

**Inflated Hopes, Taxing Times:
Fiscal Crisis, the Pocketbook Squeeze, and the Roots of the Tax Revolt**

by

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Introduction: Understanding the Tax Revolt

Time [magazine] said on June 19, 1978 that [Proposition] 13 was "a middle-class tax revolt." I don't think that's accurate at all. This was across the board. We got 40% of the minority and lower-income vote. We got about 60% of the vote of the middle class. We got practically all of the vote of the wealthy. When you roll up a 65% vote in a state the size of California, there's no way to say that this was an action of any particular class.... I think people from every class resented the fact that the government was stealing too much of their money. I think the general idea in California and all over the country, with rich and poor alike, is that the government is too invasive; it has too much control; it passes too many laws; it curbs too many freedoms. I was glad that 13 had so much appeal to wealthy people. More often than not, the rich make more money because they're brighter – as far as I've observed.

– Howard Jarvis, *I'm Mad as Hell* (1979)¹

Here was the face of the revolt. White, middle-aged, jowly, wealthy, and unapologetically conservative. The year was 1978, but this visage would look remarkably similar to the faces of those who would claim the mantle of the revolt in the years that followed – 1980, 1994, 2010, and many others. This time, however, it Howard Jarvis on the cover of *Time* magazine, the stars of a revolutionary-era flag framing his grey hair, fist pumped in victory, the words “Tax Revolt!” emblazoned in bold letters across his grey business suit. Why was he on the cover? California voters had put Jarvis there. To the shock of most observers, voters in one of the most liberal state in the union went to the polls on June 6, 1978, and cast their votes with Jarvis, an unlikely populist hero, by passing his property tax-slashing initiative, Proposition 13. According to *Time*, “It was as though millions of the state’s taxpayers had thrown open their windows like the fed-up characters in the movie *Network* and shouted in thunderous unison: ‘I’m mad as hell – and I’m not going to take it any more!’”²

Just why were they “mad as hell”? Jarvis had a clear answer. In the hands of Jarvis and

¹ Howard Jarvis and Robert Pack, *I'm Mad as Hell: The Story of the Great American Tax Revolt* (Times Books, 1979)

² “Sound and Fury Over Taxes,” *Time* (June 19, 1978)

his conservative allies the revolt became a symbol of the public's rising conservatism. But that was ideological spin, not historical fact. A credulous press, however, echoed Jarvis's framing of the tax revolt. As a *Newsweek* columnist wrote, the conventional wisdom on Prop 13 could have been headlined "California to Liberal Government: Drop Dead."³ *Time* certainly did not dissent from this conclusion. "That angry noise was the sound of a middle class tax revolt erupting, and its tremors are shaking public officials from Sacramento to Washington, D.C.," it argued. "Suddenly all kinds of candidates in election year 1978 are joining the chorus of seductive antitax sentiment, assailing high taxes, inflation and government spending." Everywhere one looked, it seemed that the outlines of a new anti-tax, anti-government conservatism could be discerned. "On the same Tuesday that Proposition 13 swept to victory," *Time* noted, "taxpayers in Ohio turned down 86 of 139 school tax levies, including emergency outlays designed to save public schools in Cleveland and Columbus from bankruptcy."⁴

Yet, to anyone who had been following American tax politics in the preceding years, that last statement would have sounded oddly familiar. Nearly a decade earlier, the same magazine had declared the beginning of the tax revolt it was now rechristening in 1978. "A taxpayer's revolt has hit Ohio, where public schooling is financed through a combination of state aid and local property taxes," *Time* reported in early 1970, in one of several articles on what, years before Prop 13, was already being termed a tax revolt. "Taxpayers turned down 166 out of 523 proposals to increase local school levies in November and vetoed 52 more out of 99 in a special election last month."⁵ Nationwide, school levy and bond approval rates fell from more than 80 percent in 1950 to less than 50 percent in 1970. Yet, both contemporary accounts of the passage

³ Meg Greenfield, "The People's Revenge," *Newsweek*, June 19, 1978.

⁴ "Sound and Fury Over Taxes," *Time* (June 19, 1978)

⁵ "Ohio's Financial Crisis," *Time* (January 12, 1970); "Taxpayers to the Barricades," *Time* (October 12, 1970); "Why Tax Reform Is So Urgent and So Unlikely," *Time* (April 4, 1969)

of Prop 13 and the decades of academic analyses that would follow largely forgot the years of revolt that preceded Prop 13. Why the amnesia? What happened in the intervening years that have been erased from memory, rendering Prop 13 the beginning, rather than the culmination of, the tax revolt, and what can the events of those intervening years tell us about the nature of the tax revolt and the political realignment of which it is a key part? This dissertation seeks to answer this puzzle. Perhaps most importantly, it also seeks to explain what was lost at the time, and is still lost by scholars and policymakers, in forgetting the struggles, the uncertainties, and the missed opportunities that took place in the decades prior to Prop 13.

This dissertation demonstrates that a “pocketbook squeeze” driven by regressive tax increases and rising inflation caused the tax revolt, which actually culminated in, rather than began with, Prop 13. The simple fact of the household budget, not ideological fervor, drove the public’s tax discontent. That is not to say, however, that the revolt lacked any ideological content. From the beginning, the tax revolt assumed a decidedly leftward tilt. The pocketbook squeeze afflicted low- and middle-income Americans, in particular. Inflation and the tax system acted in tandem on the pocketbooks of these modest income Americans, as rising housing prices increased property taxes, rising prices of consumer goods increased sales taxes, and rising nominal incomes pushed low- and middle-income workers into higher tax brackets without a corresponding rise in real incomes. When combined with a nonstop parade of exposés of tax loopholes benefitting the well-off in everything from local property tax assessments to the federal income tax code – loopholes that low- and middle-income Americans noted stood in sharp contrast with their own rising taxes – most Americans had good reason to feel resentful of both their own tax burden and the fairness of the tax system itself. As a result, most Americans preferred solutions to the pocketbook squeeze that combined progressive loophole-closing

reforms and tax relief targeted and low- and middle-income taxpayers, not conservatives' preferred cuts to business and progressive taxes and slashes in government spending.

