally—at the state and local levels.[49]

The Initiative Route

What might be appealing would be to take an idea on restraining government from the national level and bring it down to the state. At the time, the idea was circulating among conservatives of enacting a federal constitutional amendment of some type to limit spending. Economists in conservative circles such as James M. Buchanan, Jr.—a faculty member at UCLA in the late 1960s—had built models in which rational bureaucrats in a democracy (regardless of party) would maximize their own welfare by pushing for increases in public programs.[50] Applying such models would explain or rationalize Reagan's failures to cut taxes and spending. Constitutional rules, according to this view, would provide a counterweight to the legislative tendency to overspend. Presumably, the same logic could be applied at the federal level or within a state.

Given the national interest in these concepts, enacting a constitutional fiscal limit in California would attract attention around the country and could be the legacy Reagan was seeking. It would rationalize the Reagan fiscal record to date—with its unpleasant tax increases—and it would fix the problem for his successors. As it turned out, the campaign for Prop 1 in California did garner significant national interest. Governor Reagan declared at the height of the campaign for Prop 1, "This can work at the national level."[51] Then-congressman Jack Kemp—later Bob Dole's vice-presidential running mate in 1996—announced prior to the November 1973 special election in which Prop 1 was on the ballot that he was "working on" a federal constitutional amendment modeled after the Reagan initiative.[52]

Formulating Proposition 1

During the campaign for Prop 1, the details of the initiative became a major issue. And after its defeat, Reagan himself reportedly said the initiative "was not well written."[53] He preferred, however, to blame the defeat on "political demagoguery."[54] The initiative—entitled "Tax and Expenditure Limitations" on the November 1973 ballot—had a series of features. Its centerpiece was a revenue limit defined in terms of the ratio of state tax revenues to state personal income.[55] The drafters of Prop 1 estimated that the ratio was then about 8.5 percent; they proposed to reduce the fraction by 0.1 percent a year until it reached 7 percent (after fifteen years). In early formulations, they had proposed a more rapid rate of decline and put the eventual target at 5 percent. But the more gradual schedule was adopted in the ballot version. Once the 7 percent ratio was achieved, the annual 0.1-percentage-point reductions would continue unless two-thirds of the legislature voted to halt further declines.

Along with the declining ratio, the drafters included a floor on how low the limit could go in any year (which would override the personal-income ratio). This floor was designed to keep real (inflation-adjusted) revenues per capita from falling below the level when Prop 1 became effective. It was to be derived from state-population estimates and the national Consumer Price Index. The floor evidently was included to allow Prop 1 proponents to argue that revenues would not be held below current levels. Revenues could nonetheless fall below "workload" levels.[56]

Use of personal income in a constitutional amendment poses difficulties, since the personal-income series is subject to revision and has in fact undergone major revision over time.[57] However, the drafters were looking for a handy index of state economic activity and the personal-income series has the advantage of being released on a regular basis without a long delay. Nonetheless, advance estimates of personal income would need to be made under Prop 1's formula. A commission was to be created to carry out that function. The starting-base year for Prop 1 was intended to be fiscal year 1973–74. Tax revenues for that fiscal year were to be determined as a proportion of personal income for calendar year 1973 as the starting point for the downward-ratcheting formula.

Prop 1 contained various tax reductions and rebates to make it more attractive. However, in a preemptive move, the legislature, which was in the hands of the Democrats, granted a portion of these reductions and rebates separately from the initiative. It thereby reduced Prop 1's net effect on immediate tax relief (and made it less attractive to taxpayers than it otherwise might have been). Although certain taxes required a two-thirds vote of the legislature to be increased, Prop 1 extended this requirement to all state taxes. In that regard, it foreshadowed an element of the later Proposition 13 of 1978. Prop 1 prevented local governments from raising their property tax *rates* except in certain specified circumstances. But it did not thereby halt the rise of property-tax bills, which were increasing due to increasing property *assessments*. Thus, later claims that Prop 1 was the parent of Prop 13 are really misplaced, particularly since Prop 1 failed to pass and Prop 13 succeeded.

Under Prop 1, new mandates by the state for local governments that increased local costs had to be paid for by the state government. But if the state cut back on revenue sharing with the localities due to Prop 1's limit on state revenues, pressure to continue existing local services might conceivably have led to local tax increases. Certainly, opponents of Prop 1 made that argument during the campaign.[58]

To deal with the argument that special unforeseen circumstances might require the revenue limit to be raised, Prop 1 allowed the legislature to propose increases to the people but only by a two-thirds vote. Voters could then approve such increases by majority vote. In addition, a special rainy-day fund equal to 0.2 percent of personal income was to be created to deal with any future emergencies declared by the governor.

In short, the drafters of Prop 1 tried to imagine a range of future contingencies and objections. But it is hard to build every possibility into a legal formula. Nonetheless, Prop 1 included such elements as a "State Tax Revenue Limit Population-Inflation Quotient" in its definitions. Such components, the drafters failed to realize, could be highlighted by opponents as symptoms of excess complexity and arcane provisions.

The Planning Process

Once a decision was made by the Reagan administration in early 1972 to push for a constitutional approach to budget control, a Tax Reduction Task Force was formed. The new task force reported to Frank Walton, secretary for business and transportation. An early report signed by Walton refers to federal spending as well as state and local spending as needing tighter control.[59] Thus, the national scene was on the administration's agenda from the beginning.

Walton's role was basically titular. The day-to-day running of the task force was left to Lewis K. Uhler. Uhler had earlier held various positions in the Reagan administration. (He later was the official proponent of the paycheck-protection initiative on the November 2005 ballot.) Uhler assembled a group of conservative economists who agreed with the emerging models of public economics and their prediction of inherent overspending. These individuals included Milton Friedman, James Buchanan, William Niskanen, C. Lowell Harriss, and W. Craig Stubblebine. Stubblebine is often viewed as the major force among the economists involved. But several UCLA economists, including J. Clayburn LaForce and Armen Alchian, played significant roles.

