

PHOTOGRAPH BY JO NAYLOR

DOWELL MYERS

California Futures

New narratives for a changing society

The future depends on the stories Californians tell themselves about their past, about how things have changed, and why.¹ Here we find a basis for shared perceptions of cause and effect, of truth, and of implied purpose. When we work together we can accomplish great things, yet when outmoded storylines guide our actions, when myths rather than realities drive our decisions, those stories can lead to dysfunction.

California once was the place where the future of America happened first. Now it seems the place where the future has met an impasse. A continuing, massive budget deficit and political gridlock prevent preparations for future needs. This public incapacitation has been blamed most often on a failed governance structure, which creates what observers have called a “crisis without exit.”² Enveloping all this is a deep pessimism that afflicts the residents of the state.

The vast majority of Californians agree we are not moving “in the right direction,” but few agree about *what is* the right direction.³ Governance reform alone may not be adequate for solving California’s problems. That must be accompanied by a kind

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New policies need new stories.

of “conceptual reform” that leads citizens to renewed agreement on the shared problems worthy of a common purpose.

We need new policies. New policies need new stories, and new stories cannot be created until we recognize the uselessness of our old ones. Now, at this fundamental turning point in California’s history, we have an opportunity to do just this. The deep effects of the Great Recession, our housing crash, and some major swings in demographics have thrown our old narratives in sharp relief. The result is a rare opportunity to examine antiquated attitudes and political values, formed under prior conditions. This is especially crucial here in California, where direct democracy can breathe new life into old stories and produce policy as a result.

Since evidence about the future cannot be tested and verified, any agreements about the future must rely on shared belief and a basic trust, which are our weakest resources at present. While the public’s assessments of likely future trends and desirable outcomes are constructed from mental images of the past, California’s future, otherwise so promising, is being undermined by them. We need new stories to guide us in replacing failed policies.

Narratives that shape our public purpose

Let’s revisit two pillars of shared understanding fundamental to California’s future. First and foremost are the circumstances surrounding Proposition 13, the citizen initiative that limited property taxes following the home price explosion of the 1970s. Older residents of California remember well the founding conditions, but younger citizens have inherited a sometimes favorable view of Prop 13—it keeps their taxes low—without knowing much about it.⁴ What does the proposition mean in today’s conditions, and what new narrative is beginning to emerge?

A second pillar of shared understanding about California’s direction involves demographic changes driven by immigration. In 1994, when Proposition 187 was passed to limit access to public services by illegal immigrants, what



PHOTOGRAPH BY ROXANNE READY

did immigration mean to the state’s social changes? A wide swath of the electorate shared a sense that migration was accelerating out of control and racial change was escalating into the future. How to slow these changes? Absent at the time was any attention to projections of a rapidly aging population—California was younger then—that looms large today. Is the new narrative merely one of white decline, or can these changing demographics be made into a hopeful story of the future that the great majority of voters might adopt for their benefit?

The legacy of soaring home prices and taxes

Proposition 13 is the legendary tax limitation measure widely regarded as the third rail of politics in California. It has a sacrosanct and mythic quality that made it untouchable in policy conversations until the occasion of its thirtieth anniversary, which happened to coincide with the beginnings of the fiscal upheavals stemming from the Great Recession.

Prop 13, as it is commonly called, was a bundle of binding laws packaged as an amendment to the state constitution, passed by 65 percent of the voters on 6 June 1978. The full extent of the bundle was not understood by most voters at the time or even today. The main goal of the proposition was tax limitation on residential properties, but it included commercial as well, and it also called for a transfer of control of tax dollars from localities to the state government and instituted a new requirement for a two-thirds legislative majority to approve any new taxes. Stabilization of tax bills in the face of rising house prices is the major argument offered today by defenders of Prop 13

