1 INTRODUCING THE TAX REVOLT

TAXATION IS one of the most basic political issues. Taxes help to determine who gets what, when, and how. Tax policy also defines what government can do about every other issue, from health care to the environment to national defense—because doing things takes money, and money means taxation.

For Americans in the twenty-first century, however, taxation is not just an important issue. Taxes, and tax *cuts* in particular, are the central domestic issue of our time. Candidates for Congress and the Presidency regularly campaign on the promise of tax cuts. Big, high-profile tax cuts appear like clockwork at the top of the domestic policy agenda. Since 2001, Congress has voted to abolish the tax on inherited wealth and has passed a major income tax cut almost every year, including two of the three largest income tax cuts in American history. Congress wrote sunset provisions into these laws that will keep tax cuts at the top of the political agenda for the foreseeable future. Influential politicians are openly pushing for even more tax cuts as a way to shrink the government by starving it of resources. Some politicians, including President George W. Bush and several Republican presidential candidates, have floated the idea of repealing the income tax altogether.[1]

It was not always this way. Americans have a tradition of tax protest—every schoolchild has heard of the Boston Tea Party—but our politicians' current obsession with tax cuts is something new. For three decades after World War II, tax revenues rose to levels that were historically unprecedented. Elected officials from both major parties were happy to let taxes rise. They rarely fought over taxes. They rarely even mentioned the word at election time. American voters, for their part, rarely considered tax policy when they were deciding whom to vote for.[2] They mostly paid their taxes without protest. Our national obsession with tax cuts is not a timeless cultural trait. It is a new political development.

How did taxes—and tax cuts in particular—come to be such a central issue in American political life? The answer lies in a short-lived but intense wave of anti-tax fervor that swept over American politics in the 1970s. After decades of supporting the growth of government with their votes and their taxes, Americans rebelled against the local property tax. Hundreds of thousands of homeowners across the United States picketed, petitioned, and even withheld payment. The movement caught politicians by surprise. Officials scrambled to position themselves as champions of the taxpayer. They voted to cut taxes. They voted to limit the future growth of taxes. And they ushered in a new era in American politics.

This wave of tax protest was a defining moment for many politicians who lived through it. Political entrepreneurs—mostly in the Republican Party—seized on tax cuts as a populist issue that they could use to define themselves and their party in the political marketplace. They led the charge for what would become the largest income tax cut in American history, the Economic Recovery Tax Act of 1981 (ERTA). The political scientists Jacob Hacker and Paul Pierson recently described the memory of this campaign and that tax cut as "the guiding light" of President George W. Bush's domestic agenda. And that tax cut was only possible, they wrote, because President Ronald Reagan had "the popular anti-tax tide of the late 1970s at his back."[3]

This is a book about that anti-tax tide: what it was, where it came from, and what it did to our politics.

WHAT THE TAX REVOLT WAS

The anti-tax tide of the 1970s was a tax revolt. The phrase may conjure images of backwoods revolutionaries priming their muskets or peasants parading around with the tax collector's head on a pike. These images are only partly misleading. To be sure, the tax revolt of the 1970s was something less than an armed rebellion. But it was much more than a trend in public opinion. It was what sociologists call a social movement: a sustained, collective, and unconventional challenge to authority.[4]

Social movements are politics by other means. They are unconventional in the sense that they take place outside official channels and depart from the usual norms of political participation.[5] To grasp what makes a social movement different from the political process you learned about in high school civics, picture some scenes from the tax revolt: a dozen senior citizens assemble to burn their assessment notices on the steps of the county courthouse; thousands of people pack into an auditorium and pledge not to pay their property taxes; a mob of homeowners take to the streets and smash the mayor's car; a crowd of protesters interrupt a county board meeting to seize microphones and shout down their elected tax assessor. The tax rebels did all this and more. They also did the ordinary stuff of politics—they wrote letters, signed petitions, and voted—but they did even these familiar actions in ways that broke with business as usual. The letters flowed in a deluge. The petitions expressed radical new demands to abolish old taxes. And the voters rejected establishment politicians in favor of grassroots ballot measures. One of the rebels' most characteristic demands was to take property taxes out of the ordinary political process altogether—to bind the hands of elected officials by establishing a constitutional limit on how much they could tax. Many of the protesters may have secretly wished for muskets and pikes, but they challenged the old order effectively enough without them.

Tax policy is usually made by elites, but the tax rebels came from all walks of life. A composite portrait would show a homeowner who was typically—but by no means always—a middle-aged white man, married, with an income slightly above the median. His occupation might be almost anything. Mike Rubino, one of the movement's first leaders in California and in the country, drove a beer delivery truck. Robert Tisch, one of the movement's most influential leaders in Michigan, was a former tax assessor and a drain commissioner on the Shiawasee County payroll. George Wiley, one of the movement's earliest spokespeople in the national media, was a former professor of chemistry who is best remembered for his welfare rights activism. Public employees and college professors were underrepresented, but, as these examples suggest, even they were present and participating. Real estate professionals were overrepresented, but they were a small minority in a big and diverse movement. Anyone might be a tax rebel. The tax protesters saw themselves as average people, and surveys from that era suggest that they were basically right.[6]

Like any other movement, the tax revolt had a hard core of leaders and organizers who were especially committed to the cause. These organizers had more political experience than the average person, but they came from all walks of life, too, and from all parts of the political spectrum. Some, like the Massachusetts homemaker Barbara Anderson, had cut their teeth campaigning for conservative causes at a time when this was seen as a fringe activity even in the Republican Party. Others, like George Wiley and the California social work professor Timothy Sampson, were leftists who had learned their politics in the movement for welfare rights. Even the most committed tax rebels shared little beyond a conviction that property taxes were intolerable.[7]

Their protest made headlines all around the world. The fact that voters dislike taxes is not in itself newsworthy, and incumbent politicians everywhere expect voters to turn against them when they raise taxes. But the American tax revolt was unusually ferocious, and it looked like an unprovoked assault. Policy makers had not raised taxes. They had not passed new taxes. The tax that aroused the rebels' anger—the local property tax—was the oldest tax levied in the United States. Its legal basis was enshrined in nineteenth-century state constitutions, but in fact and in administrative practice it was older still.[8] It may even have the distinction of being the only colonial-era tax that survived into the 1970s. Americans had put up with this tax for hundreds of years. Why on earth were they suddenly demanding its abolition? Where, in short, did the tax revolt come from?