This dissertation also demonstrated that, while pocketbook squeeze motivated the tax revolt as it unfolded in the decades prior to Prop 13, political responses to the revolt determined how the public's tax discontent would be reflected in policy. The revolt's ultimate political and policy outcomes, moreover, were determined by the interactions between policymakers and the parties, on one hand, and activists and interest groups, on the other. Each group of actors attempted not only to understand the public's tax views that were driving the revolt but also to frame those views in ways that supported their preferred policy outcomes. While with historical hindsight it is clear that the pocketbook squeeze on lower- and middle-income Americans made the revolt more amenable to solutions that focused on providing tax relief to low- and middle-income Americans, not the upwardly tilted or across-the-board cuts preferred by many conservatives, that conclusion was far from clear to most contemporary observers. Moreover, those policymakers and activists that disagreed with the public's preferred policy solutions had good reason to discount such a conclusion even when it seemed clear.

Because of the ideological content of the pocketbook squeeze, the grassroots left first capitalized on the tax revolt. Beginning in the 1960s, activists from the black freedom, consumer, labor, and community organizing movements began to form a broad "tax justice" left. These activists critiqued the tax system's fairness and analyzed various tax policies in terms of how their benefits would be distributed among the income classes. Low- and middle-income Americans, tax justice activists argued, faced soaring taxes at the same time that upper-income taxpayers and large corporations escaped paying the rates called for by law. Labor unions, such as the AFL-CIO, and nascent black power groups, such as the Lowndes County Freedom

Organization, were among the first to advance unmistakable tax justice arguments. By the end of the 1960s, however, consumer activist Ralph Nader, former Congress of Racial Equality and National Welfare Rights Organization leader George Wiley, and community organizer Saul Alinsky would become perhaps the three biggest influences behind the growing tax justice left. These tax justice activists hoped to effect change not only through direct action, but also through pulling the Democratic Party towards their diagnosis of the tax revolt.

The tax revolt would prove to be a missed opportunity for the Democratic Party, however. The Kennedy-Johnson era marked the rise of “growth liberalism,” which argued that growth would serve as an emollient for battles over the distribution of income. Democrats, in this view, need not concern themselves with the distribution of tax cuts, since the rising tide of prosperity the cuts would create would “life all boats.”⁶ However, in focusing on growth, not distribution, most Democrats missed the extent to which the United States’ peculiar system of “fiscal federalism” was generating the pocketbook squeeze and the resulting tax revolt. Taken together, the Kennedy-proposed federal tax cuts favored upper-income taxpayers and business. At the same time, however, regressive state and local taxes, as well as federal payroll taxes, were rising rapidly. National Democrats, moreover, had contributed, both directly and indirectly, to these increases in regressive taxes by enacting a variety of federal programs – from the New Deal to the Great Society and beyond – that involved fiscal partnerships between the federal government and states and localities, thereby necessitating hikes in state and local taxes. Thus, as federal policymakers during the Kennedy-Johnson years were congratulating themselves on the triumph of growth liberalism and touting the relatively small amount of money deposited into the pockets of Americans of modest means thanks to cuts in the federal income tax, soaring state and

⁶ Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford, 2000); Allen Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper & Row, 1986)

local taxes were removing federal cut, and then some, from the same taxpayers' pockets. As some contemporary critics pointed out, though, many low- and middle-income Americans experienced the high-growth sixties as an era of an increasing pocketbook squeeze, rather than as a period of boundless prosperity.⁷

In the post-Kennedy era, the Democratic Party moved further towards growth liberalism, making it difficult for Democrats to both recognize and capitalize on the underlying causes of the tax revolt. The tax justice grassroots left, in contrast, aligned itself with average Americans' tax discontent and, in doing so, hoped to pull the Democrats back towards an understanding of taxes that would privilege the distribution of the tax burden above growth concerns. Fortunately for the grassroots left, growth liberalism had not completely eliminated more distribution-centric views within the Democratic Party. The candidacy of George McGovern – whose unapologetically lower- and middle-income focused tax policies were more popular than Nixon's, according to polls – and the rise of "New Populist" Democrats on the state and federal levels in the early 1970s temporarily overshadowed growth liberalism's influence within the Democratic Party, making an alliance between the grassroots left and the Democrats to address the tax revolt seem possible. However, the defeat of McGovern and Nixon's inglorious fall after Watergate facilitated the rise of the "New Democrats," a group of young Democrats who took their cues from Kennedy's growth liberalism and even, at times, President Dwight Eisenhower's anti-inflation conservatism. Throughout the mid-to-late 1970s, New Democrats, including Jerry Brown, Michael Dukakis, and Bill Clinton, gave little support to – and, at times, even opposed – the tax justice left. Some New Democrats even rejected the idea that the tax revolt existed. As a result, the public's demands for tax relief grew throughout the 1970s.

⁷ Perhaps the best summation of this line of argument is Andrew Levison, *The Working Class Majority* (Penguin 1974). More recently, Judith Stein has expanded upon this argument. Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (Yale, 2010).

The grassroots right and the Republican Party, in contrast, were moving in the same direction on taxes. By the 1960s, Eisenhower's anti-inflation conservatism, which emphasized balancing the budget to fight increasing prices above all other priorities, was falling out of favor with Republicans and grassroots activists. Richard Nixon would emphasize spurring growth, not combatting inflation, as his main goal in the White House. Moreover, when Nixon recognized the ideological tilt of the tax revolt and the popularity of the tax justice left's solutions, he would even flirt with tax policies tilted to low- and middle-income Americans. Other conservatives were moving away from Eisenhower's anti-inflation fiscalism, but they were moving right, not left. Anti-government, libertarian-leaning activists, including economists such as Milton Friedman and James Buchanan, began to emphasize that conservatives should focus on distribution, too, by cutting taxes for upper-bracket taxpayers and businesses. Though the grassroots right's solutions to the tax revolt proved to be decidedly out-of-step with the public's policy preferences, they were echoed by both business groups and Republicans such as Barry Goldwater and Ronald Reagan, and both provided the grassroots right with significant support. Despite voters' rejection in the early-to-mid 1970s of tax initiatives in states from California to Arizona that would have concentrated their benefits on the rich and business, business groups and libertarian-leaning Republicans like Reagan continued to support the grassroots right. When Nixon's resignation created a power vacuum in the GOP leadership, both Reagan and the grassroots right were primed to capitalize on the opportunity.