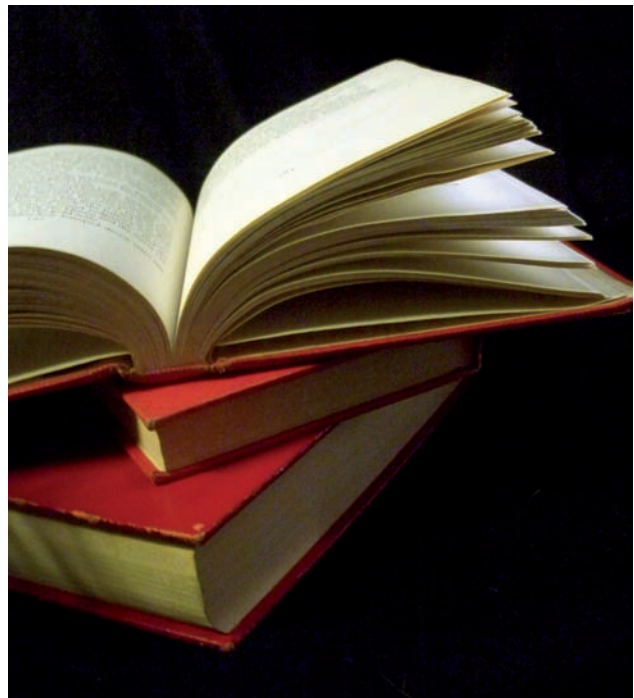
in letters to the editor or by anti-tax leaders such as Joel Fox, editor of *Fox & Hounds* and President of the Small Business Action Committee. This is the strongest interest of voters, over three-quarters of whom are homeowners, and it is the linchpin of voter support, no matter the appeal of other features in the Prop 13 bundle.

What created urgency to pass the proposition was the unprecedented inflation in house prices that beset the state in the mid-1970s. Increases were explosive, including 25 percent in 1977, the year before the proposition, the largest single-year increase ever recorded in California. What made it especially shocking was that it followed decades of relative quiet. (We're so accustomed now to the notion of rapid price increases in housing that it is hard to imagine a time when California's prices were little higher than the nation's and both were growing only slowly.)⁵

That inflation in real estate values was not seen as a boon to existing homeowners. On the contrary, at the time property taxes were directly tied to assessments based on house values, and thus the explosion in home prices led to very large and sudden increases in property tax bills, often 60 percent or as much as 200 percent, in a single two-year reassessment cycle.⁶ At this rate of increase, many older citizens on fixed incomes imagined they *would* be driven from their homes. The protections promised by Proposition 13 eased those fears.

First, Prop 13 set a property tax rate of 1 percent of assessed valuation, little more than one-third the 2.6 percent rate then currently prevailing in California. Second, it offered a rollback of assessed valuations to market values in 1975, a date prior to the major portion of the 1970s boom and little more than half of 1978 values. Accordingly, these existing owners would pay property taxes that were reduced to only *one-quarter* (23.1 percent) of what was expected prior to Prop 13. Finally, after that, the annual increase in assessed value would be capped forever at 2 percent per year.

Prop 13 was clearly an effective solution that protected residents on fixed incomes from the rapid increases in property taxes caused by surging market values. In place of unknown future tax increases, it offered a new peace of mind. To supporters this was part of its appeal. As Joel Fox put it: "Before Proposition 13 passed, the certainty in property taxes belonged to the tax collector. After Proposition 13, the certainty in property taxes belongs to the taxpayer. *That is the revolutionary idea behind Proposition 13.*"⁷



PHOTOGRAPH BY JO NAYLOR

Needless to say, certainty of taxes might have been achieved with more conservative changes to property taxation. Leaving aside the wisdom of drastically cutting tax payments by three-quarters, consider how the 2 percent assessment increase worked out over the next three decades. From 1978 to 2006, house prices rose at an annual rate of 7.7 percent per year, although after crashing in 2007 (more on this later), annual gains since 1978 were only 4.5 percent. Meanwhile, through this entire period, the consumer price index rose an average of 4.0 percent per year. *Yet property taxes by individual homeowners were capped to grow by no more than 2 percent per year.*

Clearly, California's public services could not keep up with national price inflation and were doomed to fall in quality.

In hindsight, if the goal had been to provide for a more certain and stable future, it would have been better if Prop 13 had capped the property tax increases at 4 percent per year. That would have lent stability to both property tax bills and the flow of public services enjoyed by homeowners. But that was not the goal. Prop 13 is best considered as an emergency act passed by angry citizens to protect homeowners from the explosive increase in property taxes in the mid-1970s. It achieved that goal very well.