At the time, political commentators on the right had a favorite answer: taxpayers rebelled because taxes were just too high.[9] The trouble with this explanation is that it does not fit the facts. American taxes were not very high compared to taxes in other countries that did not have tax revolts. The local property tax was not very burdensome compared to the income taxes that Americans paid without protest. And the people who protested the property tax were not taxed very heavily compared to the people who did nothing.[10] It is true that the tax rebels wanted lower property taxes, but high taxes are not the explanation for why they rebelled.

Some observers on the left argued that taxpayers rebelled because the tax system was riddled with loopholes that unjustly favored the rich and powerful.[11] The trouble with this explanation is that people rose up in protest against the property tax after reformers tried to fix the worst injustices. In state after state, the tax revolt followed closely on the heels of reforms that made the property tax less arbitrary and more progressive than ever before. The movement was not a protest against distributive injustice.

This book shows that taxpayers rebelled because the very same reforms that increased the fairness of the property tax also exposed taxpayers to new income shocks. By modernizing and standardizing tax assessment, the reformers did away with traditional and informal tax breaks that dated from the late nineteenth century. Local tax assessors had dispensed these informal tax privileges unevenly and often arbitrarily. But most homeowners received substantial benefit from them. When they were swept away, homeowners fought to restore them in a new and permanent form.

WHERE THE TAX REVOLT CAME FROM: INFORMAL TAX PRIVILEGES AS SOCIAL PROTECTION

The central argument of this book is that state officials caused the tax revolt by doing away with informal tax privileges, and people fought to restore those privileges because they had provided a kind of social protection from the market.

A tax privilege is a specific exception to the normal rules of taxation that is designed to benefit a particular person or group of people.[12] For some readers, the term may call to mind prerevolutionary France, where the king routinely granted special tax exemptions to "clergymen, courtiers, nobles, military officers, magistrates and lesser officers" and many other groups called *privilegiés*. (On the eve of the French Revolution, one sure way to insult a nobleman was to call him a "*taillable*," or taxpayer, because only common people paid the tax called the *taille*.)[13] But tax privileges are common in the modern world as well. A well-known example from the contemporary United States is the income tax deduction for mortgage interest on owner-occupied dwellings—the so-called home mortgage interest deduction. This deduction is a special rule that applies to homeowners: before you calculate the tax you owe on your annual income, you may first reduce your taxable income by the amount of interest that you paid on your mortgage. This deduction is different from the tax privileges of prerevolutionary France in many ways, most importantly in that it favors a middle class instead of a hereditary aristocracy. It is nonetheless a tax privilege. It specifically exempts some people (namely, homeowners) from the normal taxes that they would otherwise owe.

These examples are *formal* tax privileges. A formal tax privilege is codified in law—whether in a written constitution, in a statute, or in the procedural regulations that define how a statute is implemented. For example, the federal income tax code today enumerates some 160 specific privileges, called "tax expenditures" or "tax preferences," that provide hundreds of billions of dollars in benefits to defined constituencies that range from low-income college students to wealthy oil companies.[14]

An *informal* tax privilege, by contrast, is one that is not codified in law but that is nevertheless part of the tax system in practice. Many tax systems incorporate informal privileges. Informal tax privileges exist because most countries permit tax officials the leeway to adjust how much they collect from particular taxpayers, and in practice, these officials often go especially easy on certain categories of people. There is anecdotal evidence, for example, that tax collectors in the Internal Revenue Service routinely go soft on delinquent taxpayers who have the right political connections. You will not find this tax break written anywhere in the tax code—but, if the stories are true, it is a real tax privilege with real benefits for the politically well-connected.[15] Even though informal tax privileges like this are not codified, they tend to become institutionalized in custom. The taxpayers who benefit from informal tax privileges come to expect that special rules apply to them. They also tend to react strongly if their special treatment is threatened.

The property tax rebels rebelled because a series of state tax reforms threatened to take away an informal tax privilege called *fractional assessment*. This tax privilege refers to the custom of taxing people on a fraction of the value of their taxable property. Most local governments in the United States levied property taxes in the twentieth century, and most state constitutions had "uniformity clauses" dictating that all owners of real estate should pay taxes on the full market value of their property. In practice, however, homeowners received special treatment. They were typically taxed on a small fraction of the true value of their homes. When the federal government first began collecting information about the quality of local tax administration, in the late 1950s, it found that fractional assessment was legal in only twenty-two states but nearly universal in practice. Even in states where the constitution permitted taxing homeowners on less than the full value of their homes, the true fraction they were taxed on was almost always less than the law dictated and less than the fraction applied to other property owners.[16]

Officials could dispense this privilege because the American property tax was, and is, levied on something invisible. The property tax is a tax *ad valorem*, meaning a tax on value, rather than on some other characteristic of real estate, such as its land area, or the number of windows it has, or the number of bushels of grain it yields at harvest time. A tax *ad valorem* has advantages for the government, one of which is that it is elastic: the tax base grows automatically as the economy grows. But it also has one key disadvantage. Unlike acres of land, windows, or bushels, value is not something you can observe directly, except during the rare and fleeting instant when a property is actually being sold. At all other times—that is, almost always—the value of a property refers to the purely hypothetical price that it *would* sell for if it were sold. Tax officials have to use various techniques to estimate that value indirectly, for example by calculating what it would cost to replace a structure at current construction prices or by observing the price of comparable land parcels that sold in the recent past. Any such technique of estimation opens room for error and disagreement—or for deliberate manipulation and favoritism. That is one reason why political thinkers as astute as James Madison and Alexander Hamilton thought that real estate values were a "chimerical" basis for taxation.[17]