By the mid-1970s, as inflation soared and turned into "stagflation," the public's demand for tax relief grew in tandem. Moreover, the public's willingness to continue rejecting the upwardly titled tax initiatives pushed by business groups and the grassroots right at the state level waned as it became clear that the New Democrat-controlled Democratic Party was unlikely

to propose more progressive alternatives. So, when Jarvis's Proposition 13 unexpectedly made the ballot in California, where housing prices and property taxes had spiraled out of control in the previous few years, the grassroots right and sympathetic Republicans like Reagan were well-positioned to take advantage. After California voters approved Prop 13 in June of 1978, anti-government conservatives moved quickly to obscure the fact that the initiative passed out of the public's pocketbook desperation, not ideological conviction. Reagan, along with like-minded Republicans and activists, in fact, undertook a concerted post-Prop 13 campaign to portray Prop 13 as proof that the public favored tax cuts tilted towards corporations and upper-income individuals.

The spin worked. Already ideologically predisposed to favor business and the well-off more than their predecessors, the New Democrats put up little resistance to the analysis of Prop 13 offered by Reagan and his allies. With little mainstream debate about Prop 13's meaning, the press also accepted this redefinition of the tax revolt. In the decades that have followed, scholars often unwillingly have echoed the conservative framing of the tax revolt. Yet, Prop 13 was the product of more than a decade of building pocketbook frustration, rather than a referendum on conservative tax policies tilted towards the well-off. Moreover, the portrayal of Prop 13 as the beginning, rather than the culmination, of the tax revolt created the mistaken impression that it was a "revolt of the haves," as the title of one early account put it.⁸ Here, the epigraph from Howard Jarvis's autobiography is instructive. Jarvis was correct about the distribution of support for Prop 13 among income groups. The higher one's income, the more likely he or she was to support Prop 13.⁹ However, during the series of school bond and levy failures in the 1960s and early-1970s the pattern was just the opposite. Low-income voters were more likely to oppose the

⁸ Robert Kuttner, *Revolt of the Haves: Tax Rebellions and Hard Times* (Simon and Schuster, 1980)

⁹ Authors' analysis of data from "CBS News/New York times Monthly Poll," June 1978 (ICPSR 4495). See also David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982)

levies and bonds than high-income voters. Conservatives' reframing of the meaning of tax revolt and the press's reperiodization of the tax revolt's beginning, then, worked in tandem to obscure the revolt's origins in the post-WWII pocketbook squeeze on low- and middle-income Americans. It is an error that largely has continued to this day, and one that this dissertation aims to correct. By understanding the origins of the tax revolt in the pocketbook squeeze, as well as the political battles to define and capitalize on the revolt, it becomes clear that the revolt continues, in many ways, to this day both because the public's tax preferences have yet to be addressed in policy and because the pocketbook squeeze on low- and middle-income Americans has persisted almost wholly unabated.

Ideologies of Taxation in American Politics

This dissertation provides a framework for understanding varying shades of tax ideology, which, in turn, map onto larger philosophical differences about the nature of government, the economy, and American politics. Tax politics are often discussed in simplistic, binary terms ("anti-tax conservative" and "tax-and-spend liberal"). However, such dichotomies obscure the real action in tax American tax politics over the better part of the past century, which has occurred as much within as between the parties, interest groups, and grassroots activists. In complicating simple left-right descriptions of taxation, this dissertation follows in the footsteps of scholars who have attempted to discern the ideological variations within ostensibly coherent philosophies, such as Alan Brinkley, who delineated the overlapping strands of New Deal liberalism, and Lizabeth Cohen, who cataloged the divergent strains of consumerism in post-World War II American politics.¹⁰

¹⁰ Alan Brinkley, *The End Of Reform: New Deal Liberalism in Recession and War* (Vintage 1996); Lizabeth Cohen, *A Consumers' Republic: The Politics of Mass Consumption in Postwar America* (Vintage 2003)

Two philosophical visions of the role of taxes in U.S. policymaking competed throughout the post-New Deal era of American politics, and vision each found adherents across the political spectrum. The first was a “distributionist” view, which emphasized who paid taxes and how different groups’ tax burdens compared with abstract principles, such as fairness. Distributionists on the right generally sought to cut taxes on upper-income groups and businesses, often by pushing taxes downward to the poor with regressive forms of taxation – taxes that take a higher percentage of income from low-income taxpayers than high-income taxpayers – such as sales taxes.¹¹ Right-distributionists included not only Goldwater, Reagan, and the grassroots right, but also Howard Jarvis. The upward tilt in Prop 13’s tax benefits was a feature, not a bug. For example, when left-leaning activists in California, including former Students for a Democratic Society leader Tom Hayden, met with Jarvis to offer their support for Prop 13 if he shifted the measure’s benefits more towards low- and middle-income Californians, Jarvis flatly refused.¹² And when Prop 13 was criticized for being a windfall for big business, Jarvis quipped, “I’m glad they got it.”¹³

Distributionists on the left, in contrast, generally sought to distribute the tax burden upward to the rich. They tended to favor progressive forms of taxation, such as the graduated income tax, because they took a higher percentage of the taxpayer’s income the more he or she made. Tax justice activists were, by the very nature, left-distributionists, and the policy solutions to the tax revolt that they proposed reflected that fact. In all situations, tax justice activists were primarily concerned with how a policy proposal would affect the distribution of taxes and income. In a debate with Jarvis, for example, Ralph Nader critiqued the conservative activist for

¹¹ For an excellent summary of progressive versus regressive taxes, see Appendix in Robin L Einhorn, *American Taxation, American Slavery* (University of Chicago Press, 2006).