Median Value of Single-Family Homes in California: Market Trend vs. Assessed Value from Date of Acquisition

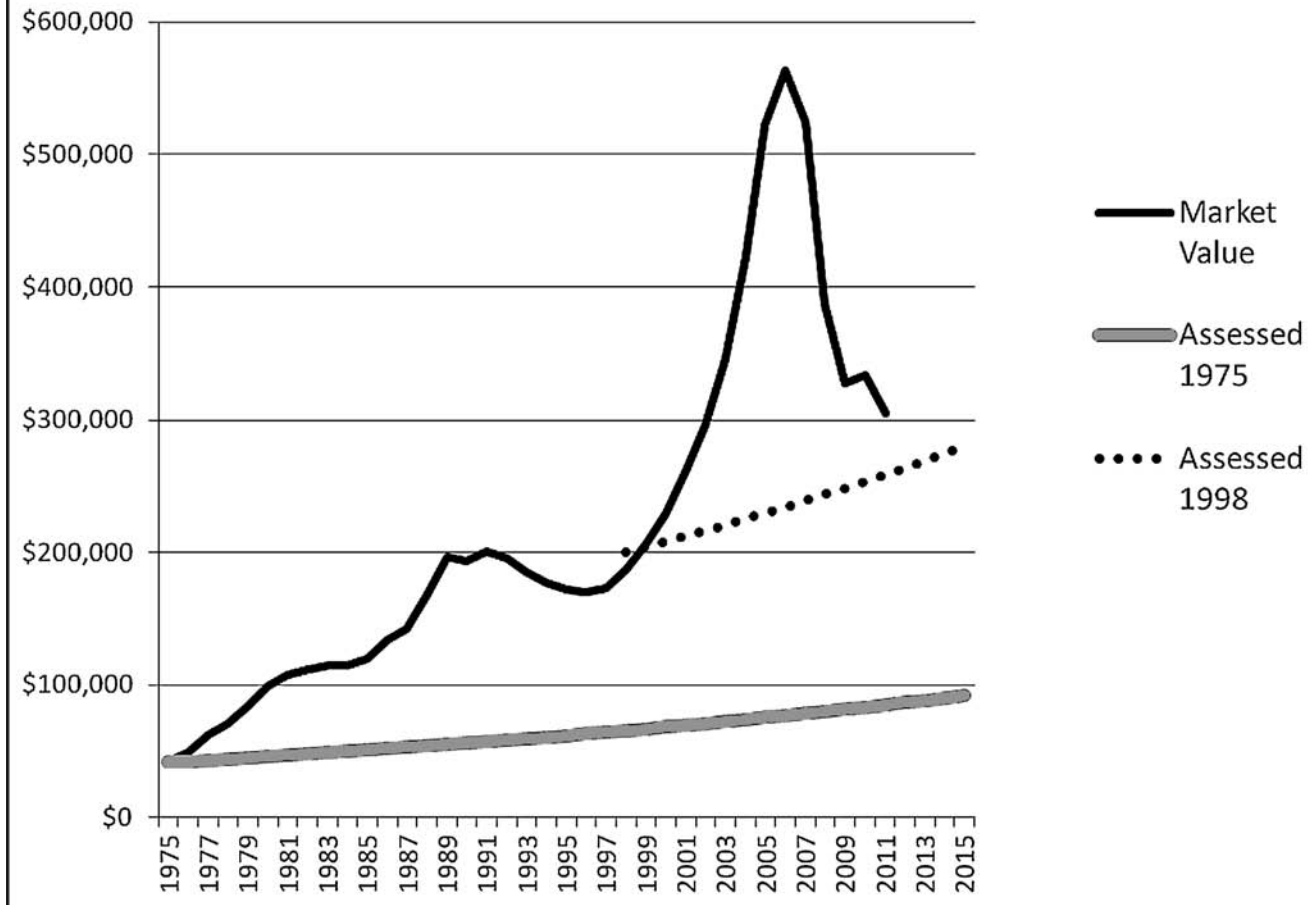


Figure 1. This graph shows the median market value of houses in California each year since 1975, compared with the tax assessment for a house acquired in 1975 or 1998, each of which rises 2% per year, the maximum allowable increase under Prop 13. CALIFORNIA ASSOCIATION OF REALTORS (BEFORE 1991); OFHEO HOUSING PRICE INDEX (AFTER 1990); ASSESSMENT AFTER ACQUISITION CALCULATED AT MAXIMUM RATE OF 2% PER YEAR.