Since the nineteenth century, the officials in charge of estimating property values had dispensed informal tax privileges because it was in their interest to do so. Assessors were generally local elected officials or political appointees. They typically used their discretion politically, rewarding favored constituencies by assessing their property at a fraction of its true value. In exchange, they received votes, campaign contributions, and sometimes even bribes. Although some big commercial property owners benefited from fractional assessments, the most favored constituency was actually homeowners, who were a big, stable, and potentially loyal voting bloc. Of course, not all homeowners benefited equally. There were gross inconsistencies among communities because local assessors in different places were subject to little standardization or state supervision. There were also inconsistencies within communities because assessors often traded particularly favorable assessments directly for political contributions or bribes. Most assessors also had the habit of copying the assessment rolls from year to year and ignoring changes in the market value of homes—a practice that was good for most homeowners when the market was strong and homes were appreciating in value, but bad for those homeowners, often poor or black, who lived in areas of declining property values. Still, despite all these inequities, most homeowners paid tax on a small fraction of the true market value of their homes.[18]

Fractional assessment was more than just a tax break: it was a kind of hidden social policy. By subsidizing homeownership, fractional assessment provided a valuable form of protection against the risk of income shocks, whether those shocks were due to unemployment, sickness, or retirement. As the sociologists Dalton Conley and Brian Gifford note, we may think of homeownership as a kind of safety net: "When unemployment or other financial crises strike," they write, "family net worth—primarily housing equity—may assist in riding out the tough times." Perhaps most important, homeownership can provide a kind of insurance against poverty in old age. Most homeowners in the postwar United States, for example, had fixed-rate mortgages and therefore faced declining payments for housing over the term of the loan. This meant that homeownership promised substantial income security in retirement. Comparative studies suggest that voters and politicians treat tax subsidies for homeowners as a substitute for direct social insurance programs like Social Security: the more that a government spends on one, the less it spends on the other.[19]

Although homeownership appears to be a private alternative to public social provision, the widespread private ownership of homes in the postwar United States actually depended on a variety of public subsidies. The best known of these policies were federal mortgage loan guarantees and the home mortgage interest deduction.[20] A lesser-known policy, but one that was just as important, was the local assessor's unofficial policy of fractional assessment. Homeowners could count on inexpensive housing in retirement because they could count on the assessor to keep their property tax bills low and stable.

By describing tax privileges as a kind of social policy, I am building on recent scholarship that describes formal tax expenditures as a core element of the American social policy regime. Tax expenditures and direct expenditures are alternative ways to achieve similar social purposes. From the point of view of the budget, they are perfectly equivalent—as the political scientist Christopher Howard points out, a tax privilege affects the budget just as if "taxpayers write a check to the government for their full tax liability, and the government issues them a check to cover those activities exempted from taxation." American politicians have taken advantage of this equivalence to build a "hidden welfare state" of tax expenditures that is almost half as large as the federal budget for direct spending on social welfare.[21] Some of these tax expenditures, like the earned income tax credit, supplement direct spending for social welfare by transferring cash to beneficiaries. Others, like the tax exemption for employer-provided health insurance, accomplish social purposes indirectly by subsidizing private organizations that provide either services or income support to individuals in need. Recent scholarship by Christopher Howard and by Jacob Hacker has shown that these tax expenditures for housing, health, and income security are great enough to change our traditional picture of the American welfare state. Scholars once thought of the American welfare state as small and stingy compared to the developed welfare states of Europe; we now see it as middling in size and generosity—but as unusually reliant on tax expenditures that favor middle- and upper-income groups.[22]

To understand the origins of the tax revolt, however, we need to expand our conception of the American social policy regime even further to include the informal tax privileges dispensed by local government. For most of the twentieth century, these informal tax privileges were even more important than formal tax privileges as a source of social protection for most Americans. Because informal tax privileges are not written down, no one keeps statistics on how much they are worth, but even a rough estimate is instructive. I estimated the value of fractional assessment for three points in time—1940, 1956, and 1971—by comparing the property values recorded on local assessment rolls to estimates of the total residential wealth in the United States and calculating how much tax would have been owed on the unassessed wealth if it had been assessed at its true value.[23] The results of the calculation, illustrated in Figure 1.1, show the total property tax revenues lost to fractional assessment of residential property other than farms, in comparison to the budget of selected other social programs. Figure 1.1 shows that the informal tax privilege of fractional assessment saved residential property owners more than $39 billion in taxes in 1971. The calculation suggests that the fractional assessment of homes was easily the largest single government housing subsidy in the postwar era, and it was among the largest categories of social expenditure of any kind, direct or indirect. Fractional assessment of residential property provided a subsidy that was forty times greater than federal spending for public housing. It was ten times greater than the home mortgage interest deduction. It was five times as costly as more

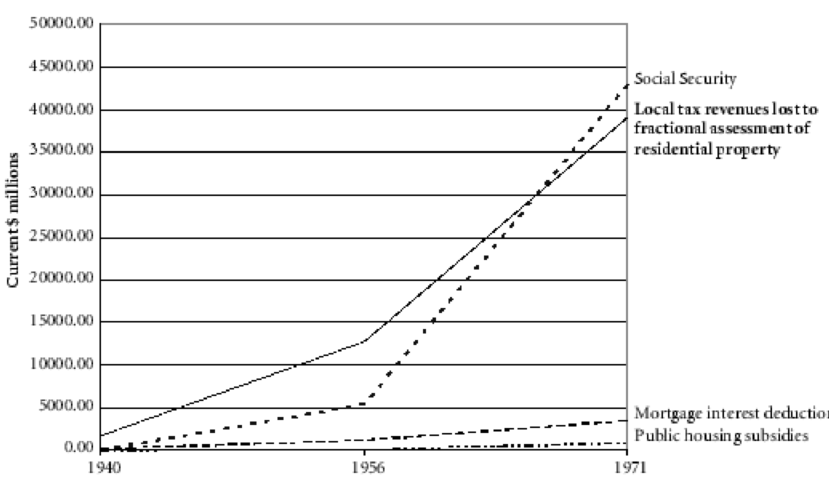

Figure 1.1. Local assessors provided a greater subsidy than most federal social programs, 1940–1971
Sources: *Historical Statistics of the U.S.* and author's calculations (see Appendix 1).