¹² Tom Hayden, Author Interview (September 15, 2014)

¹³ “Tax Revolt for Business or for the People,” *People & Taxes* (November 1979)

ignoring “the inequitable share of property tax burden.” Low- and middle-income homeowners deserved property tax relief, Nader believed, but upper-income homeowners and large corporations did not. Both Jarvis and the media, Nader argued, “didn’t analyze the consequences of the cut [in Prop 13] in terms of who was going to bear what percent of the burden among homeowners, renters, and industrial and commercial property.”¹⁴ Fewer Californians would have supported Prop 13, in Nader’s opinion, if they clearly understood the measure’s upwardly redistributionist elements of the measure. Obscuring the distribution of its benefits, in contrast, was part of Prop 13’s right-distributionist supporters’ plan.

The second overarching philosophy of taxation was a “fiscalist” view, which subordinated concerns about the distribution of the tax burden to a focus on the effects that various types of taxes and levels of taxation had on the macroeconomy and the budget. This view of taxation gained intellectual and political traction, as well as a new vocabulary, thanks to the Keynesian revolution – or, as some called it, the “fiscal revolution” – of the 1930s and 1940s, which provided economists and policymakers with new ways of conceptualizing both the economy and the government’s relationship to it.¹⁵ Among adherents to the fiscalist view of taxation, those on the right were generally most concerned with combating inflation. Conservative fiscalists, perhaps best exemplified by President Dwight Eisenhower, would forgo tax cuts and even support tax increases in order to fight inflation and balanced the budget. For these efforts, right-distributionists derided conservative fiscalists as “green eyeshade”

¹⁴ “Tax Revolt for Business or for the People,” *People & Taxes* (November 1979)

¹⁵ Herbert Stein, *The Fiscal Revolution in America* (University of Chicago, 1969); Robert Klein, *The Keynesian Revolution* (Macmillan, 1968); David C. Colander and Harry H. Landreth, Eds., *The Coming of Keynesianism to America* (Edward Elgar, 1997); Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge, 2002); Michael Bernstein, *A Perilous Progress: Economists and Public Purpose in Twentieth-Century America* (Princeton, 2014)

Republicans.¹⁶ In contrast with conservative fiscalists' concern with inflation and balanced budgets, fiscalists on the left were generally most concerned with spurring economic growth. President John F. Kennedy's tax cut proposals – which specifically avoided left-distributionism – represented the apex of growth liberalism for both its adherents and its critics.¹⁷

Understanding the subtle shades of tax ideology in the post-New Deal era clarifies the terms of the political battles over the tax revolt that would follow. In the Weberian tradition of “ideal types,” the terms distributionist and fiscalist are meant to describe a theoretical space of debate (Figure 1). Placed on a left/right spectrum, the typologies would roughly fall, from left to right: downward distributionist, growth fiscalist, anti-inflation fiscalist, and upward distributionist. In general, most Democrats were either downward “distributionists” or “growth fiscalists,” and most Republicans were either upward distributionists or anti-inflation fiscalists. However, no one actor perfectly embodied any view. Indeed, both individual actors and political parties moved and shifted over time between the positions. Richard Nixon's time in the Eisenhower administration, for example, led him to reject anti-inflation fiscalism and, over time, Nixon would dabble in both growth fiscalism and left-distributionism. Moreover, it was not uncommon for a distributionist to invoke fiscalist arguments, and vice versa. The true test of one's ideology was the outcome that one prioritized above others, not necessarily the rhetoric used to achieve that outcome.

Literature Review

For the past three decades, tax politics have been almost synonymous with conservative

¹⁶ Rowland Evans and Robert Novak, “Worshipping the Balanced Budget,” *Washington Post* (April 13, 1981); Grover Norquist, *End the IRS Before It Ends Us* (Center Street, 2015)

¹⁷ Herbert Stein, “Tax Cut in Camelot,” *Trans-Action* (March 1969); Robert M. Collins, *More: The Politics of Economic Growth in Postwar America* (Oxford, 2000); Allen Matusow, *The Unraveling of America: A History of Liberalism in the 1960s* (Harper & Row, 1986)

politics. As *New York Times* columnist David Brooks put it recently, “One thing Republicans know how to do is exploit the tax issue.”¹⁸ Scholars, journalists, and pundits searching for the roots of the conservative capture of American tax politics have turned to the 1970s – a decade once dismissed as a shallow “polyester decade,” but that has been recently recast as a “pivotal decade,” a “great shift,” and “the decade that brought you modern life,” as the titles of several recent book-length accounts have put it.¹⁹ Looking to the 1970s, both liberals and conservatives agree that the decade’s tax revolt proved to be a key turning point that helped shift both U.S. tax policy and American politics, more broadly, to the right. However, much of the scholarly literature – in fields such as the New Political History and the New Fiscal Sociology, as well as the History of Capitalism, Policy History, and American Political Development – has inadvertently reflected the reflected an argument advanced by conservative activists that the tax revolt represented a backlash against liberalism. This dissertation, in contrast, builds upon an underdeveloped and incomplete strand in the literature – which began with one of the very first accounts of the revolt – that sees the revolt as a more ideologically complex and politically contingent event.