The volatile history of house prices

Taken for granted and little discussed is that Prop 13 was *designed* for a regime of continued, ever-rising house prices. Rising home prices are its fundamental presumption. It not only rolled back the increases from 1975 to 1978 but also then locked in its provisions for the future. Californians were well justified in fearing explosive increases in house prices. In fact, sixteen times in three decades, prices increased by more than 10 percent in a single year. But today, with existing homeowners paying only one-quarter

the former taxes, and with assessments growing only 2 percent per year, fiscal viability relies on new buyers who will keep entering the tax system by paying ever-rising house prices.

In fact, a recent analysis suggests that new home buyers pay annual tax bills that are \$3,400 higher than old timers, and that younger homeowners, in their twenties and thirties, pay an average of \$2,400 more in property taxes.⁸

Prop 13 has served the state better in some years than others. Initially, the system stayed solvent, based on an accumulated surplus of funds in the state treasury. However,

solvency after that was dependent on a large flow of new buyers at much higher prices and with proportionally higher property taxes. The major boom in house values and property turnover in the latter half of the 1980s was of great benefit in this regard. From 1985 to 1989, median house prices soared by 63.6 percent and the volume of annual home sales increased by 42.2 percent compared to the first half of the decade.⁹ These new high-price buyers essentially made up for the discounted taxes enjoyed by the earlier home buyers.

The obvious problem today and for the future is that the formula of ever-rising house prices appears to have been broken. The long recession of the 1990s was the first challenge to the viability of a Prop 13–based fiscal system in California. House values fell by about 15 percent and the volume of property turnover declined 11.7 percent from the late 1980s. Many municipalities struggled and were driven to more creative means of balancing their books. The most famous failure in this period was Orange County, the largest government in US history to declare bankruptcy under Chapter 9 protection.

In the latter 1990s, the housing market and economy revived with a volume of home sales 25.1 percent greater than in the first half, followed by another 26.8 percent expansion of sales volume in the first half of the 2000s. Meanwhile, house prices began their epic rise, soaring by 213 percent in the decade between 1997 and 2007. The combination of record numbers of new buyers and record high house prices ensured that the property tax system would receive a much-needed infusion of revenue contributed by new buyers—if only that could have been sustained.

It bears emphasis that property taxes are not the sole support for public services in California. Our state relies more heavily on income and sale taxes than many others, and Proposition 98 mandates that a formula-based percentage of the general fund be allocated for education along with local property tax revenues. Nonetheless, the size of the budget pie is tightly constrained, and shrinks in recession years due to faltering income tax collections. More recently, it has also declined due to temporary decline-in-value downward adjustments in property tax assessments, which are offered to property owners whose house values have declined below purchase price (roughly those who bought between 2003 and 2008).

The only silver lining in the house price crash is that homes have been made much more affordable for



PHOTOGRAPH BY FAIRING_AWAY

first-time home buyers. This long-needed correction benefits members of the younger generation who had not purchased a home before 2009, unlike those who did purchase and now are holding homes that have lost value and been placed at risk of foreclosure.

Two narratives of Prop 13 and the future of California

Viewed with fresh eyes, the meaning of Prop 13 for the future of California appears very different after the great housing crash. The old foundational narrative of Prop 13, dating from 1978, emphasizes a critical need at the time. It begins with the shocking runaway increase of house prices and the abusive (60 percent or even 200 percent) increases in tax burdens that resulted. It was an emergency that required immediate correction. The burdens imposed on this older generation were unfair, according to the narrative, and the cause of the problem was a greedy and inattentive government that did not protect its citizens from the ravages of uncontrolled population growth. In the eyes

Two Narratives for the Future of Prop 13

Trauma of '78

- Runaway House Prices (+20% per year)
- Abusive, Shocking Rates of Tax Increase
- Unfair **Burdens** on the Older Generation
- Growth by Migrants from Outside California
- Enjoying the Fruits of High Levels of Public Investment in Freeways, Schools, etc.