Reagan biographer Lou Cannon characterized the development of Prop 1 by the task force as "a cautionary tale about indulging ideology at the expense of common sense." He interpreted the design of Prop 1 as "a story of misjudgment of aides who ignored historical lessons and political realities and thereby failed Reagan." He singled out Uhler as an aide who "claimed to be a Reagan loyalist" as the "driving force" behind Prop 1 and notes that Reagan "airbrushed" Uhler out of his memoir because of

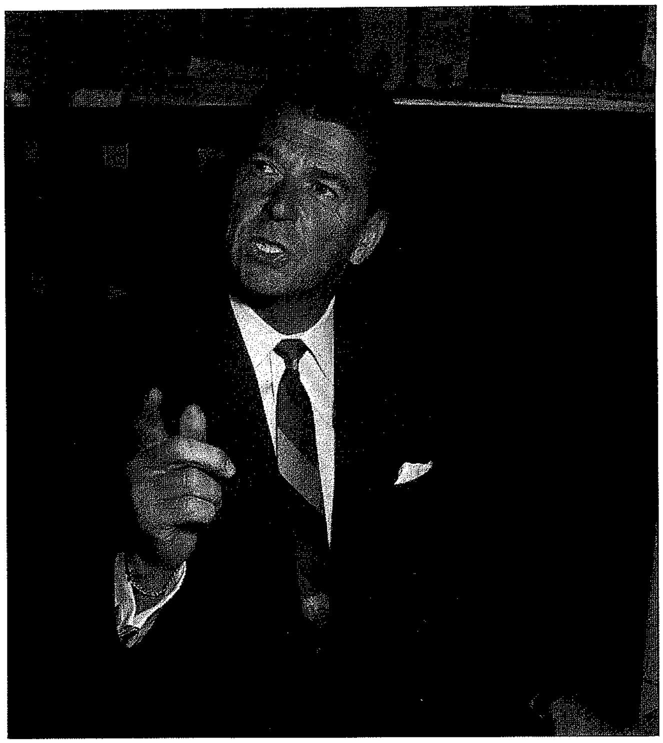
Uhler's "extreme views and Bircher associations."[60] Reagan biographer Bill Boyarsky cited an unnamed administration source who termed Uhler an "unmanned missile."[61] Suffice it to say that Uhler and Stubblebine in later oral interviews had different interpretations.[62]

Uhler blamed deficiencies in the campaign for Prop 1 on Michael Deaver, another Reagan staffer. Stubblebine also cited problems with Deaver's involvement. Others have suggested Deaver was a poor administrator.[63] Deaver's political sensitivity was certainly open to question, apart from any managerial deficiencies. During the campaign, he stated publicly that proponents were hoping for a low turnout in the election, since, in such a case, only enthusiastic proponents would turn out. Reagan was forced to say that he hoped that everyone would vote and that Deaver's views were based on a "misunderstanding" of the situation. "We wouldn't be doing this if we wanted a low turnout," Reagan said.[64] Deaver himself makes no mention of Prop 1 in his rather disjointed memoir on his service to Reagan; Prop 1 was evidently an unpleasant memory for him.[65]

Whatever may be said about the task force and the planning for Prop 1, ultimately it was the governor's decision to delegate the process to an outside committee—largely composed of academics with no political experience. As the task force neared completion of its work in late 1972, Reagan had lunch with its members.[66] In short, Reagan was definitely in the loop on Prop 1 to the extent that he wanted to be. He was aware of the program—which was, after all, tied to the legacy issue—and the planning for Prop 1.

It is well known that Reagan emphasized delegation of authority as governor and later as president. Various explanations have been given. Early on as incoming governor, he was undoubtedly forced by inexperience to entrust day-to-day operations of state government to subordinates. Indeed, even an experienced politician in that role has to delegate, given the complexity of state government. On the other hand, Reagan did have experience from his leadership of the Screen Actors Guild, and by the time Prop 1 came along he was well into his second term as governor.

Another explanation for Reagan's propensity to delegate is that he was not interested in "Big Ideas" for government and emphasized efficiency instead.[67] Still, efficiency entails hiring the right people for the job and providing some degree of oversight. In any event, Prop 1 was a Big Idea—albeit on shrinking government rather than finding new roles for



Governor Ronald Reagan, 1965.
Courtesy of The Bancroft Library. University of California, Berkeley.

it. Arguing for Prop 1, Reagan said, "Critics . . . say the people cannot be trusted to set reasonable tax rates for themselves. That is elitist nonsense."[68]

In hindsight, Prop 1's ultimate failure reflected excess delegation to the point that the governor was not ensuring the right people were in the right jobs and was not asking critical questions. What may have occurred is that the views of the conservative economists who created Prop 1—that the ordinary legislative process inevitably led to overspending—so dovetailed with Reagan's view of what had happened to him, that he trusted his experts to do the right thing. After all, he had come into office dedicated to cutting back government and found himself raising taxes and expanding programs.

Given the need to take Prop 1 to the electorate, some external testing was needed. The task force did commission a public-opinion survey by a commercial polling organization. Stubblebine suggested in his oral history interview that Uhler wanted the survey to give the "right" answer: that the proposal should be put to the voters. But Stubblebine claimed that he understood that just asking people whether they liked to pay taxes would not provide useful information. A good survey would have to get at tradeoffs. For instance, how much were people willing to pay for particular programs such as air quality, K–12 or higher education, highways, etc.?

In the end, however, it is not clear that the survey did what Stubblebine wanted. The task force was composed of like-minded people so that the danger of "group-think" was surely present. There was no process for testing the developing plan against opponents' likely objections. The record suggests that no one likely to be in the opposition was ever consulted. A suggestion by an official within the Department of Finance that the administration run its initial projections on Prop 1 by the legislative analyst (so that a "numbers war" could be avoided) was not heeded.[69]

Ignoring Warning Signs

Indeed, it appears that the Department of Finance, in the persons of Director Verne Orr and Deputy Director Ken Hall, were not especially supportive of a constitutional amendment. Later, both officials had to defend Prop 1 in public.[70] But the concerns of two high-level officials who were directly in the budget area should have been a warning to proceed with caution, if at all. Houston Flournoy, the Republican state controller, was also very reticent about Prop 1. As a good soldier, he too ultimately supported the initiative but also made his reluctance well known. Flournoy and other moderate Republicans apparently had concerns about the specifics of Prop 1 and the use of the constitution to regulate the budget.

Closer to Reagan, kitchen cabinet member Henry Salvatori reported in an oral interview that he had doubts about the specifics of Prop 1, although he supported the concept.[71] Whether Salvatori's views were requested at the time Prop 1 was being formulated is not clear from the record; Salvatori did not so indicate. But presumably, had he been asked, his concerns could have been influential in at least taking a second look at the plan.

It is clear that Uhler was very keen on the Prop 1 initiative. When the proposal was ready, he took the plan to Nancy Reagan's parents' house during the Christmas break in December 1972 so that the governor would see it and presumably bless it.[72] Ultimately, however, the responsibility for going ahead with Prop 1 lay with Reagan himself. If a reluctant Verne Orr was not called upon to draft Prop 1, only the governor could have approved outsourcing the project to Uhler and others.