The backlash narrative of the tax revolt has its roots in the 1960s. In his influential 1969 work, *The Emerging Republic Majority*, Republican political strategist Kevin Phillips predicted an incipient revolt on the right. By moving “beyond programs taxing the few for the benefit of the many (the New Deal) to programs taxing the many on behalf of the few (the Great Society),” Phillips argued, Democrats were alienating white working- and middle-class voters and driving

¹⁸ “Week in Politics: The ‘47 Percent,’ Senate Races,” *NPR*, September 21, 2012

¹⁹ Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (Yale University Press, 2010); Bruce Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (Free Press, 2001); David Frum, *How We Got Here: The 70s, The Decade That Brought You Modern Life – For Better Or Worse* (Basic Books, 2008)

them into the arms of the Republic Party.²⁰ Not only did this view of the tax revolt comport with the analysis offered by right-distributionist activists and Republicans like Ronald Reagan in the wake of Prop 13, it also found perhaps its clearest and most developed expression in liberal journalists Thomas and Mary Edsall's 1992 book, *Chain Reaction*. While both Phillips and Reagan would argue that the public's alleged rejection of economic liberalism was rooted in a rational embrace of anti-tax, anti-welfare conservatism, rather than any subterranean racism, the Edsalls cast the backlash in less favorable terms. Whites who had previously supported New Deal liberalism and the taxes that went with it, the Edsalls argued, turned against liberalism in the 1960s because the Democratic Party's alliance with the Civil Rights movement and racial liberalism, which "drove home the cost to white of federal programs that redistribute social and economic benefits to blacks and other minorities."²¹ Aside from the subtle shift in value judgment, however, the Edsalls's analysis of the revolt echoed Phillips's.

The backlash thesis of the tax revolt erases the pocketbook squeeze, the tax justice movement, the right's pre-Prop 13 failures to pass conservative tax initiatives resentment, and the unpopularity of the distributional effects of right-leaning measures like Prop 13. Yet, in the two decades since the publication of *Chain Reaction*, the backlash diagnosis of the tax revolt has remained relatively unchallenged. With his call for historians to take the history of conservatism seriously, Alan Brinkley helped ignite the New Political History's focus on the "Rise of the Right," which historians have answered with aplomb.²² Despite the leaps in our historical knowledge of American conservatism, however, the view of tax politics in the history of

²⁰ Kevin Phillips, *The Emerging Republican Majority* (Arlington House, 1969), 37.

²¹ Thomas Edsall and Mary Edsall, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics* (W.W. Norton, 1992)

²² Alan Brinkley, "The Problem of American Conservatism," *American Historical Review* 99:2 (April 1994); Julian Zelizer, "Rethinking the History of Conservatism," *Reviews in American History* 38:2 (June 2010) and the essays in "Conservatism: A Round Table" in *Journal of American History* 98:3 (December 2011)

conservatism, by and large, has followed the Edsalls' lead.²³ As a recent survey of the 1970s summarized, "mostly white taxpayers saw themselves as being forced, through taxes, to pay for medical and other services for other disproportionately black and Latino people," a realization that "moved [whites] decisively toward an even more individualistic, anti-tax perspective" and prompted the passage of Proposition 13, which "turned taxpayers against the public sector, not against corporate interests."²⁴ Even much more nuanced works – such as Molly Micheltmore's *Tax and Spend*, which follows scholars such as Christopher Howard in linking antigovernment sentiment with the increased use of tax expenditures by Democrats, in particular – maintain Phillip's link between the whites' racial resentment of welfare and anti-tax sentiment.²⁵ Sociologist Monica Prasad has offered another variant of the backlash thesis. In several works, Prasad has argued that U.S. economic politics and tax policies tilted too far to the left in the 1960s and 1970s. This leftward tilt, Prasad argues, was unpopular with the public, which provided popular support for upwardly tilted "neoliberal" tax measures, such as Prop 13 and the Reagan tax cuts.²⁶

Other explanations for the tax revolt offered by social scientists in the still-developing subfield of the New Fiscal Sociology have generally differed from those offered by the backlash thesis.²⁷ Yet, most of the social scientific literature on the tax revolt has focused only on the late-

²³ On the role of the backlash thesis in the conservatism literature, see Kim Phillips-Fein, "Rethinking the History of American Conservatism," *Journal of American History* 98:3 (December 2011)

²⁴ Thomas Borstelmann, *The 1970s: A New Global History from Civil Rights to Economic Inequality* (Princeton, 2011), 155-157.

²⁵ Molly C. Micheltmore, *Tax and Spend: The Welfare State, Tax Politics, and the Limits of American Liberalism* (University of Pennsylvania, 2012); Christopher Howard, *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States* (Princeton, 1999). See also, Suzanne Mettler, *The Submerged State: How Invisible Government Policies Undermine American Democracy* (University of Chicago, 2011)

²⁶ Monica Prasad, *The Politics of Free Markets: The Rise of Neoliberal Economic Policies in Britain, France, Germany, and the United States* (University of Chicago 2006). Monica Prasad and Yingying Deng, "Taxation and the Worlds of Welfare," *Socio-Economic Review* 7:3 (2009), 431-457; Monica Prasad, "The Popular Origins of Neoliberalism in the Reagan Tax Cut of 1981," *Journal of Policy History* 24:3 (2012), 351-383

²⁷ With its focus on taxation as central to understanding social change, rather than as merely "symptomatic" of other forces, this dissertation serves as another entry in the rapidly growing New Fiscal Sociology subfield. On the New

1970s and state-level tax initiatives, especially Prop 13, to the exclusion of the tax revolt's longer chronological lineage, as well as the importance of both local and federal politics in shaping the revolt. Numerous studies, both article- and book-length, investigated the tax revolt solely through analysis of public opinion surveys taken shortly before or shortly after the passage of Prop 13.²⁸ Other studies, likewise often focused on California, have businesses role in the passage of Prop 13 and subsequent measures at the center of the story, with only varying attention to the revolt's longer history and the presence of left-leaning grassroots groups and little attention to the revolt's local roots.²⁹ In a recent study, *The Permanent Tax Revolt*, socialist Isaac Martin argued that the modernization of assessment practices in the late-1960 and 1970s eroded informal property tax breaks given to homeowners, ultimately triggering the tax revolt. Despite its admirable attention to the grassroots left, *The Permanent Tax Revolt*'s exclusive focus on property taxes and state-level ballot initiatives limits its reach, since the revolt was already well-underway at the local level years before assessment reforms were enacted.³⁰ Other scholars have likewise pointed to events, such as the *Serrano v. Priest* decisions in California, as the cause of the revolt, despite the fact that the beginning revolt predated them by many years.³¹

Fiscal Sociology, see Isaac William Martin, Ajay K. Mehrotra, and Monica Prasad, "The Thunder of History: The Origins and Development of the New Fiscal Sociology," in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge, 2009)