The New Decade Ahead

- Recovering and Slowly Rising House Prices
- Slow, Steady Tax Increases that Negate Benefits of Prop 13
- High **Profits** for the Older Generation; **Burdens** on the Young
- Growth due to Children Born and Schooled in California
- An Accumulated Deficit of Years of Underfunded Public Services

Figure 2.

of supporters of Prop 13, the existing residents had already paid for an ample set of public services. They enjoyed the fruits of high levels of past investment in freeways, schools, and other services. Property taxes were more than ample for those services, and so citizens should not need to pay any more. Taxes on homes should be capped and legislators should be held to a two-thirds majority requirement to pass any tax increases. On the other hand, migrants coming to California were the ones bidding up house prices and imposing high costs of growth, and so they should be the ones made to pay more in taxes as a price of admission.

This argument for Prop 13 has been strongly persuasive and has commanded allegiance for more than thirty years. The narrative is retold even today, despite changed conditions, and it has grown increasingly mythical, sacrosanct, and unquestioned.

The dramatic economic and demographic changes now being experienced in California call for a more contemporary narrative of Prop 13 and its meaning for the future of California. The newer narrative can be lined up point by point with the old, highlighting how much things have changed (Figure 2).

The outlook for the decade ahead is no longer that we must guard against explosive, runaway house prices. Instead, we are hoping for an end to foreclosures and declining house prices. California homeowners would be so grateful if we could average 2 percent growth in prices per year for the rest of the decade.¹⁰

Instead of abusive rates of tax increase, we now imagine only paltry gains. Without rising house prices, government services cannot be salvaged by the higher taxes new buyers pay. In fact, many of those who bought houses in the last decade have received temporary decline-in-value reassessments that will gradually be rescinded as prices slowly begin to rise. Homeowners who acquired their homes since 2003 will enjoy little advantage over new arrivals.

The unfair burdens on the older generation protested in the old narrative of Prop 13 are now completely reversed on two different scores. First, these older homeowners now enjoy *lower* taxes than everyone else, even though they have also reaped rich appreciation in their housing wealth. It is the new buyers, typically young householders, who bear the burden of high taxes—and this at a time when the young

Every premise of the narrative that founded Prop 13 in 1978 has been reversed.

barely can qualify to buy the older generation's homes. If anything, it is the young who are overburdened and economically disadvantaged. Arguably, policymakers need to help them so that they can bring more buying power to rejuvenate housing markets.

The old narrative of Prop 13 assumed that growth was coming from outside California, that migration was swamping the state, and the newcomers should be made to pay more for the right to buy homes here. Today, that too has been reversed. The 1990s recession put an end to it; and migrants from other states haven't come to California in great numbers since the 1980s. The same goes for immigrants. Our growth has been from within, by virtue of children born in California. For the first time since before the Gold Rush, we have a homegrown majority among young adults in the state.

What this means for the new narrative of Prop 13 is that if we are going to increase the burden on new buyers today, those buyers will mostly be native sons and daughters of California. Further, these grown children will only be able to offer a purchase price that is consistent with their earnings, which in turn depends on their level of education. Under the new narrative of Prop 13, we want to be sure that educational institutions receive enough funding to educate all the children so that they increase their capacity as our future home buyers and taxpayers.

Finally, the old narrative presumed an existing, ample supply of high quality services. The voters in 1978 were not worried about shortages of public facilities or college seats. They were not concerned about aging facilities and neglected maintenance on freeways, bridges, or parks. The citizens of 1978 were living off the fruit of prior investment by the taxpayers. In contrast, the citizens of 2012 are living with the legacy of *under* investment created by those voters of 1978.

Every premise of the narrative that founded Prop 13 in 1978 has been reversed. The new choices posed by the two opposing narratives will be discussed in the conclusion. But first, let's bring into discussion our common understanding of California's demographic changes and what they mean for the near future.