Outsourcing Prop 1

Outsourcing and delegation of authority proved to be a major problem. The task force and campaign did attract prominent individuals. Norman Topping, a former president of the University of Southern California, chaired the pro–Prop 1 campaign conducted by an organization known as "Californians for Lower Taxes."[73] But respected names did not produce an efficient operation. Thus, the campaign at one point seemed on the verge of not having enough signatures to put Prop 1 on the ballot. Professional signature gatherers had to be hired at the last minute to fill the breach. Stubblebine reported later than he had warned the administration that the campaign shouldn't go on vacation during the summer of 1973. But apparently once the signatures were submitted, that is what occurred. Yet a poll had revealed that as of June 1973 less than one-fourth of Californians were aware of the proposition.[74] The summer break gave opponents of Prop 1 a chance to develop their own strategies.

Reagan's own involvement in the Prop 1 marketing effort was problematic. The principal spokesperson for the opposition to Prop 1 was the Democratic Assembly Speaker Bob Moretti. In 1971, Moretti had cooperated with Reagan in the passage of a welfare reform bill.[75] But by the time Prop 1 was being conceived, Moretti, who had gubernatorial ambitions, had every incentive to be the leading—and therefore most visible—opponent to the proposition. Moreover, the Reagan strategy for putting Prop 1 on the ballot contributed to highlighting Moretti's role. In a public fight, the leading opponent to Prop 1 would be in the public eye.

The governor knew that the legislature would never put Prop 1 on the ballot and that an initiative petition would be necessary. But the calculation was that it would be advantageous to submit the idea to the legislature, let the legislature either reject it or refuse to act, and then go the petition route. And once this approach was taken, Moretti—by virtue of his leadership in the assembly—was anointed the key opponent.

Moretti could hold hearings, issue reports, and generally command media attention as the key opposition figure to Prop 1. One of his tactics was to repeatedly challenge Governor Reagan to debate him on the issue. Reagan seemed reluctant to debate; although he was an excellent communicator, his aloofness from the details of Prop 1 could place him at a disadvantage. Eventually, a debate was held on the public TV show, *The Advocates*. But by that time, the image of Reagan avoiding debate until forced into it had been established. When the debate was over, Reagan said that it was "a lot of fun."[76] But after Prop 1 was defeated, Reagan declared that Moretti and other opponents had "desperately avoided debating the central issue: whether taxes are too high now."[77] But the issue was not so simple. One of the main arguments by opponents was that if state taxes and programs were cut, local government taxes would rise. In any event, it was Reagan, not Moretti, who had avoided a one-on-one debate.

Attacking Saint Alan

Although Moretti was the principal opponent of Prop 1, the pro–Prop 1 campaign managed to make Legislative Analyst A. Alan Post into a second opponent. And Post was not a good opponent to have. He had a sterling reputation as "Mr. Clean and Neutral." Moreover, Post—as noted above—had been cited by Reagan as his choice for finance director during the first campaign for the governorship. Thus, attacking Post—who enjoyed a kind of bipartisan sainthood among the electorate—was not a move that would enhance the prospects for Prop 1.[78] Yet Reagan attacked Post for what the public conceived to be his strengths. According to the governor, Post was guilty of making "horrendous errors" in economic forecasting and of being subservient to "his bosses" (presumably legislative Democrats).[79]

What appeared to have triggered the anger of the Prop 1 campaign leaders was Post's estimate of the impact of the proposition. All initiatives contain an official statement on fiscal impact by the legislative analyst. Post projected major cutbacks in state expenditures relative to "workload" projections. When these projections were made, the administration sent Ken Hall, the deputy finance director, to complain about Post's "misleading" estimates.[80] Hall was being a good soldier in this regard since, as noted earlier, he had private doubts about Prop 1.

Post positioned himself as above the partisan debate. "I don't debate governors. That's not my function," he said.[81] However, at a press conference, Reagan attacked Post. He called Post's previous predictions about other favored gubernatorial programs "deliberate distortions" as opposed to "honest mistakes."[82]

One commentator noted that, as opposed to attacking Post, the Reagan administration would have done better to argue "that a woman's place is in the kitchen or that Yosemite Park would be a fine place for a housing development."[83] Meanwhile, Secretary of State Jerry Brown—who, like Moretti, was thinking about a run for governor in 1974—declined a request from the Reagan administration to order Post to rewrite his analysis. But Brown did require a rewrite of the proponents' ballot statement.

The Sales Tax Increase under SB 90

The attack on Post led to an odd situation. Prop 1 was supposed to represent a major institutional change in how state fiscal affairs would henceforth be conducted. Otherwise, why bother to put it on the ballot? And Post was saying just that: there would be a major impact. But the idea of a major impact seemed threatening to voters. So the pro–Prop 1 campaign found itself arguing that voters should support Prop 1 because it would not have much of an effect. To be fair, some of this paradox resulted in part from legislation in 1972, SB 90, which had raised the state sales tax one cent to 6 percent effective July 1, 1973. As it turned out, by the time the increase was due, the state was running a surplus that would have emerged even without the sales-tax hike.

After a stalemate between the governor and the legislature during which the sales-tax hike went into effect, Moretti and Reagan negotiated a compromise in the form of a temporary rollback. But the rollback and other tax cuts in the compromise lowered the 1973–74 fiscal-year base on which the Prop 1 formula was to be based. That meant that Prop 1 might start to pinch earlier than proponents—who had not counted on a rollback in the base year—had expected. Prop 1 experienced the pitfall to which all ballot initiatives are prone: once the language is locked into a ballot petition, it cannot be amended, even if mistakes are found or circumstances change.

Reagan was forced to argue that even if Prop 1 would have a more significant impact than anticipated by its architects, the impact would still not be drastic.[84] Proponents—who wanted to avoid a suggestion of a drastic initial impact of Prop 1—argued that the tax rollback should not be factored into the base even though the language of Prop 1 suggested it would be. They managed to obtain a rather wishy-washy opinion to that effect from Republican Attorney General Evelle Younger. But all Younger could say is that if the issue ended up in court, the court might rule that what the drafters of Prop 1 intended—as opposed to a literal reading of Prop 1—should be controlling.[85] Post assumed that the literal language would be implemented. So the attack on Post depended ultimately on what a court might rule in the future. But in the court of public opinion, the debate over what Prop 1 actually meant created the impression of sloppy initiative drafting.