²⁸ Perhaps the best of the studies in this genre is David O. Sears and Jack Citrin. *Tax Revolt: Something for Nothing in California* (Harvard, 1982),

²⁹ Sociologist Clarence Lo more wide-ranging 1990 study, *Small Property Versus Big Government*, focused primarily on California and Massachusetts and explored protests over rising property taxes (including some carried out by groups on the left), how those protests largely were ignored by policymakers, and how business groups were more successful in shaping the tax revolt to their ends. Echoing the latter part of Lo's argument, political scientist Daniel Smith's *Tax Crusaders and the Politics of Direct Democracy* argued that conservative tax initiatives like Prop 13 were actually unpopular measures foisted upon the public by deep-pocketed backers who created a "faux populist" movement into order to use the initiative system and enact their favored policies. Clarence Y. H. Lo, *Small Property Versus Big Government: Social Origins of the Property Tax Revolt* (University of California Press, 1990); Daniel Smith, *Tax Crusaders and the Politics of Direct Democracy* (Routledge, 1998).

³⁰ Isaac Martin, *The Permanent Tax Revolt: How the Property Tax Transformed American Politics* (Stanford, 2008).

³¹ William A. Fischel, "Did Serrano Cause Proposition 13?" *National Tax Journal* 42:4 (December 1989); Kirk Stark and Jonathan Zasloff, "Did Serrano Really Cause Proposition 13?" *UCLA Law Review* 50 (February 2003); Isaac Martin, "Does School Finance Litigation Cause Taxpayer Revolt? *Serrano* and Proposition 13," *Law and Society Review* 40:3 (September 2006); William A. Fischel, "Serrano and Proposition 13: Comment on Isaac

In challenging these explanations of the tax revolt, backlash and otherwise, this dissertation builds upon one of the earliest book-length studies of the tax revolt. Published in 1980, before the full policy effects of the revolt had even been felt, journalist Robert Kuttner's *Revolt of the Haves* gave ample attention to left-leaning, as well as conservative, tax activism in the 1970s. Though it still overlooked much of the action at the federal and local levels throughout the decade, Kuttner's account portrayed the passage of Prop 13 as a contingent, rather than an inevitable, outcome and did not presuppose its ideological content.³² In his survey of the 1970s, historian Bruce Schulman follows in Kuttner's footsteps, and a few recent surveys of left-leaning protest movements in the 1970s likewise have devoted attention to ideologically diverse roots of the tax revolt.³³ While these works still tell only part of the story, Kuttner's book and the historical studies it has influenced remain the most compelling previous accounts of the tax revolt. As a result, this dissertation builds upon their insights.

This dissertation speaks to larger issues in the study of American taxation beyond the tax revolt itself. Most notably, it aligns with an argument advanced by political scientist Andrea Louise Campbell that Americans' views on taxes often corresponded with the level of taxes themselves, rather than outside issues or political rhetoric.³⁴ Likewise, this dissertation follows the work of historian Robin Einhorn, which investigated the links between the institution of slavery and the development of American taxation, in seeing taxation as central to American politics and in trying to understand the development of U.S. taxation on its own terms, rather

Martin," Unpublished Paper (February 2009); William A. Fischel, "Serrano and Proposition 13: The Importance of Asking the Right Question," *Tax Analysts State Tax Notes* (August 25, 2008).

³² Robert Kuttner, *Revolt of the Haves* (Simon and Schuster, 1980); Bruce Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (Free Press, 2001)

³³ Simon Hall, *American Patriotism, American Protest: Social Movements Since the Sixties* (University of Pennsylvania Press, 2011) 95-116; Michael S. Foley, *Front Porch Politics: The Forgotten Heyday of American Activism in the 1970s and 1980s* (Hill and Wang, 2013) 233-260

³⁴ Andrea Louise Campbell, "What Americans Think of Taxes," in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge, 2009)

than reducing it to a supposedly exceptional case in the transnational history of state-building.³⁵

This dissertation also builds upon historian Julian Zelizer's *Taxing America*, a detailed policy history of federal tax policymaking in the three decades prior to 1975 centered on Ways and Means chair Wilbur Mills.³⁶ Though this dissertation devotes more attention to public opinion, grassroots politics, and state-and-local taxation than Zelizer's study, it also charts the dissolving influence of the technocratic "tax policy community" studied Zelizer, as the 1970s saw the community challenged by outsiders from the left and, eventually, the right.

In using the tax revolt to investigate larger issues in recent American history, this dissertation also addresses other topics of concern to scholars interested in the shift in American politics and policy to the right over the past 40 years. Most obviously, this dissertation joins the now-burgeoning literature on the 1970s, which has focused on the decade as the fulcrum of American political realignment.³⁷ Another recent trend that this dissertation also joins has been to recover previously overlooked activism by the grassroots left during years from the mid-1960s onward that have often been portrayed as periods of a declining left and a rising right.³⁸ By making the pocketbook squeeze the focal point of the study, this dissertation also follows influential studies by scholars such as Meg Jacobs and Lizabeth Cohen that have placed

³⁵ Robin L. Einhorn, *American Slavery, American Taxation* (University of Chicago, 2006); Robin L. Einhorn, "Liberty, Democracy, and Capacity: Lessons from Early American Tax Regimes," in *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective* (Cambridge, 2009)

³⁶ Julian E. Zelizer, *Taxing America: Wilbur D. Mills, Congress, and the State, 1945-1975* (Cambridge, 1998)

³⁷ In addition to surveys of the decade, such as Schulman's (mentioned earlier), recent years have seen an explosion in topical studies of the decade. See, for example: Jefferson Cowie, *Stayin' Alive: The 1970s and the Last Days of the Working Class* (New Press, 2013); Judith Stein, *Pivotal Decade: How the United States Traded Factories for Finance in the Seventies* (Yale, 2010); Bruce Schulman, *The Seventies: The Great Shift in American Culture, Society, and Politics* (Da Capo, 2002); Thomas Borstelmann, *The 1970s: A New Global History from Civil Rights to Economic Inequality* (Princeton, 2012); Right Star Rising: A New Politics, 1974-1980 (W.W. Norton, 2010)