controversial "welfare" programs like Aid to Families with Dependent Children. Although fractional assessment did not show up on official government budgets, on the eve of the tax revolt it was providing more benefits than any other social policy in America except for the twin blockbusters of the federal budget, Social Security and Medicare.

The idea that fractional assessment was a kind of social provision still might seem surprising. Is a corrupt or lackadaisical tax assessor really the same thing as a social security program? Not exactly. Social Security is what I will call *formal social insurance*: a government program that provides people in an explicitly defined risk category (in this case, the elderly) with a legally enforceable entitlement to government income support. Fractional assessment does not meet this definition because (in most states, for most of the twentieth century) it was *informal*: that is, it was not codified in law, so it did not explicitly define risk categories, and—even more important—it did not create an entitlement that the courts would enforce. The latter difference between fractional assessment and formal social insurance was crucially important, as we will see below.

Nevertheless, I will emphasize the similarities between fractional assessment and Social Security by referring to fractional assessment as an example of *informal* social provision. I define *social provision* in very general terms as any customary subsidy provided by government that redistributes resources "to protect against widely distributed risks to income and well-being."[24] The fractional assessment of homes fits this definition because it was a customary subsidy; because it was dispensed by government officials; because it redistributed resources, taking from some taxpayers to subsidize others; and because it did so in order to provide homeowners with income security (in implicit exchange for votes). Although fractional assessment did not provide a legal entitlement, it did have the stability of a deeply entrenched custom. Homeowners expected that the assessor would continue to subsidize their housing by billing them for a small fraction of the taxes that the law prescribed.

The Politics of Fractional Assessment

Thinking of fractional assessment as a kind of social policy helps us to understand how this informal tax privilege survived so long and why taxpayers rebelled when it was threatened. Social policies tend to generate constituents who fight to preserve them and who rally to their defense when they are threatened. There are at least two mechanisms by which social policies create this kind of lock-in effect.[25]

The first mechanism is information asymmetry. Social policies tend to concentrate benefits on a defined constituency while spreading costs thinly over a broad and less clearly defined population. This combination creates a powerful informational bias in favor of maintaining the policy. Beneficiaries acquire a strong motive to pay attention to the policy and to advocate on behalf of maintaining it: each person who benefits from the policy benefits a great deal and therefore notices, and cares, a great deal about what happens to it. By contrast, each person who pays for the policy pays only a small amount and is therefore likely to be inattentive or indifferent to the question of whether the policy is maintained.[26] This asymmetry creates a logic of blame avoidance. Savvy politicians learn that they can dispense benefits in exchange for political support, because the people who benefit will notice and be grateful, and the people who pay will not be especially put out. By the same logic, politicians will try to avoid blame for cutbacks. Cuts to a social policy predictably provoke a noisy outcry from the beneficiaries of that policy without generating much notice or enthusiasm among other voters who pay for it.[27]

This informational asymmetry and the political logic of blame avoidance that follows from it help to explain why fractional assessment persisted so late into the twentieth century. The benefits of this informal tax privilege were concentrated among electorally influential groups. The greatest benefits went to affluent homeowners—that is, frequent voters who were concentrated in particular neighborhoods and electoral districts. By contrast, the costs of this tax privilege were more widely distributed and difficult to trace. Who exactly paid more taxes so that homeowners could pay less? Many business owners probably recognized that they did not get the same tax break on their business property that they did on their homes, but they may not have recognized that their business taxes were high *because* their home taxes were low. Few tenants presumably paused to think through the long causal chain that ran from homeowners' tax privileges through the landlord's property tax bill to their rent payments. Many consumers of public services might have preferred that property taxes were collected and spent on something other than tax privileges for homeowners, but fractional assessment was not listed as an expenditure in local government budgets, so it is understandable that few people perceived the budget trade-offs clearly. Fractional assessment provided a tangible benefit at little political cost.

The second mechanism that locks in social policy is material interest. Social policies are often designed in ways that ensure expanding coverage and increasing benefits over time. The longer such a policy is entrenched—the more people who come to benefit, and the more valuable the benefit comes to be to them—the stronger the incentive to maintain the policy.[28] Fractional assessment illustrates this process. This tax privilege grew in importance over the twentieth century until it was impossible to dislodge without provoking an outcry. In the early decades of the century, homeowners were a minority of American households, and fractional assessment provided comparatively little benefit to those homeowners. Because property values were low by today's standards, an exemption from property taxes was not especially valuable. By 1970, however—partly as a consequence of this informal subsidy—a majority of American householders had become homeowners, and property values had increased many times over. Fractional assessment was worth more to more people than ever before.

These similarities between informal tax privileges and formal social insurance help us understand how fractional assessment lasted until the late twentieth century. It is the differences, however, that help us understand why fractional assessment did not last forever. Because fractional assessment was informal, it did not create a legal entitlement. The benefits depended on the whim of the assessor, and in most states a homeowner's claim to the benefits of fractional assessment was not enforceable in the courts. This absence of entitlement is important because the growing demand for local spending in the postwar era—particularly on schools—increased conflicts over the distribution of the property tax burden, and these conflicts eventually wound up in court. When the growing demand for local spending came into conflict with the growing tax privilege for homeowners, it created a serious legal problem for state officials. The informal tax privilege gave way.