Costs to the State

Opponents of Prop 1 argued that the governor should not use public resources to promote his initiative. Since governors surely have the right and responsibility to advocate important public policy changes, this argument on its face was rather silly. But the argument gained more traction when it became focused on the details of how the task force was operated. Apparently, Uhler had assembled the budget for the task force by pulling together bits of funding from various state agencies. The amount of funding was very small but the issue of whether appropriations for other purposes had been used for support of the task force became large. Hearings in the legislature were held on improper uses of public resources.[86]

The Prop 1 campaign leaders denied there was anything improper about the funding—litigation on that issue persisted well beyond the election—and countercharged that Moretti was using legislative resources to oppose the initiative. Moretti, however, did not deny his use of legislative resources. He simply argued that as assembly speaker he was entitled to do so.

Another cost issue that became important was the expense of calling a special election in November 1973 to deal with Prop 1. As it happened, there was a regular election scheduled for June 1974. Why did Reagan not wait until the following June?

It is possible that the task force believed that a special election would produce a low turnout that would tilt toward voters sympathetic to Prop 1. The comments by Deaver noted earlier suggest that there was such thinking. However, there is nothing in the available documentation to back this view. It may simply have been that if Prop 1 had not been on the ballot until June 1974, it would have been too late to affect Reagan's last budget proposal. In contrast, if Prop 1 were passed in November 1973, it would be reflected in Reagan's final budget proposal for fiscal year 1974–75. That fiscal year would be the last budget before the 1976 presidential campaign.

The Pro Campaign

Despite its flaws, the campaign in support of Prop 1 achieved some noteworthy successes. One of these was obtaining the endorsement of Philip Watson, whose earlier property-tax-limitation initiatives Reagan had opposed. Howard Jarvis—the co-author of what later became Proposition 13—also endorsed the Reagan initiative despite Reagan's opposition to the Watson initiatives.[87]

Democratic Assemblyman Randolph Collier, whose name the public identified with the creation of the freeway system, provided another endorsement, although there were rumors of a deal to protect Collier's seat.[88] Two former Democratic directors of finance—one of whom had served under Pat Brown—also supported Prop 1.[89] Reagan made personal phone calls to members of the Los Angeles City Council and obtained a council vote in support of Prop 1 over the opposition of Mayor Tom Bradley.[90] Reagan was also able to persuade the editorial board of the *Los Angeles Times* to endorse Prop 1, despite earlier opposition by that newspaper.[91] Finally, James Roosevelt (FDR's son), a former Democratic congressman, also endorsed Prop 1. Roosevelt had been the Democrats' gubernatorial candidate in 1950.[92]

As noted earlier, Houston Flournoy, the Republican state controller, was not enthusiastic about Prop 1, but he ultimately gave a qualified endorsement. But other Republican notables were more forthcoming, including Ivy Baker Priest, the state treasurer, and Caspar Weinberger, by then secretary for health, education, and welfare in the Nixon cabinet (and a former Reagan director of finance). Sam Hayakawa was admired by Reagan for the tough stance he took against student demonstrators at San Francisco State. He also endorsed Prop 1 (and later became a U.S. Senator from California).

The Prop 1 campaign adopted a novel tactic for communicating with voters. Voters received a telephone call—a recording of course—from the governor advocating his plan. A transcript of this message appears in the accompanying box. There were apparently at least two versions of this call, one for Republicans and one for persons without a party identification.[93] Note that after making his case, Reagan asked the recipient to stay on the line and talk with an operator who would be available to take names and addresses, presumably to recruit volunteers for the campaign. While the telephone approach had been used in some local campaigns, it had never been done on a statewide basis and undoubtedly involved considerable expense.

Text of Reagan Phone Message: Non-Partisan Version

Hello. This is Governor Reagan. I wish I could talk with you in person, but I'm trying to reach almost every home in California in a very short time. So I have to do it this way, by telephone and tape. There's a taxpayer revolt and on November 6th you will have a chance to vote for lower taxes by voting "yes" on Proposition 1. Already with the taxpayers putting this plan on the ballot, the legislature's been forced to return the huge surplus we have instead of spending it. Proposition 1 will give you a seven-and-a-half percent income tax reduction and put a limit on the amount of your personal income which the state can take from you in taxes. It provides for safe and sound management of the state's fiscal affairs. And regardless of what you may hear, no current state or local programs will suffer. New ones can be added and still we can cut your taxes. So I'd like to ask for your "yes" vote on Proposition 1 November 6th. We need every possible vote to make sure this plan passes. If you pledge me your "yes" vote, that'll be one more we can count toward lower taxes. If you'll make the pledge, give your name and address when I finish talking. An operator will hear you. When enough people pledge their votes, there can be no doubt that Proposition 1 will pass. Thank you for listening and I hope you will join me in this crusade for lower taxes. If you will vote "yes," give your name and address to the operator now. Thank you.

Apart from the phone calls, there was considerable advertising on behalf of Prop 1. One sequence of radio ads involved a blowhard politician opposed to Prop 1 pressuring a subordinate to come up with arguments against the proposition. The subordinate, however, discovers that Prop 1 is a "Good Thing."[94] Estimates after the election were that pro–Prop 1 campaigners substantially outspent their opponents.[95] Reagan was convinced after the election that he "just didn't have the resources to counter (opponents') advertising blitz with the truth."[96] But in fact, fundraising for the pro–Prop 1 effort was quite successful. [97]

The Anti Campaign

Not surprisingly, the chief opponents of Prop 1 were labor unions, especially the California Teachers Association, minority organizations, and other liberal-leaning groups including the League of Women Voters. The themes emphasized were complexity of the proposition, sloppy drafting of its language, the cost of a special election ("a staggering waste"), and that Prop 1 would lead to drastic cutbacks in state programs and push such programs onto the backs of local taxpayers. The proposition was depicted as part the governor's plan to obtain the presidency. Opponents engaged the campaign firm of Whitaker and Baxter to handle advertising and strategy. Whitaker and Baxter normally handled Republican efforts but, on occasion, the firm was willing to oppose a Republican governor.[98] In any event, the company had a reputation for running effective political campaigns going back to 1934, when it opposed Democrat Upton Sinclair's EPIC campaign for governor.