³⁸ See, for example, Gordon K. Mantler, *Power to the Poor: Black-Brown Coalition & the Fight for Economic Justice* (UNC, 2013); Bradford Martin, *The Other Eighties: A Secret History of America in the Age of Reagan* (Hill and Wang, 2011)

individuals' everyday economics at the center of U.S. political history.³⁹ With its framework for understanding tax ideology, this dissertation also builds upon recent attempts to move “political history beyond the red-blue divide.”⁴⁰ This dissertation also joins works in the new History of American Capitalism subfield, which link the transformation of American capitalism over the past 40 years to contingent ideological and policy struggles, rather than overwhelming global forces.⁴¹ This contention, which is central to many of the recent studies of American capitalism, follows the influential work of political scientists Thomas Ferguson and Joel Rodgers, who placed the policy choices of the Democratic Party at the center of the story of American political and economic realignment.⁴² This dissertation likewise joins recent work in political science that have demonstrated that the public's views on a variety of issues – especially economic ones like taxes – are not reflected in policymaking. Instead, these new works show, policymakers reflect the views of economic elites and the well-off, not average Americans or the median voter.⁴³ This dissertation is, in many ways, an explication of how that process played out in the 1970s with regard to taxes.

Chapter Outline

Chapter 1, “The Stirrings of Revolt,” demonstrates that the tax revolt first began stirring

³⁹ Julian Zelizer, *Governing America: The Revival of Political History* (Princeton, 2012). See also Meg Jacobs, William J. Novak, Julian E. Zelizer, eds., *The Democratic Experiment: New Directions in American Political History* (Princeton 2009);

⁴⁰ A prime example of work in this vein is Lily Geismer, *Don't Blame Us: Suburban Liberals and the Transformation of the Democratic Party* (Princeton, 2015). On the outdated red/blue divide framing, see Matthew D. Lassiter, “Political History Beyond the Red-Blue Divide,” *Journal of American History* 98:3 (December 2011).

⁴¹ A few influential examples in the field are Bethany Moreton, *To Serve God and Wal-Mart: The Making of Christian Free Enterprise* (Harvard, 2009); Louis Hyman, *Debtor Nation: The History of American Red Ink* (Princeton, 2011)

⁴² Thomas Ferguson and Joel Rogers, *The Decline of the Democrats and the Future of American Politics* (Hill and Wang, 1986).

⁴³ Martin Gilens, *Affluence & Influence: Economic Inequality and Political Power in America* (Princeton, 2012); Kay Lehman Schlozman, Sidney Verba, and Henry E. Brady, *The Uneven Chorus: Unequal Political Voice and the Broken Promise of American Democracy* (Princeton, 2012)

at the local level among modest income Americans facing a pocketbook squeeze at the same time that federal policymakers in the Kennedy and Johnson administrations were touting the triumphs of growth liberalism. In the 1960, liberal economists and Kennedy administration Democrats began moving away from thinking of taxes in fairness and distributional terms in favor of thinking of taxes in terms of macroeconomic management and GDP growth. This new growth-fiscalist ideology culminated in the Kennedy-Johnson tax cuts. At the same time this shift was occurring at the national level, local taxes – particularly regressive property taxes – were rising to record highs. State legislators exacerbated the local tax bite by shifting costs to localities in response to new federal mandates and public demand for expanded services. As a result, while federal policymakers were applauding the achievements of Keynesian growth liberalism, states and localities were facing growing fiscal crises. Meanwhile, civil rights activists in groups like the Lowndes County Freedom Organization drew attention to the racial and class disparities in the assessment of local taxes, pulling the discussion of tax politics away from Democrats' new language of technocratic expertise and back toward questions of fairness and justice. The continuing trend of rising, unequal regressive taxes at the local and state levels spurred the first iteration of the tax revolt in the 1960s. From California to Ohio, school levy and bond approval rates fell from over 80% in 1950 to less than 50% in 1970, wreaking havoc on school budgets across the country. When voters in Youngstown, Ohio, defeated six consecutive levies between 1966 and 1969 – despite a bipartisan pro-levy campaign – the city closed the schools. National reporters flocked to Youngstown, and the nation's top-rated show, *Rowan and Martin's Laugh-In*, even mocked Youngstown's voters. But cities across the country faced similar crises. Many observers in the media and both political parties argued that alienation, a white backlash, or simple ignorance caused the revolt. However, national polls found no racial

differences in levy support. Instead, the poor were most likely to vote against property tax levies, and surveys showed that Americans viewed the property tax as the “worst” and “least fair” form of taxation. At the federal level, President Johnson eschewed suggestions from advisers to pursue federal tax reform or revenue sharing with state and local governments, policies which would have placed an emphasis on fairness, not growth, and helped to ease the growing pocketbook squeeze on lower- and middle-income Americans.

Chapter 2, “The Tax Revolt Goes to Washington,” tells the story of how in the late 1960s public pressure for progressive tax reform continued to build, resulting in the first national attention to the idea of a tax revolt and movement towards progressive tax reforms. Federal payroll taxes and Johnson’s “surtax” offset the 1964 federal income tax cuts championed by Kennedy, while state and local taxes continued rising precipitously. Newspaper, magazine, and television exposés of tax “loopholes” that benefitted the wealthy stoked public anger, while rising inflation exacerbated the still-potent pocketbook squeeze. When President Johnson’s outgoing Treasury secretary announced statistics on the number of millionaires who paid no federal taxes in January 1969, average Americans sent thousands of angry letters to Washington decrying the unfairness of the U.S. tax code. Quickly, the notion of a distribution-based tax revolt began garnering national attention. Labor unions and civil rights activists championed progressive reforms in response to the public’s tax frustrations, and their arguments received newfound support among populist Democrats in the House and Senate. However, President Nixon, as well as many moderate Republicans and Democrats, remained more concerned with fighting inflation than taming the tax revolt, which they believed was a passing political fad. Conservative Republicans in the House and Senate, in contrast, insisted that the public wanted tax cuts, not tax reform, and sought unsuccessfully to exploit the revolt for their own ends.