The states ultimately did away with informal tax privileges by modernizing the property tax. Modernization meant increasing *centralization*, *professionalization*, and *standardization* of property assessment. State officials centralized authority for assessment, for example by instituting new lines of supervision and by consolidating small jurisdictions. They standardized assessment, by enforcing new procedures—for example, by requiring all assessors to use the same forms to collect information and using new computer-assisted techniques to evaluate all homes according to the same mathematical function. And they professionalized property assessment, for example by replacing elected with appointed officials and by requiring assessors to undergo training and certification.[29]

The reforms deprived local assessors of the discretion that they had used to grant informal tax privileges. They thereby ensured that the tax bill reflected the market value of a property rather than the social status or political party of the taxpayer. The reforms made the tax fairer. But they also took away the informal social policy that had protected homeowners. For the first time, homeowners were effectively taxed on the market value of their property. People whose taxes had been stable for years found that their tax bills—and their welfare—suddenly depended on the whims of the housing market.

Consider what this meant from the perspective of an ordinary homeowner. If you were someone like Mike Rubino, your home was your biggest investment. It was your hedge against uncertainty, your main retirement fund, and one of your main forms of security against a sudden loss of income. And all of this was possible because of fractional assessment. You bought your home secure in the expectation of a low tax bill. Even when the market drove your home's value up, the assessor promised to hold your tax bill down. That was the deal—until the tax reforms of the 1960s took matters out of the assessor's hands.

If you were someone like Mike Rubino, you did not just sit there and watch while your tax privileges disappeared. You got together with your neighbors, who saw their own tax privileges disappearing too. And then you rebelled.

WHAT THE TAX REVOLT DID TO AMERICAN POLITICS

The tax revolt transformed American politics by popularizing a new public policy—tax limitation—that helped to place tax cuts permanently on the policy agenda.

Voters and politicians at first embraced property tax limitation as a way to restore tax privileges for homeowners. A property tax limitation was a law that established a fixed limit on the annual percentage increase in the property tax levy—often by combining a legal limit on the property tax rate and a legal limit on the annual increase of assessed valuation. Tax limits effectively forbade local governments from increasing property taxes rapidly, even if the market value of taxable property increased rapidly. If you were a property owner, this meant that the longer you held your property, the more of a tax privilege you enjoyed. Property tax limitations created a tax privilege much like the old, informal tax privilege provided by local assessors, who had simply copied the tax rolls from year to year without reappraising property. The difference was that now the tax privilege was formal: it was codified in statute and sometimes in state constitutions.

Property tax limitation laws did more than just restore a tax privilege for homeowners. They locked in a new and growing tax privilege for *anyone* who held onto real estate for a long time. Property tax limits thus created especially big tax breaks for business owners and the affluent. The more valuable that a property was, the more that the tax break would be worth in the long run. Property tax limits also limited the revenues available for public social spending—most particularly, spending on public schools.

These laws were not the only possible response to the movement. The property tax protesters demanded the restoration of their traditional tax privileges, but there were many possible ways to meet their demands. The federal structure of American government allowed policy makers at the state level to experiment with every alternative that showed any promise of quieting the protests. Some legislators amended state constitutions to authorize fractional assessment for homeowners. Others targeted tax privileges to elderly and low-income people. Still others passed tax limitation laws that limited the annual growth of property tax bills. Each of these alternatives had its proponents among the protesters. For a time, they competed on equal footing.

Once tax limitation won a popular referendum, however, it became the tax rebels' favorite strategy. The turning point was the California primary election of June 6, 1978. The property tax rebellion had made property taxation into the central issue on the state's policy agenda, and the major question in that election was which alternative property tax relief policy the voters would approve. California voters approved the most conservative alternative, a ballot initiative called Proposition 13. This initiative amended the state constitution to limit the growth of the property tax. Before Proposition 13, liberal and conservative policy solutions to the property tax crisis competed on equal footing. "After Proposition 13," the columnist Russell Baker wrote, "there were only about four liberals left in the country."[30]

The policy changed what activists and legislators thought was possible—and therefore which policies they thought it worthwhile to pursue. Those conservatives who preferred other ways of limiting government decided to pursue Proposition 13–style limits on the property tax because they were winnable. Even liberals who preferred other ways of reforming the property tax began to rethink their opposition to tax limitation when they saw how well it did at the ballot box. Policy makers began to position themselves as allies of Proposition 13. Other remedies fell by the wayside as state after state passed property tax limits like Proposition 13.

The ripple effects spilled over to other tax policies. California's Democratic Governor Jerry Brown, who had opposed Proposition 13, declared himself "born again to the spirit of austerity and tax cut" after it passed.[31] Brown and other officials throughout the country began to entertain proposals to limit other taxes. Tax and expenditure limitations of all kinds spread through the states more rapidly after 1978. Conservative activists began making headway with plans for constitutional limits on federal spending.[32]

In short, officials saw Proposition 13 as a symptom of public hostility to government in general, rather than the property tax in particular, and concluded—wrongly—that more tax cuts were the cure. For decades, policy makers had treated tax cuts like a carefully regulated prescription medication, a tool of Keynesian demand management to be employed with care, under expert guidance, when the economy was ailing. After 1978, some politicians started selling tax cuts over the counter as an all-purpose remedy.

Tax limitation ultimately changed American politics by changing the terms of competition between the parties. The success of property tax limits at the ballot box persuaded many entrepreneurial politicians—including the presidential candidate Ronald Reagan—that big tax cuts were good politics. Reagan ran on a pledge to cut taxes, and his landslide victory persuaded people in both parties that he had a mandate for cuts. The Economic Recovery Tax Act of 1981 embodied his proposal for a deep reduction in tax rates. The existence of state tax limits helped to keep tax cuts in the public eye. Although Reagan later signed legislation to raise income taxes (as did his successor, George H. W. Bush), the historic tax cut of his first term—and the state tax limitations that inspired it—cemented an anti-tax constituency within the Republican Party. The experience convinced many young Republican legislators and lobbyists that tax cuts were good politics. These politicians worked hard to keep taxes in the public eye and fought with moderates in their own party to redefine the G.O.P. as the party of tax cuts. To say that their motives were political is not to impugn their sincerity. Many of today's most influential Republicans are true believers who look back on the tax cuts of Reagan's first term as the symbol of a revolution in government. It was a golden moment that the faithful are still trying to re-create.