The pro–Prop 1 forces wanted to avoid having the proposition appear to be a partisan issue. An internal campaign memo indicated that "this <u>must not</u> be allowed to become a Morretti [*sic*]—Reagan fight or we could lose it." (Underlining in original.) But it did become precisely that. Moretti released a lengthy report criticizing the details of Prop 1. The report was authored by R. William Hauck, then director of the Assembly Office of Research. (Ironically, Hauck—as president of the California Business Roundtable—was the official co-author of Governor Schwarzenegger's budget-limitation initiative in the November 2005 special election.) The "Hauck-Moretti Report" triggered a counter report by economists associated with the pro–Prop 1 effort. But the result highlighted the fact that Prop 1 was complicated, a point the anti–Prop 1 campaign was eager to make.[99]

Reagan believed that the key thing was the idea behind Prop 1, not the details of what was in it, which could be left to experts. As it became clear that his side was faltering, Reagan complained, "We have not been able to get through to the people that we are not trying to reduce the dollar amount of the budget."[100] At one news conference, he became testy and charged that the media were unwilling to tell the public the truth about Prop 1.[101] (He then quickly apologized.)

In the end, Reagan inadvertently cemented the notion that Prop 1 was too complex for voters to understand. He was asked if the average voter should try and understand the initiative's details. Reagan answered, "No, he shouldn't try. I don't either." The Whitaker and Baxter firm created newspaper ads proclaiming, "When a Proposition's Chief Sponsor Doesn't Understand It, It's Time for The Rest of Us To Vote No On Proposition No. 1." Reagan responded that he was just being "facetious" when he made the remark. But the damage could not be repaired.[102]

Complexity by itself might not have defeated Prop 1. But the state was not in the midst of a fiscal crisis in 1973. Indeed, as noted above, it was running a surplus sufficient to justify a rollback of SB 90's sales-tax increase. To voters, therefore, the question was, why should they vote for something too complicated to understand when there was no compelling emergency? Prop 1 thus went down to defeat, 46 percent (yes) to 54 percent (no). A few weeks later, Reagan submitted his 1974–75 budget proposal claiming he had done so within the parameters of Prop 1. He wanted to prove that the effect of Prop 1 would not have been drastic, despite the charges of opponents. [103] But by that time, no one much cared since the issue was dead. Because of the uncertainty about the base-year calculation described earlier, it is, in fact, not clear that the governor's proposal did meet the constraints of Prop 1.

The Prop 1 campaign became the only election Reagan ever lost in his political career. Much later he termed Prop 13—California's far-reaching property-tax limitation—as "a similar measure" to Prop 1.[104] But Prop 13 was more similar to the earlier Watson property-tax initiatives (which Reagan had opposed as governor) than it was to Prop 1. Reagan's memoir is notable for what it leaves out. Bob Moretti is mentioned in the book in another context, but his connection with the defeat of Prop 1 is not discussed.[105] Prop 1 evidently remained a painful issue for Reagan many years after the election of November 1973.

The defeat of Prop 1 left Reagan without the conservative legacy he wanted to carry into the national arena, although he eventually was elected president without the benefit of having passed it. Liberals, of course, were cheered by Prop 1's defeat, but it did not help Jimmy Carter in his re-election bid against Reagan in 1980.[106] It may be that taking sides on initiatives means less than is often believed for a candidate's future electoral successes. Moretti had hoped his successful battle against Prop 1 would take him into the governorship in 1974. But it failed even to earn him the Democratic nomination for governor, which went instead to Secretary of State Jerry Brown.[107]

What If?

Since it is unclear exactly what the effect of Prop 1 would have been on the 1974–75 budget, it is even more unclear what impact it would have had over the long haul on state (and local) fiscal affairs in California. One of the key elements of Prop 1 was a calculation of the ratio of state revenues to personal income, which Prop 1's designers believed was about 8.5 percent. They set a target to reduce the ratio to 7 percent over fifteen years. Because personal income is subject to redefinition and re-estimation by the U.S. Department of Commerce, one surprise, with hindsight, is that it appears that using current data—not the estimates from the early 1970s—the target ratio was closer to 7 percent than to 8.5 percent at the time Prop 1 was drafted. What courts would have done as revised estimates appeared is impossible to guess.

Voters rejected Reagan's Prop 1 and the earlier Watson property-tax initiatives. But in 1978, they did adopt Proposition 13, which drastically cut and constrained property taxes and made it more difficult for the legislature and localities to enact future tax increases to offset the lost revenue. Prop 13 had long-lasting impacts on California that continue to the present. It triggered subsequent initiatives such as Prop 4 of 1979, a spending limitation somewhat similar to Prop 1, and a school-funding initiative—Prop 98 of 1988—which overrode aspects of Prop 4 and earmarked state funding for K–14 through formulas. None of these initiatives were sponsored by governors.

Would voters have adopted Prop 13 if Prop 1 had been adopted in 1973? It might be argued that if Prop 1 had constrained taxes, the impetus behind Prop 13 would have been reduced.[108] On the other hand, Prop 13 focused on property taxes, which were rising because of real estate inflation. When Prop 13 was enacted, the state stepped in and "bailed out" school districts and other local entities. But if both propositions had been in force, the state would have been more constrained in its spending and might not have been able to provide a bailout. What would voters have done then, as local services were immediately cut? We cannot re-run history to find out what might have followed the adoption of Prop 1. But it would likely have limited spending at the state level over the long term unless overridden by voters in a subsequent election. As the fate of the later Prop 4 (subsequently largely gutted by Prop 98) shows, such overriding has to be considered as a distinct possibility.

Prop 1 illustrates the power of academic ideas to influence political debate. The development of economic theories about a tendency for democratic governments to overspend was at the heart of Prop 1's design. Theoretical economists, however, are not necessarily equipped to write ballot initiatives or sell their models to the voters, even if they can sell them to friendly political leaders. Governor Reagan, to his regret, found that out. Finally, the history of Prop 1 might have been instructive to subsequent governors. Both Pete Wilson and Arnold Schwarzenegger put budget-limitation initiatives on the ballot. But voters were suspicious of complicated formulas and uncertain fiscal outcomes. They rejected these later efforts at budget restraint.

Notes

[1] The author wishes to thank the librarians at the Reagan Presidential Library, the California State Archives, and UCLA Special Collections for help in locating documents.

[2] The line-item veto allows governors to delete portions of expenditures from the budget passed by the legislature.

[3] For a recent paper taking this theme, see Jackson K. Putnam, "Governor Reagan: Reappraisal," *California History* 83, no. 4 (2006): 24–45.

[4] Ronald Reagan, quoted in Norman C. Miller, "California Governor Has Much to Gain, Little to Lose, With Tax Plan," *Wall Street Journal*, October 16, 1973.

[5] See, for example, Garin Burbank, "Governor Reagan's Only Defeat: The Proposition 1 Campaign in 1973," *California History* 72 (Winter 1993/94): 361–73.