The legacy of immigration and rapid demographic change

The changing demographic makeup of California is vital to everyday life. Systematic differences in contribution and impact occur among young and old, men and women, immigrants and native-born, and different ethnic groups. These are the workers, earners, and taxpayers. They are the consumers who patronize private businesses and who rely on public services, and they are the renters and home buyers who make the real estate industry thrive.

California's residents are also the voters who make decisions about likes and dislikes, and sometimes they focus their decisions on other people. Mix in a little race and taxes, add some generational differences, and we have an incendiary mix. California's rapid changes have provided a lot of fuel.

The most effective approach to summarizing the demographics of California is in accordance with the stories that residents tell themselves in order to make sense of all the changes we have seen. Some of these stories are avowedly self-centered—like a driver who views all others as obstacles or hostile competitors—and they may even be racist in their prejudices. But that's the blood and guts of demographics when the topic becomes political.

Here are two narratives that describe well the perceptions of demographic change and the future in California. Both are told from the vantage point of established white residents, but the first reflects the trends of an earlier era, forming assumptions that are carried forward today, and the second represents current and future trends, with impacts that are not yet recognized.

The prevailing demographic narrative rooted in the 1980s

The old narrative, dating from 1990 or earlier, emphasizes a state besieged by invaders from other states and especially countries. Between 1980 and 1990, California experienced an extraordinary 6.1 million population growth, an increase of 25.7 percent. This far exceeded the 3.7 million growth in