THE LESSONS OF THE TAX REVOLT

The tax revolt has important lessons for anyone who wants to understand American politics in the twentieth century. It also has more particular lessons for policy makers and scholars. Three of these lessons are particularly important.

Americans Want Their Government to Protect Them from the Market

One of the most important lessons of this story is that American taxpayers like their invisible welfare state—indeed, that they will fight to defend it. The tax revolt was a rebellion fought to defend a regime of tax privilege that was also a regime of social protection. The policies that tax rebels demanded, including Proposition 13, were not attempts to dismantle the welfare state. They were attempts to restore a customary form of welfare for homeowners.

This lesson is important because it contradicts some other popular stories that are told about the tax revolt and American politics in general. Some commentators on the tax revolt have drawn the conclusion that Americans will not tolerate big government. This story traces the tax revolt to America's long tradition of "anti-statism," or generalized hostility to government.[33] It is a short step from this argument to the conclusion that would-be social policy reformers in America should scale back their ambitions. Reforms that require substantial government intervention in the market are doomed from the start, in this view, because they are ill-suited to our anti-statist traditions.

This book will show to the contrary that the tax revolt was not at first especially anti-statist. The movement included liberals alongside libertarians. Protesters' proposed solutions to the property tax crisis varied, but few were anti-statist in the sense that they would actually constrain the state's ability to tax. Most protesters simply wanted to restore tax privileges. Even those wings of the movement that proposed to abolish property taxation altogether were typically proposing that it be replaced by some other form of taxation they regarded as more just or more sustainable. The fight was not about whether to tax. It was mainly about how to tax, and whom.

Other commentators on the tax revolt have drawn the conclusion that Americans will not tolerate government redistribution of income. The most influential version of this story traces the tax revolt to Americans' hostility to means-tested public assistance (or "welfare"). There was a much-discussed backlash of white working-class voters in the 1970s against what they saw as the excesses of the liberal welfare state in President Lyndon B. Johnson's Great Society programs. But the welfare backlash was not the tax revolt, and it did not cause the tax revolt.[34] The tax revolt was not directed against federal welfare programs. It was directed against the local property tax. And some of the earliest and most stalwart tax rebels—including, for a time, the most successful ones—were actually veterans of the struggle for welfare rights who continued to think that the Great Society had not gone far enough. Welfare rights organizers like George Wiley and Tim Sampson stoked the fires of the property tax revolt because they hoped it would spark a broader movement for income redistribution.

Yet another lesson that some commentators have drawn is that Americans rebelled against the property tax because activist judges were equalizing the finances of rich and poor school districts. The story has it that people in wealthy school districts happily paid property taxes only as long as they could keep those taxes for their own schools. Beginning in the 1970s, several state courts overturned this system of local school finance on the grounds that it violated the constitutional rights of children in poor districts. A California legislator described the tax revolt as a backlash against one such court order: "This is the revenge of wealth against the poor. 'If the schools must actually be equal,' they are saying, 'then we'll undercut them all.' "[35] The lesson, if this story is correct, is that we should tolerate the unequal financing of public schools, because that is the only way to keep middle-class taxpayers from rebelling against public education altogether.

This, too, is a plausible story but not a true one. The tax revolt was not limited to states with school finance decisions. In California—the state that had the most famous equalization decision, *Serrano v. Priest*—the tax revolt predated school finance equalization, and surveys show that the tax rebels were neither concentrated in wealthy school districts nor especially hostile to school finance equalization.[36]

The tax rebels were not opposed to government action, even government action that redistributed income. They *wanted* government to redistribute income in order to protect them from income shocks that resulted from the rising price of housing. The tax revolt, in short, was a social protectionist movement—much like the movements of farmers, workers, and poor people that gave rise to the first welfare states.[37]

Good Government Can Cause Social Protest

The second important lesson of this case is that even good government can provoke social protest. By good government, I mean the ideal of modern public administration: a rational, bureaucratic system, with clear lines of authority, standardized procedures, and professionally qualified administrators, that guarantees equal treatment for citizens in a democratic state. State officials modernized the administration of the property tax in the 1960s and 1970s to bring it closer to this ideal. They improved the state's ability to collect and redistribute resources without favoritism. But they also supplanted traditional tax privileges—an earlier, informal mode of redistribution—and thereby triggered the tax revolt.

This conclusion has broader relevance to social movement theory, because it suggests that a common assumption about the relationship between government and protest needs to be revised. Many social movement scholars have assumed that the relationship between public administrators and protesters is cooperative rather than conflictual. Modern public administration increases the state's ability to distribute the collective goods that many protest movements demand, such as civil rights enforcement, welfare benefits, or environmental protection. Bureaucrats may also secretly welcome protesters as allies, because protesters' demands for more benefits can help bureaucrats justify larger budgets. For these reasons, social movement scholars generally treat good government as a dimension of the "political opportunity structure." Good government, according to this view, invites protest by promising that it will be rewarded.[38]

This study shows that good government may also provoke protest by threatening to impose new costs on citizens. This argument builds on a small but growing body of social movement research into the mobilizing power of threats. People may protest if they believe that their protests will be rewarded, but they will weigh the perceived rewards of action against the perceived costs of inaction. A government that increases the costs of doing nothing—or merely threatens to do so—may therefore provoke protest even if protesters think their chances of success are low. Several empirical studies have demonstrated the mobilizing power of threats. Most of these studies, however, focus on the extraordinary threat of repression in undemocratic states—that is, on very bad governments—rather than on the routine costs of government in modern democracies.[39]