[6] Reagan attributed the phrase to a Russian proverb. He used it repeatedly including in his farewell address as president on January 11, 1989. Source: www.reaganfoundation.org/reagan/speeches/farewell.asp.

[7] Two of these focus on his governorship: Lou Cannon, *Ronnie & Jessie: A Political Odyssey* (Garden City, NY: Doubleday, 1969); Lou Cannon, *Governor Reagan: His Rise to Power* (New York: PublicAffairs, 2003).

[8] Ronald Reagan, *The Creative Society* (New York: Devon-Adair, 1968), 20.

[9] Helene Von Damm, *At Reagan's Side: Twenty Years in the Political Mainstream* (New York: Doubleday, 1989), 67.

[10] The kitchen cabinet was composed of wealthy businessmen who served as informal advisors to Reagan. Usually cited as members were Holmes Tuttle (car dealer), Justin Dart (drug stores), Henry Salvatori (oil exploration), and Edward Mills (financial services). However, others have also been cited and, because of the informal nature of the group, there is no precise definition of membership.

[11] Ann Edwards, *Early Reagan: The Rise to Power* (New York: William Morrow & Co., 1987), 488.

[12] Several biographies of Pat Brown exist, including Ethan Rarick, *California Rising: The Life and Times of Pat Brown* (Berkeley and Los Angeles: University of California Press, 2005); Roger Rapoport, *California Dreaming: The Political Odyssey of Pat & Jerry Brown* (Berkeley: Nolo Press, 1982). See also Martin Schiesl, ed., *Responsible Liberalism: Edmund G. "Pat" Brown and Reform Government in California, 1958–1967* (Los Angeles: Edmund G. "Pat" Brown Institute of Public Affairs, 2003).

[13] Subsequently, the repeal by referendum was itself overturned by a court decision: *Reitman v. Mulkey*, 387 U.S. 369 (1967).

[14] For a biography of Knowland, including a discussion of this episode, see Gayle B. Montgomery and James W. Johnson, *One Step from the White House: The Rise and Fall of Senator William F. Knowland* (Berkeley and Los Angeles: University of California Press, 1998). President Eisenhower had once written of Knowland, "In his case, there seems to be no final answer to the question, 'How stupid can you get?'" and in 1958, Knowland's actions in forcing out Knight seemed in keeping with that description. Eisenhower is quoted in Rarick, *California Rising*, 89.

[15] See Jeffrey J. Barker, "The Big 5," *Sacramento News and Review*, August 4, 2005, for a brief history.

[16] Although he later lost weight, Unruh's girth made him reminiscent of the Big Daddy character played by Burl Ives in the 1958 film *Cat on a Hot Tin Roof*.

[17] An account of the uneasy relationship between Pat Brown and Jessie Unruh can be found in Jackson K. Putnam, *Jess: The Political Career of Jesse Marvin Unruh* (New York: University Press of America, 2005), 133–94.

[18] There was also an argument that withholding would cut down on tax cheating. For example, some individuals who left the state before April 15 might simply not file at all if their tax was not withheld.

[19] Reagan said his feet were stuck in concrete against withholding. So when he later reversed himself, Reagan joked about the concrete cracking. See Lou Cannon, *Governor Reagan*, 198, 333–35. Caspar Weinberger, Reagan's second budget director, was more sympathetic to withholding than the governor. See Box F28, Weinberger to Thomas, letter of March 1, 1968. In 1968, the executive director of the Franchise Tax Board (the agency that collects state taxes), presented estimates of the impact of withholding to the legislature and to Weinberger. The possibility of tax evasion was one issue raised. Apparently, the U.S. Internal Revenue Service ceased providing California with data on federal income tax filers in 1966. This fact was included in a report for the governor-elect by the California Taxpayers Association dated December 1966.

[20] In a growing economy, the tax "take" each year tends to rise. Since accrual effectively shifts the time frame from lagged actual receipts to current accruing liability, it will produce somewhat more budgeted revenue—but not actual cash—in any fiscal year. However, the effect would not be anywhere near the magnitude of a shift to withholding.

[21] Incoming Governor Schwarzenegger faced such a problem on taking office after the recall of 2003. He put Propositions 57 and 58 on the ballot to obtain voter approval for borrowing and temporarily to suspend the ban on borrowing to cover operating costs.

[22] Champion argued in a subsequent oral history that Reagan needed only withholding, not the tax increase he ultimately proposed, to deal with his budget problem. But withholding would have provided only a one-time increment of revenue, whereas Reagan needed either ongoing budget cuts or an ongoing increase in tax receipts to deal with the fiscal problem. See Bancroft Library, UC Berkeley, "Hale Champion, Communication and Problem-Solving; A Journalist in State Government," 1981, pp. 107–8.

[23] There is a later parallel to this episode when Governor Gray Davis in 2002 intervened in the Republican primary to undermine the candidacy of a former Los Angeles mayor. Davis believed—correctly it appears—that the alternative candidate, William Simon, would be easier to beat.

[24] See, for example, "State Budget Trickery," (editorial) *Los Angeles Times*, April 1, 1966.

[25] Post reports that the offer of the directorship of the Department of Finance was made through (then-state senator) George Deukmejian. See California State Archives, *Oral History Interview with A. Alan Post, State Legislative Analyst, 1950–1977*, 264.

[26] See Ansel Adams, et al., *California: The Dynamic State* (Santa Barbara, CA: McNally and Leftin, 1966).

[27] After a year, Smith was replaced by Caspar Weinberger. In a later interview, State Controller Houston Flournoy indicated that Smith had been essentially fired. Reagan preferred to interpret Smith's resignation as a matter of Smith needing to make more money in private employment. See Claremont Graduate School, Oral History, "Ronald Reagan Era: Houston I. Flournoy, California Assemblyman and Controller," 1982, p. 155; Bancroft Library, UC Berkeley, "Governor Reagan and His Cabinet: An Introduction," 1986, pp. 36–37 in section titled "Ronald Reagan: On Becoming Governor."

[28] Files in the Reagan library indicate Smith overdrew his personal checking account by $8.50. Smith to Security First National Bank, letter dated April 21, 1967, Reagan Library, Box F20.

[29] "The truth is that, with the 30 days available, it has been impossible for us to make all of the hard and realistic decisions required to provide you with . . . completeness in the proposed 1967–68 financial plan." Quote from Ronald Reagan's budget message of January 31, 1967, contained in *California State Budget for the Fiscal Year July 1, 1967, to June 30, 1968*.