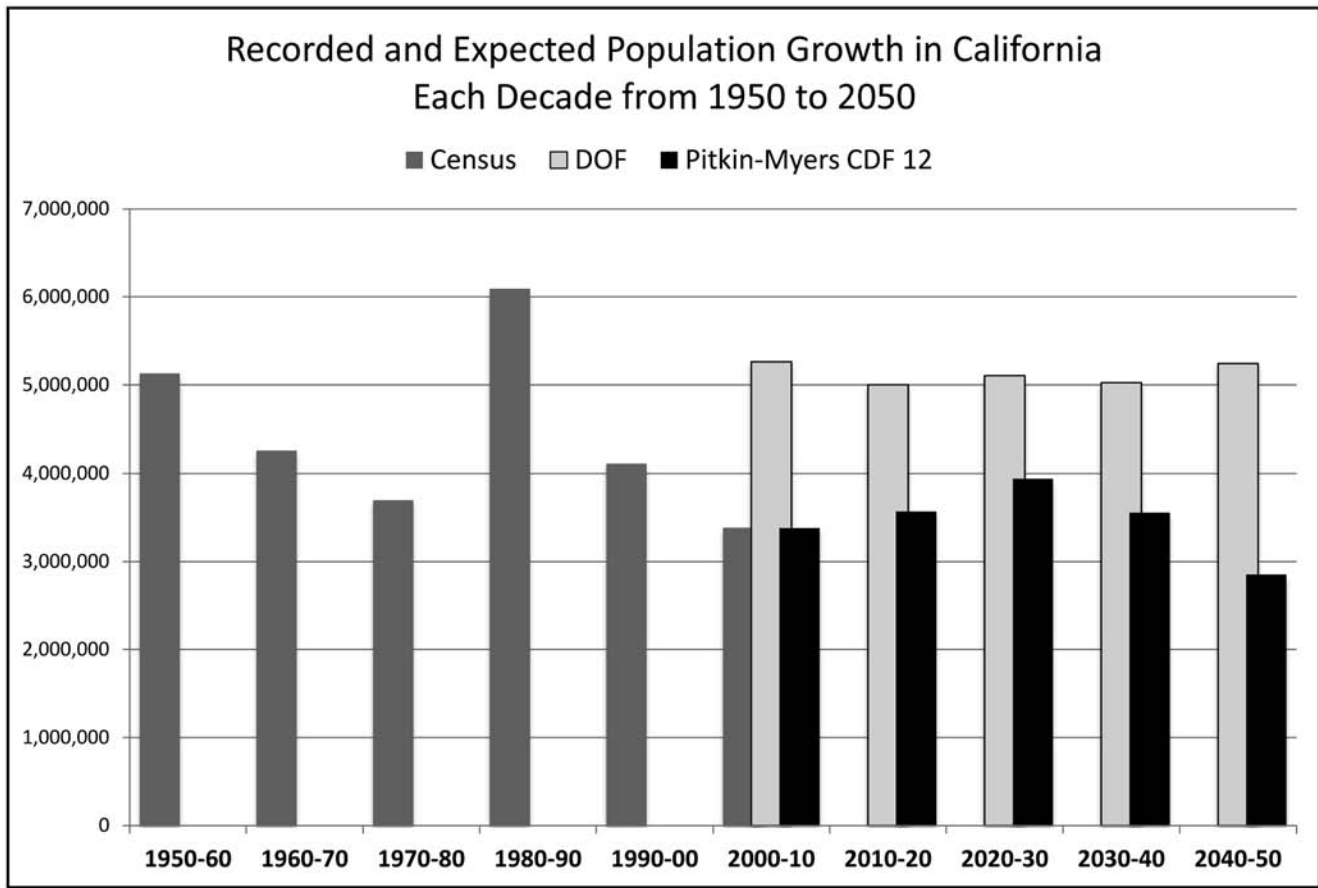


Figure 3. PITKIN-MYERS 2012 CALIFORNIA GENERATIONAL PROJECTIONS

the 1970s or the 4.3 million in the 1960s (Figure 3). Such an intensive increase in population added to traffic congestion, fueled development pressures on open space, and created stress on municipal budgets. Yet most Californians do not recognize how influential that exceptional decade was for shaping our opinions about growth.

It turned out that the 1980s were an isolated case, however, because growth decreased substantially in the decades that followed.¹¹ The retreat to 4.1 million growth in the 1990s (a 13.8 percent increase) was attributed to California's deep and prolonged recession early in the decade. Nonetheless, in the decade just completed, 2000 to 2010, growth fell even further, retreating to only 3.4 million growth (10.0 percent), the smallest increase since before 1940.

Population forecasters do not foresee a return to the growth level of the 1980s in California's future. The California Department of Finance (DOF) projected in 2007 that growth would be about 5 million per decade, which amounts to a smaller percentage increase each decade,

dwindling to 10 percent growth in the 2040s, because the growing total makes the same increase a smaller percentage. However, by 2010 we could see that the DOF forecast badly misjudged the decade, an overestimate by 1.9 million, 55.6 percent more than the growth recorded by the Census Bureau. The most recent forecast prepared is by John Pitkin and myself, which expects slower growth this decade and in later decades.¹² The Pitkin-Myers projection never again reaches 4 million growth in a decade, and it never reaches 10 percent growth in a decade. Thus, in sum, forecasters do not expect a reoccurrence of the extreme (25.7 percent) growth conditions that prevailed in the 1980s.

A population growth of that magnitude would be highly unpopular, no matter its origins, but it was viewed all the worse because it was driven by migration from outside California. True, a lot of babies were born during the 1980s, but net migration from other states and nations still accounted for over half (53.8 percent) of the decade's growth. It appeared that the great majority of this growth