The case of the tax revolt reminds us that good governments also impose costs that can cause protest. Even the least repressive states must impose collective burdens as a routine part of what they do. Redistribution creates losers as well as winners; the collective benefits distributed by government are always paid for by someone. In modern, democratic states, the costs of government are widely distributed.[40] The resistance to these costs may therefore inspire broad-based collective action. If we want to understand the spread of social movements in democratic countries, we would do well to attend to the *routine policy threats*, a category that includes not only taxes but all of the costs imposed by the ordinary activities of government—from the siting of hazardous landfills, to the routing of traffic, to the teaching of painful truths in public schools.[41]

The property tax revolt responded to political opportunities, too, as classic social movement theory would predict. The openness of electoral institutions and the availability of elite allies affected the form of the protest and the outcome of the protest, just as scholars have found for a variety of other social movements.[42] But if we ask what gave rise to the movement in the first place, then political opportunities alone cannot answer the question. There were protest mobilizations against local property taxation in the United States, where electoral institutions were decentralized, the political system was presidential, and voters could make use of the ballot initiative; and in Britain, where electoral institutions were centralized, the political system was parliamentary, and voters did not have access to the ballot. In the United States, protest mobilization peaked in California in the late 1970s—where and when government was (and was widely perceived to be) especially *unresponsive* to the needs of property taxpayers.[43] It was the push of a routine policy threat, not the pull of political opportunity, that led to protest.

The Configuration of American Political Institutions Can Help Outsiders Win

Finally, the tax revolt has an important lesson about American political institutions. The American political system—particularly the combination of federalism and direct democracy—gives protesters and other political outsiders many access points to the policy agenda. It may therefore promote dramatic changes in public policy, for good or ill.

This lesson is important because many scholars of social policy and social movements have assumed the contrary. The fragmented American political system is supposed to block policy change by providing many constitutional "veto points," or opportunities to block new policy proposals. The obvious example is the presidential veto, but other American political institutions also create veto points. Bicameralism permits either house of Congress to block legislation. Federalism means that policy proposals of the national government often require the cooperation of the states—so that states have an opportunity to block policies they oppose. At the state level, the institution of direct democracy, or the referendum, may permit voters to block acts of the legislature. The more such veto points there are, the story goes, the harder it is for any proposed bill to clear all the necessary hurdles before it becomes law. The usual outcome, in the words of one social movement scholar, is "policy stalemate."[44]

This "veto points" view of the American polity is a partial truth. The American political system does have many constitutional veto points. This book will show that these veto points did indeed allow state and local officials to block proposed policies that they opposed. It will show that the dispersion of authority in the American polity also contributes to policy stability in another way: by diffusing blame for failed policies. The fragmentation of authority in the American polity creates many opportunities to pass the buck.[45] It thus helps to explain why the modernization of property assessment was delayed so long into the postwar era. It also helps to explain why protesters' demands to abolish the local property tax failed.

But the existence of multiple veto points does not mean that the American political system is doomed to policy stalemate. For in other ways the fragmentation of authority may actually *increase* the rate of policy innovation.[46] Many of the veto points in the American political system are also access points that enable protesters to promote new policies they favor.[47] Federalism, for example, does not just add veto points; it also multiplies opportunities to initiate policy. As the Supreme Court Justice Louis Brandeis famously remarked, "It is one of the happy accidents of the federal system that a single courageous state may, if its citizens choose, serve as a laboratory, and try novel social and economic experiments without risk to the rest of the country."[48] Just so, the political diversity of the states encouraged legislators to experiment with different ways of responding to property tax protests. Direct democracy, too, is more than just a veto point: in many American states, voters may not only veto acts of the legislature, but may also initiate new legislation by petition. Property tax rebels made frequent use of the ballot initiative. They circulated petitions to abolish the property tax, to formalize homeowners' tax privileges, and to limit the tax. Protesters thereby directly influenced the policy agenda and the alternatives in play. They also provided lawmakers with crucial information about which policies were potential vote-getters. Even the presidency is not just a veto point. The president not only vetoes legislation: he or she also sets the policy agenda.

So does institutional fragmentation help or hinder social movements? This book argues for a conditional answer: it depends. One thing that it depends on is the *specific* set of powers that the relevant institutions confer on actors in a particular policy domain. A social scientist cannot predict whether institutions will promote or inhibit new social policy simply by counting up veto points or access points, because similar institutions may have different rules about who is empowered to veto what kinds of legislation under what circumstances. There are different varieties of federalism, for example, that assign decision-making responsibilities differently across policy domains, and it is important to the story of the tax revolt to understand that American federalism (unlike, say, German federalism) reserves property tax legislation to the states.[49] This book might tell a very different story if it were about a German property tax revolt—or if it were about an American protest movement that was concerned with monetary policy, war, or interstate commerce.

The effects of institutions also depend on the strategies that protesters employ to get their way. This argument draws on the recent work of social movement scholars who have shown that protesters have the greatest impact on public policy where they match their behavior to their institutional environment.[50] But the case of the tax revolt illustrates a further point. Finding the right fit between behavior and institutions is not only a matter of tactics, or choosing *how* to engage in conflict—for example, by calibrating the degree to which protests should be disruptive or assertive. It is also a matter of strategy, or choosing *where*, *when*, and *in what sequence* to make demands. The tax rebels discovered that beginning with the president was a recipe for failure: a proposal for property tax relief that started here would have to clear multiple veto points at the state level. Starting with the states was a better recipe for success, because the president could not veto state action. And the pathway through the states would ultimately put the demand for tax relief back on the president's desk—though ultimately in a form that few protesters would have recognized.

