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A NOTE ON THE 1978 JARVIS-GANN ELECTION

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ABSTRACT

This Note applies the concept of rational voting to explain the attitudes of a sample of Pasadena voters towards the 1978 Jarvis-Gann tax cut initiative.

Jarvis Gann was California's third and only successful referendum in a decade, limiting the amount of property tax that can be collected from real property.¹ Because of the fiscal nature of the initiative the concept of rational voting, as defined by Anthony Downs (1957), seems an obvious explanation of the vote.² It may also account for the defeat of two similar initiatives, Proposition 9 in 1968 and Proposition 14 in November 1972.

Downs hypothesized that in a two-party system, the rational voter compares the stream of utility income from government action he has received under the present regime with those streams he believes he would have received if the opposition party had been in office.³ Alternatively the voter might compare two hypothetical future utility incomes. The difference or party differential determines his voting preference. Downs' model can be adapted to accommodate a tax cutting referendum.

Let a community consist of a group of voters, each with quasiconcave utility that depends on his or her consumption of a vector of goods and services provided by the public and/or private sectors. Given a set of relative prices which include tax rates, the consumer selects a bundle of private goods (including leisure) which maximizes his utility subject to his after tax income.

However, assuming limited mobility, representative democracy gives the individual voter only indirect and periodic political control over tax rates and the vector of public services funded by the legislature and delivered by the civil servants. This is of course necessary because of the free rider problem associated with many public services. If given a choice, many voters might refuse to pay for services they would not be excluded from. Moreover, institutional barriers, lumpiness in the production of public goods, and Arrow's impossibility theorem may preclude marginal adjustment of individual tax rates and service levels to reach a social optimum. As a result, the voter imputes whatever utility income he derives from the bundle of public services and compares this to the disutility of his tax liability at election time. If the rational voter believes his utility deficit or surplus can be improved, he votes against the incumbent legislator or executive and in favor of his or her challenger. If played out over many elections, in a stable electorate without inflation or intervention from other levels of government, such a simple political economy might reach a Nash equilibrium with respect to tax rates and public service levels.

However, in a dynamic political economy characterized by i) inflation, ii) intergovernmental transfers, iii) incremental budgeting of programs, iv) uncertainties about public opinion, a gradual shift in the median voter's willingness to pay for a package of public services may be ignored by elected officials. In this setting a tax cutting referendum enables dissatisfied voters to bypass both the legislative and executive branches of state and local government by

voting directly to lower their taxes.

However, the resulting tax cut will have an uncertain impact on the future mix and level of public services provided by the government. Unlike the federal government, state and local governments cannot finance deficits by borrowing or printing more money. Thus, if real tax revenues fall, either operating slack, i.e., managerial discretionary profit, must be lowered, surpluses drained, or services cut. Whether a rational voter will support or oppose a taxcutting referendum will depend on a comparison between his expected future utility income stream as determined by current tax rates and levels of services, and a hypothetical utility income determined by i) his valuation of the tax benefits offered by the referendum, ii) his beliefs about changes in the mix of services that will follow passage of the initiative, and iii) his assessment of the level of slack in current government operations.

A rational voting model of public choice in a tax cutting referendum is supported by data gathered in surveys conducted both prior to and on the day of the Proposition 13 election. A Los Angeles Times - Channel 2 News survey of 2500 voters on election day indicated that financial self-interest was the primary explanation of the vote.⁴ Voters who owned homes and had no public employees in the family voted overwhelmingly for Proposition 13, i.e., 81 percent yes vs. 19 percent no. In contrast, the survey found that voters who lived in rental housing and included public employees voted 28 percent in favor of Proposition 13 and 80 percent in favor of Proposition 8, a less drastic property tax reduction approved by the legislature just prior to the election.⁵ The poll also asked voters directly why

they voted for Proposition 13. Greater than half of the respondents said that property taxes should be lowered.⁶ However 22 percent of the voters gave as the reason they voted for Proposition 13 government provides many unnecessary services.⁷ Finally, the survey suggested that many pro-Jarvis voters felt that some government services were inefficiently procured. Less than 25 percent of those who voted for Jarvis-Gann said yes when asked, "Do you think local services will be lowered if Proposition 13 passes?"⁸

One of the problems with the statistical analysis of the KNXT-Channel 2 Poll taken by Facts Consolidated was a univariate approach with respect to the factors that might determine a voter's choice.⁹ In particular, i) the relative net tax benefits of Proposition 8 and 13, ii) the voter's perception of the efficiency of current government operations, iii) his expectation of the impact on vital services, and iv) the value he associates with the current bundle of public services supplied by state and local governments. On May 9, 1978 a random telephone survey of registered Pasadena voters was conducted by a graduate Social Science class at the California Institute of Technology.¹⁰ Among several questions asked were a few concerning future service levels, government efficiency, a voter's expectations about his future local tax bill, and the size of local government. Analysis of contingency tables showed that a voter's response to the first three issues offered the best explanation of his or her attitudes towards Proposition 13. Furthermore, partial correlation analysis suggested that each of the three factors made an independent contribution to the voter's decision.

Do you agree or disagree Jarvis-Gann would force government to be more efficient?

EFFICIENT GOVERNMENT	<u>For</u>	<u>Against</u>	<u>Undecided</u>
Agree	77.0	10.7	12.7
Disagree	15.1	73.6	11.3
Total sample	44.6	30.4	25.0

Significance Level Controlling for Tax Bill and Cuts: .1%*

If the Jarvis amendment passes, do you think your total tax bill will go up, down, or stay the same, or don't you know at this time?

TAX BILL	<u>For</u>	<u>Against</u>	<u>Undecided</u>
Up	33.3	51.9	14.8
Down	68.5	21.9	9.6
Same or Undecided	35.8	30.8	33.3

Significance Level Controlling for Efficient Government and Cuts: 1.1%*

Do you agree or disagree that there would be drastic cuts in important local services if Jarvis-Gann passed?

CUTS	<u>For</u>	<u>Against</u>	<u>Undecided</u>
Agree	21.1	75.4	3.5
Disagree	66.4	16.1	17.5

Significance Level Controlling for Efficient Government and Tax Bill: .1%*

*Correlation Coefficient

Source: Graduate Social Science course, California Institute of Technology, Pasadena, California (May 1978).

10. The random telephone survey of registered voters was conducted by a graduate Social Science class at the California Institute of Technology. The project was supervised by professors Gary Miller and John Ferejohn.

FOOTNOTES

1. Staff to the Assembly Revenue and Taxation Committee, "A Brief Analysis of a Proposed Initiative by Howard Jarvis Relating to Legislative Voting Requirements of Certain Bills," (September 26, 1977): p. 2.
2. Anthony Downs, An Economic Theory of Democracy
3. Ibid, pp. 38-50
4. Los Angeles Times, 11 June 1978, Part VI, p. 1.
5. Ibid.
6. Ibid.
7. Ibid.
8. Ibid.
9. The KNXT "Channel 2 News" poll done in association with Teichner and Associates by Facts Consolidated; Nann Tepor, Planning Manager, "Channel 2 News," Personal Interview, October 12, 1978.