[30] Reagan indeed joked about his limited budget knowledge. In a meeting of January 15, 1968, Reagan stated, "I think I am as clear as a non-accountant can get. That reminds me: When I was a sports announcer, I was dating a young girl, and she, out of duty to me, asked me once what a single-wing position is. I explained it in detail, drew a diagram and all—and when I was finished she asked, 'Yes—but what is a single wing?'" Reagan Library, Box GO 24.

[31] Ronald Reagan, *An American Life* (New York: Simon and Schuster, 1990), 159.

[32] Lou Cannon, *Governor Reagan*, 41.

[33] The state retained $36 million as a kind of petty-cash reserve. See State Controller, *State of California Annual Report: 1966–67 Fiscal Year*, July 1967, pp. A-55, 232. Data below are also from this source.

[34] Ronald Reagan, *The Creative Society* (New York: Devon-Adair, 1968), 68.

[35] Press release of January 30, 1967, in Reagan Library, Research Unit Box 18.

[36] Quoted in Lee Edwards, *Reagan: A Political Biography* (San Diego: Viewpoint Books, 1968), 194.

[37] Ronald Reagan, *An American Life*, 160, 185.

[38] Smith to Legislature, report dated December 11, 1967, p. 3, Reagan Library, Box GO 9.

[39] Edmund G. "Pat" Brown, *Reagan and Reality: The Two Californias* (New York: Praeger, 1970), 72, 205.

[40] Ronald Reagan, *An American Life*, 165.

[41] State Controller, *State of California Annual Report: 1968–69 Fiscal Year*, July 1968, p. 4.

[42] Kent Steffgen, *Here's the Rest of Him* (Reno, NV: Forsight Books, 1968), 22–23.

[43] Joseph Lewis, *What Makes Reagan Run: A Political Profile* (New York: McGraw-Hill, 1968), 182–83.

[44] I used the U.S. Bureau of Economic Analysis GDP deflator in making these calculations.

[45] Real per capita receipts rose at an annualized rate of 4.3 percent during the Pat Brown years and 8.3 percent during the Reagan years.

[46] See Reagan's remarks on Prop 14 to the California Real Estate Association (whose members generally favored Prop 14) in which he explains his opposition. Reagan Library, Box GO 177. Watson was the Los Angeles County Tax Assessor.

[47] Donna E. Shalala, Mary F. Williams, and Andrew Fishel, "Final Report: The Property Tax and the Voters," unpublished report of the Policy Institute, Syracuse University, November 1973, p. 38, contained in Reagan Library, GO 121.

[48] Reagan could point to some incremental tax reforms. He did eliminate the distortionary inventory tax that was assessed on a single day in some jurisdictions. Businesses would load inventory on trains that would take their goods out of state on that date.

[49] SB 90 did put caps on property tax rates but, unlike the later Prop 13, did not cap assessments. It was the assessment component that was driving up property tax bills due to real estate inflation.

[50] Buchanan won the Nobel Prize in Economics for his theories in 1986.

[51] Ronald Reagan, quoted in Carl Irving, "Reagan Makes Emotional Pitch for Tax Proposal," *San Francisco Examiner*, October 2, 1973.

[52] Press release of Jack Kemp dated November 1, 1973. Reagan Library, Box GO 120. At the federal level, there were contradictory currents. David Packard of Hewlett-Packard organized a bipartisan citizens' committee of business people and academics to look for ways to restrain government spending but not through a constitutional amendment. And due to the inflation of that era, there was talk of a possible federal tax increase.

[53] "Kenneth F. Hall, "Playing the Devil's Advocate: The Governor's office and the Department of Finance in California, 1966–1974," p. 22, in Bancroft Library Oral History, UC Berkeley, "Legislative Issue Management and Advocacy, 1961–1974," 1983. Hall was deputy chief director of the Department of Finance.

[54] Ronald Reagan, "Reflections on the Failure of Proposition 1," *National Review*, December 7, 1973, p. 1358.

[55] State personal income is defined as "income that is received by, or on behalf of, persons who live in the state. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and private capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance. Source: U.S. Bureau of Economic Analysis, http://www.bea.gov/bea/glossary/glossary_s.htm#State_PI.

[56] For example, if the number of inmates in state prisons rose faster than the general population, and/or the costs per prisoner rose faster than general inflation, the workload budget for prisons would rise faster than the floor. Growth in unfunded federal mandates could also push up the state workload budget.

[57] Personal income was used, nonetheless, in two later initiatives that were adopted by voters: Prop 4 (spending limit) and Prop 98 (school funding formula).

[58] The argument that local taxes would go up to offset the reduction in the state budget appears in the official ballot argument against Prop 1. See http://traynor.uchastings.edu/cgi-bin/starfinder/16507/calprop.txt.

[59] Document entitled "Tax Reduction Task Force" of June 12, 1972, signed by Walton. Reagan Library, Box GO 118.

[60] Lou Cannon, *Governor Reagan*, 368–69.

[61] Bill Boyarsky, *Ronald Reagan: His Life and Rise to the Presidency* (New York: Random House, 1981), 162.

[62] Claremont Graduate School, "The History of Proposition #1, Precursor of California Tax Limitation Measures." Oral History Program, Interviews with Wm. Craig Stubblebine, Lewis K. Uhler, 1982. The John Birch Society, to which Uhler had briefly belonged, was an extreme right wing group with a major base in Orange County. It was to Republicans on the Right what the Communist Party had been earlier to Democrats on the Left. Mainstream politicians in both parties tended to eschew the views of these groups but not necessarily the votes of their members or sympathizers.

[63] Reagan's long-time secretary noted in her memoir that "Michael Deaver's strengths did not include management and organization." Helene Von Damm, *At Reagan's Side: Twenty Years in the Political Mainstream* (New York: Doubleday, 1989), 197. After leaving the Reagan presidential administration, Deaver was involved in an embarrassing scandal that ultimately led to a conviction for lying under oath concerning lobbying activities.

[64] Jerry Gillam, "Reagan Hopes for Big Turnout in Tax Election," *Los Angeles Times*, September 19, 1973.

[65] Michael K. Deaver, *A Different Drummer: My Thirty Years with Ronald Reagan* (New York: HarperCollins, 2001).

[66] Stubblebine Oral History Interview.

[67] These two explanations are featured in Gary C. Hamilton and Nicole Woolsey Biggart, *Governor Reagan, Governor Brown: A Sociology of Executive Power* (New York: Columbia University Press, 1984), 181–200.

[68] Ronald Reagan, "Blank-Check State Spending Must Be Halted," undated special edition of the *California Journal*, 2. Available in Reagan Library, Box GO 177.