Finally, the effects of institutions may depend on their configuration in relation to one another. A particular package of institutions may be greater than the sum of its parts. This does not mean that institutions always fit together into a smoothly functioning system, or that political scientists should abandon their efforts to identify how a particular institution, such as, say, the referendum, shapes political outcomes. But it does mean that our theories should do more than catalog the effects of institutions considered in isolation.[51] We should also consider how institutions work in combination. Configurations matter. For example, a ballot initiative may assume special symbolic importance if it takes place in an important electoral district; its impact may then be magnified by that district's position in a federal system; and it may ultimately reshape presidential politics. That, anyhow, is the story of Proposition 13.

The general lesson of the property tax revolt, then, is that the effects of political institutions on protest movements are domain specific, strategy dependent, and configurational. At least sometimes, the configuration of American political institutions not only allows outsiders access but also helps them to win. This book will focus on two American political institutions in particular: federalism and direct democracy. When challengers make the right policy demands and use the right strategies, the combination of these institutions can facilitate radical changes in policy.

WHAT IS TO COME

Today, most people probably associate anti-tax sentiment with the American right. The politicians who promote tax cuts with the greatest enthusiasm are the politicians who also want to limit government intervention in the market. It may seem surprising, then, to trace the origins of the tax revolt to a progressive movement for social protection from the market, or to describe the tax revolt, as this book does, as a defensive rebellion begun when the state undermined traditions of informal tax relief.

To make the case for this surprising conclusion, the rest of this book presents two kinds of evidence. The first is historical narrative. The book tells the stories of many little-known tax protests. The property tax revolt included working-class homeowners in the inner-city Midwest and poor farmers in the South. It included radicals and liberals alongside moderates and conservatives. One justification for focusing on these untold stories is that they help to fill in our picture of the tax revolt: most published histories of the movement focus narrowly on conservatives in a few California suburbs. But these stories do more than just fill in the details in a picture whose broad outlines are already familiar. This book's focus on the progressive wing of the tax revolt changes the big picture, too. I put progressives front and center in this book's narrative because, at the outset, these groups really were front and center in the property tax revolt.

The second kind of evidence that the book presents is analytic. The book makes use of social-scientific methods. Experiments are impossible in history, but historically oriented social scientists are sometimes able to use comparisons to isolate causes—in something like the way that experimental scientists isolate causes by comparing treatment and control groups.[52] For the purposes of this book, it is a happy accident that the property tax is regulated separately in each state. This fact creates a lot of variation from state to state that we can exploit for the purposes of comparison. We can also use a comparison to Britain, the only other rich democracy to rely as heavily on real property taxes; and one penultimate chapter assesses how exceptional the American tax revolt was by situating this story in an even broader comparative perspective. At a few key points, this book also presents the results of original statistical analyses, although it should be possible for readers to follow and evaluate the main argument without reading the technical appendices.

Because the book covers a lot of ground, a brief outline may help. Chapter 2 sets the stage for the story of the tax revolt by demonstrating how policy lock-in and the logic of blame avoidance preserved fractional assessment late into the twentieth century. Chapter 2 relies heavily on a case study of California, but it also makes selective comparisons to other high-tax states, Massachusetts and New York. These states presented best-case scenarios for the development of modern property tax administration: they were innovative, liberal states that spent heavily on public education, and they were states where pressure to modernize the tax was therefore strongest. But even with all of these advantages, it took intervention by the courts to undermine the custom of fractional assessment. Chapter 3 presents case studies of the property tax revolt—with a special focus on two more typical states, Illinois and Missouri—to show how the modernization of property assessment led to the growth of a social movement.

The next chapters show how American political institutions transformed the movement. By 1972, property tax protesters on the right and the left were united in demanding the abolition of the local property tax. Chapter 4 follows this movement as it splintered on the federal structure of American government. Federalism had two faces. On one hand, federalism blocked policy innovation at the national level. On the other hand, federalism also allowed many different policies to flourish at the state level, thereby revealing the underlying diversity of the movement and promoting policy innovation. The chapter illustrates the process of fragmentation by following the development of three alternative forms of property tax relief—progressive policies that restored property tax privileges for low-income people; centrist policies that restored fractional assessment for homeowners; and conservative policies that created new tax privileges for *all* property owners, but especially the affluent.

Chapter 5 presents evidence that the California ballot initiative called Proposition 13 was a crucial turning point, when the most conservative policy option began to capture the allegiances of protesters and politicians around the country. Chapter 5 also presents evidence that direct democracy was the key to explaining this outcome. Proposition 13 captured the imagination of policy makers and the public because it passed at the ballot box—thereby ratifying property tax limitation as a political winner. Property tax limitation laws, and state and local tax limitations more generally, began to spread rapidly throughout the states.

What consequences did tax limitations have for American politics? Chapter 6 traces the story to the present, by showing how state and local tax limitations transformed politics at the federal level. These policies made possible the largest income tax cut in American history. They also elevated tax cuts to prominence as a partisan issue, by inspiring a group of politicians who thereafter worked hard to redefine the Republican Party as the party of permanent tax rebellion. This chapter, in short, shows that the right turn in the property tax revolt of the 1970s gave rise to the distinctive anti-tax constituency that is characteristic of American politics today.

Chapter 7 sets the story in a broad, comparative perspective. Chapter 7 shows that even in countries with very different political cultures, people have often taken collective action to defend their informal tax privileges, in ways that are strikingly similar to the American property tax revolt. The comparison underlines the central point of the book: the tax revolt was not itself inherently conservative or anti-state.

You may experience déjà vu as you read the narrative that follows. As I write this, voters in at least three states have just considered (and rejected) new and more restrictive tax limitations. If the history of the tax revolt is any guide, failure will not deter the proponents of tax limitation. With the 2001 tax cuts set to expire in 2010, Congress will soon be facing pressure to pass record-breaking income tax cuts once again. The legacy of the tax revolt is still with us. This book aims to illuminate where that legacy came from—and, perhaps, what we can do about it today.