Ultimately, few national politicians in the late-‘60s understood the full measure or meaning of the tax revolt, and the final legislative result of the tax reform debates of the late-1960s, the Tax Reform Act of 1969, did little to address the public’s pocketbook discontent.

Chapter 3, “‘New Populism’ and the Ascendancy of Left-Distributionism,” explains how the grassroots left came to make unfair taxes a new and powerful organizing issue, as well as how their left-distributionist framing of taxes as a question of fairness and justice trickled up from the local level into state and federal politics. Beginning in 1970, consumer advocate Ralph Nader and community organizer Saul Alinsky, among others, organized around the issue of tax fairness. In Gary, Indiana, Nader joined forces with the Calumet Community Congress, one of Saul Alinsky’s groups, to challenge unequal tax assessments. Their efforts garnered national media attention, as well as crucial support from populist Democrats, who were amenable to a left-distributionist tax philosophy. By 1972, Democrats like Edmund Muskie and George McGovern made property tax reform a cornerstone of their presidential campaigns. In response, Nixon privately told his advisers to pursue policies that would “appeal to those who are part of the ‘Tax Revolt,’” and in his 1972 State of the Union, Nixon called property taxes “one of the most oppressive and discriminatory of all taxes.” Throughout the 1972 election campaign, both Nixon and his Democratic counterparts moved towards a left-distributionist analysis of taxes that understood the tax revolt as a response to the growing pocketbook squeeze. Most adherents to this analysis agreed that using progressive federal revenue sources to relieve the growth in local regressive taxes, particularly the property tax, was the solution to the tax revolt, in addition to loophole-closing federal reform. Nixon’s first step was Johnson’s discarded revenue sharing idea, but both Nixon and all of the major Democratic presidential candidates promised to go beyond that by funding direct federal relief of local property taxes – a revolution in “fiscal

federalism.” Though McGovern lost in a landslide to Nixon, taxes proved to be the only issue on which the public preferred McGovern to Nixon. With the president’s move to the left and the rise of left-distributionist Democrats like Muskie and McGovern, many observers agreed that left-distributionist tax reform was imminent.

Chapter 4, “The ‘New Democrats’ versus the Distributionists,” begins by explaining how McGovern’s loss and the Watergate scandal destabilized both parties’ power structures and put once-seemingly-inevitable left-distributionist tax reform in question. Meanwhile, at the state and local levels, the number of left-distributionist grassroots tax groups continued to grow, adding groups like George Wiley’s Movement for Economic Justice and ACORN-affiliated groups like California’s Citizens Action League. These activists formed national networks of like-minded tax reformers that shared information and strategies, giving the tax justice movement a coherent philosophy, language, and toolkit. However, in the years that followed McGovern’s defeat and Watergate, the Democratic Party would become increasingly hostile to this growing tax justice left, even as the latter was eager to translate its state and local successes to the national level. While congressional hearings led by Edmund Muskie continued to explore inequities in local property taxes, including the case of Gary, Indiana, many of his fellow Democrats moved in another direction. The post-Watergate “New Democrats” ignored the entreaties of the grassroots left and instead pulled the Democratic Party towards a fiscalist budget-conscious, pro-growth view of taxes. These shifts were complicated by the rise of “stagflation,” which paradoxically increased the public’s demand for distributionist solutions to the pocketbook squeeze and decreased policymakers’ inclinations to view issues like taxes in those terms. Indeed, inflation and taxation were inextricably intertwined elements of the pocketbook squeeze in the minds of voters, with one exacerbating the other. In contrast to the Democrats’ move away from the

grassroots left on taxes, the GOP became a friendlier place for right-distributionist activists in the years following Watergate. While numerous right-distributionist referenda, including one pushed by California's Governor Ronald Reagan in 1973, failed, Reagan and other conservative Republicans continued to nurture the efforts of right-distributionist tax activists. Supporters of Reagan's defeated 1973 initiative, for example, founded the influential National Tax Limitation Committee in 1975 and campaigned across the country for right-leaning tax measures, albeit with little success. With left-distributionist reform foreclosed at the federal level, left-distributionist activists attempted to cushion low- and middle-income Americans from inflation-induced property tax increases with left-distributionist relief programs at the states level. However, New Democrats in power in key states – such as California's Jerry Brown and Massachusetts's Michael Dukakis – rebuffed the grassroots left's efforts. Polls consistently showed that the public had not turned to the right and opposed both reductions in most services and tax cuts for the wealthy. However, the failure of Democrats to provide institutional support for progressive tax reforms left an increasingly squeezed public with no alternative to the conservative initiatives being enthusiastically endorsed by Republicans.

My dissertation's conclusion explains why, while most voters preferred more progressive, fairness-conscious solutions to the pocketbook squeeze, they ultimately supported conservative tax-cutting measures like Prop 13 out of pocketbook anxiety, rather than ideological fervor. As one left-leaning California tax activist said after reluctantly deciding to vote for Prop 13, "I want to keep my home." In the wake of Prop 13, another battle in the tax revolt began – the battle to frame its meaning. This battle commenced the instant Howard Jarvis took the stage to deliver his victory speech. It continued through a well-organized publicity barrage orchestrated by conservative activists and right-distributionist Republicans like Ronald Reagan.

Following conservatives' lead, many on the left agreed with the right's diagnosis. Likewise, journalists almost universally portrayed Prop 13 as a sign of rising conservatism, rather than economic desperation. Republicans capitalized on this interpretive consensus by arguing that Prop 13 vindicated their calls for regressive pro-business "supply side" tax cuts aimed at boosting "capital formation," and Democrats soon followed. President Carter – who had campaigned on a platform of progressive tax reform – called Prop 13 a "shock wave" and quickly signed a regressive Republican-backed capital gains tax cut into law. This regressive, GOP-pushed cut was soon followed by others. Earlier progressive tax reform efforts were forgotten. The conservative redefinition of the tax revolt was complete.