[69] Azevedo to Verne Orr and Ken Hall, November 8, 1972. Reagan Library, Box F178.

[70] In public, Orr later took the line of the conservative economists: the governor wanted to restrict expenditures but the system as it stood pressured him to overspend. See Burbank, "Governor Reagan's Only Defeat," 365.

[71] California State University, Fullerton, Oral History Program, "The 'Kitchen Cabinet,' Four California Citizen Advisors of Ronald Reagan," 1983, pp. 34–35 of Salvatori interview.

[72] Uhler, Oral History Interview.

[73] Materials from the Prop 1 campaign, including a letter from Topping inviting others to the campaign committee, are contained in Reagan Library, Boxes GO 118–19.

[74] The results of the poll undertaken by "Decision Making Information" are contained in Reagan Library, Box GO 121.

[75] Garin Burbank, "Governor Reagan and California Welfare Reform: The Grand Compromise of 1971," *California History* 70 (Fall 1991): 278–89, 328–30.

[76] "Prop. 1 Debate Is Spirited But Not Overly Informative," *Sacramento Bee*, October 30, 1973.

[77] Ronald Reagan, "Reflections on the Failure of Proposition #1," *National Review*, December 7, 1973. Available through www.nationalreview.com.

[78] Post stated in an oral history, "My family was arch-Republican. They still are. I'm the only one who ever left." What his inclinations were at the time of Prop 1 is not clear. *Oral History Interview with A. Alan Post*, 26, 78.

[79] Gubernatorial press release of April 30, 1973, Reagan Library, Box GO 177. It might be noted that forecasting was particularly difficult in this period due to such factors as wage-price controls, exchange rate changes, and the vagaries of the Vietnam War.

[80] Statement of Kenneth Hall before Assembly Ways and Means Committee, August 9, 1973. Reagan Library, Box GO 177.

81 Alan Post, quoted in William Endicott, "Reagan Accuses Post of 'Distortions' in Tax Initiative Report," *Los Angeles Times*, August 29, 1973.

82 William Endicott, "Reagan Accuses Post of 'Distortions' in Tax Initiative Report," *Los Angeles Times*, August 29, 1973.

83 Bob Schmidt, "Did Reagan Mean What He Said?," *Long Beach Press-Telegram*, September 2, 1973.

84 Burbank, "Governor Reagan's Only Defeat," 364.

85 Younger's opinion can be found with other campaign documents in Reagan Library, Boxes GO 118–19.

86 The funding controversy was similar to an earlier attack on Pat Brown's finance director, Hale Champion, for diverting money to a study of state infrastructure needs without an appropriation. Champion, however, was cleared by the Sacramento district attorney and managed to turn the accusation against his accuser. Uhler was unable to turn the tables and the accusation festered. On the Champion episode, see James R. Mills, *A Disorderly House: The Brown-Unruh Years in Sacramento* (Berkeley: Heyday Books, 1987).

87 Campaign-related documents including endorsements can be found in Reagan Library, Boxes GO 118–19.

88 There was a rumor that a deal had been struck to name a potential rival to Collier to a judgeship, thus eliminating a competition that had been created by redistricting. The rival, Fred Marler, did receive a judgeship in 1974. Richard Rodda, "Reagan-Collier Affair Stirs Capitol Gossips," *Sacramento Bee*, October 19, 1973. Reference to Marler's appointment to a judgeship on the Sacramento Superior Court in 1974 can be found at http://www.courtinfo.ca.gov/courts/courtsofappeal/3rdDistrict/justices_former/marler.htm.

89 "Marketing and Communication Plan for Yes on Proposition 1," September 4, 1973, Reagan Library, Box GO 120.

90 Burbank, "Governor Reagan's Only Defeat," 365–66.

91 The earlier editorial appeared on March 25, 1973.

92 He lost to Earl Warren, running for a third term.

93 The author obtained a tape recording of both calls from the Reagan Presidential Library.

94 The Reagan Library kindly made tape cassette copies of the radio and phone ads for the author.

95 "Tax Ceiling Supporters Outspent Foes 3 to 1," *Los Angeles Times*, December 7, 1973.

96 Letter from Reagan to Mr. and Mrs. Bowman, reproduced in Kiron K. Skinner, Annelise Anderson, and Martin Anderson, eds., *Reagan: A Life in Letters* (New York: Free Press, 2003), 180–81.

97 One political observer noted at the time, "Whatever the reasons for the defeat, it wasn't due to a lack of campaign funds." See Bruce Keppel, "An Offer Californians Did Refuse," *California Journal* (December 1973): 402.

98 Whitaker and Baxter had handled the campaign against Republican Governor Earl Warren's effort to create a statewide health insurance plan in the 1940s. So the firm was willing to oppose the efforts of a Republican governor.

99 The Hauck-Moretti report can be found in the Reagan Library, Box GO 121. Its formal title was "The Economics of Proposition 1: Myth and Reality," prepared by The Assembly Office of Research, R. William Hauck, director, September 1973. It contains a cover letter from Hauck to Moretti dated September 17, 1973, in which Hauck reports preparing the document at Moretti's request. The document was photocopied rather than formally published.

100 Ronald Reagan, quoted in "Reagan Invokes Constitution to Defend Tax Plan," *San Diego Union*, October 5, 1973.

101 Dennis J. Opartny, "Reagan Raps Press, then Apoligizes [*sic*]," *San Francisco Examiner*, October 5, 1973.

102 This episode is described in detail in Bill Boyarsky, *Ronald Reagan: His Life and Rise to the Presidency*, 164–65.

103 Governor's budget message, January 10, 1974.

104 Ronald Reagan, *An American Life*, 207.

105 Moretti is mentioned only in the context of welfare reform, which Reagan remembers as an episode in which he bested the assembly leader. Ronald Reagan, *An American Life*, 190.

106 Pat Brown in particular was cheered by the outcome of the Prop 1 campaign. See Edmund G. "Pat" Brown and Bill Brown, *Reagan: The Political Chameleon* (New York: Praeger, 1976), 62–67, 173.

107 Moretti died at a young age in 1984; his career never went beyond the state assembly.

108 W. Craig Stubblebine—who is often credited with the design of Prop 1—did not support Prop 13 when it came along. But he believed that Prop 13 would not have been enacted if Prop 1 had been in place. Claremont Graduate School, "The History of Proposition #1, Precursor of California Tax Limitation Measures." Oral History Program, Interviews with Wm. Craig Stubblebine, Lewis K. Uhler, 1982.