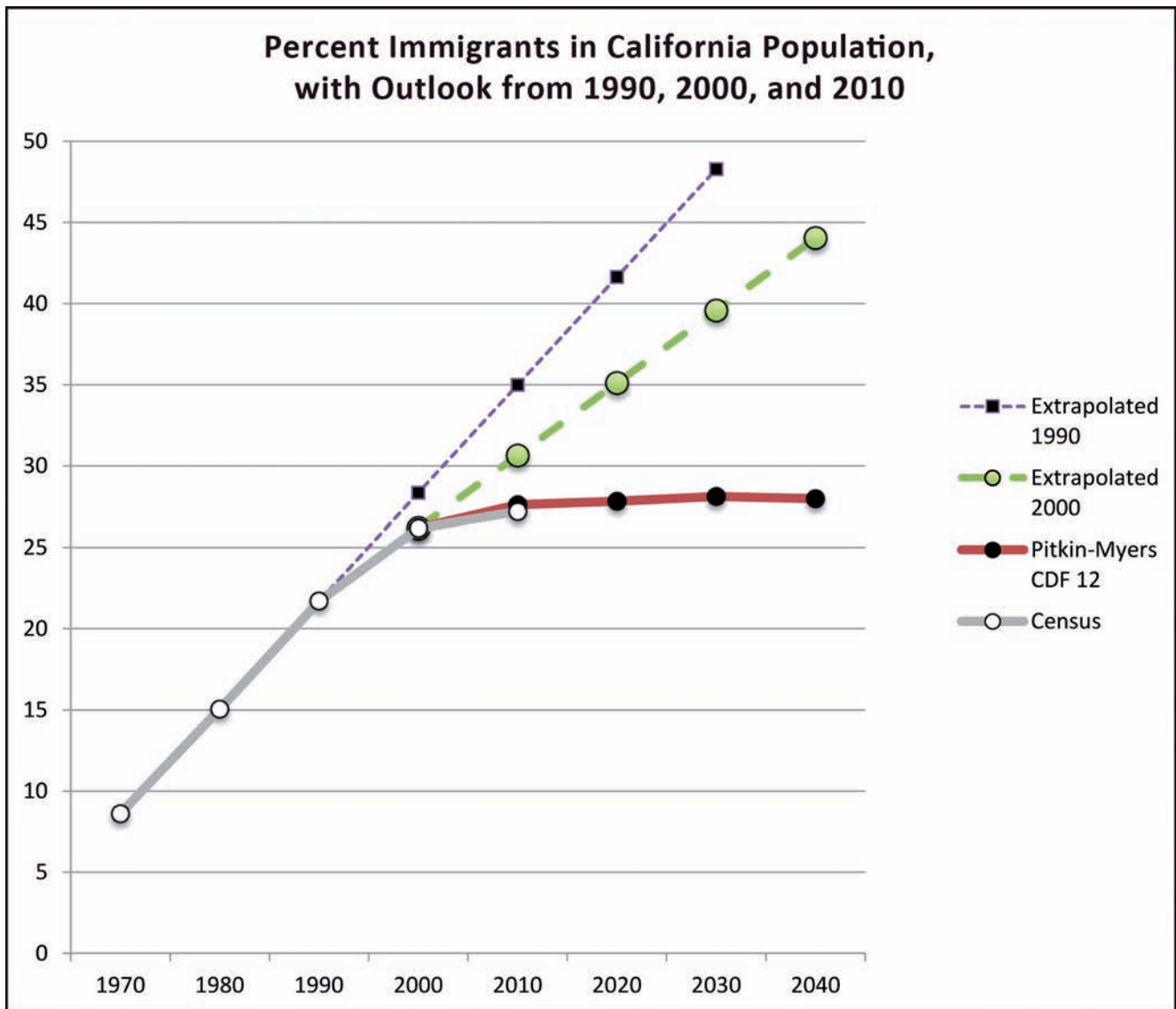


Figure 4. PITKIN-MYERS 2012 CALIFORNIA GENERATIONAL PROJECTIONS

was driven by immigration.¹³ The flow of immigrants accelerated from the 1960s to the 1970s, then again through the 1980s. Data are limited in earlier years, but in the five years prior to 1980, 1.1 million immigrants settled in California. By 1990, this five-year incoming flow had increased to 1.7 million new immigrants. So strong were California's attractions during the population boom of the 1980s that the state was the destination for 38 percent of all the new immigrants in America.¹⁴

The result of the rapid increase in immigration was a soaring foreign-born share whose rise was startling in its acceleration. The percentage of California residents who

were immigrants rose in just twenty years from 8.6 percent (1970) to 21.7 percent (1990) of the state's total population. This foreign-born share well exceeded that of any other state, including New York, and it exceeded any nation in the world of at least 10 million population. But this was not necessarily a boasting point for Californians, because the trend might have seemed threatening. It was not uncommon to assume that "at this rate of change, in another twenty years" we would be overrun. The outlook from these extrapolations in 1990 is indicated in Figure 4. By 2010, the foreign-born could be expected to rise to 35 percent of all Californians, and eventually immigrants would become more than half

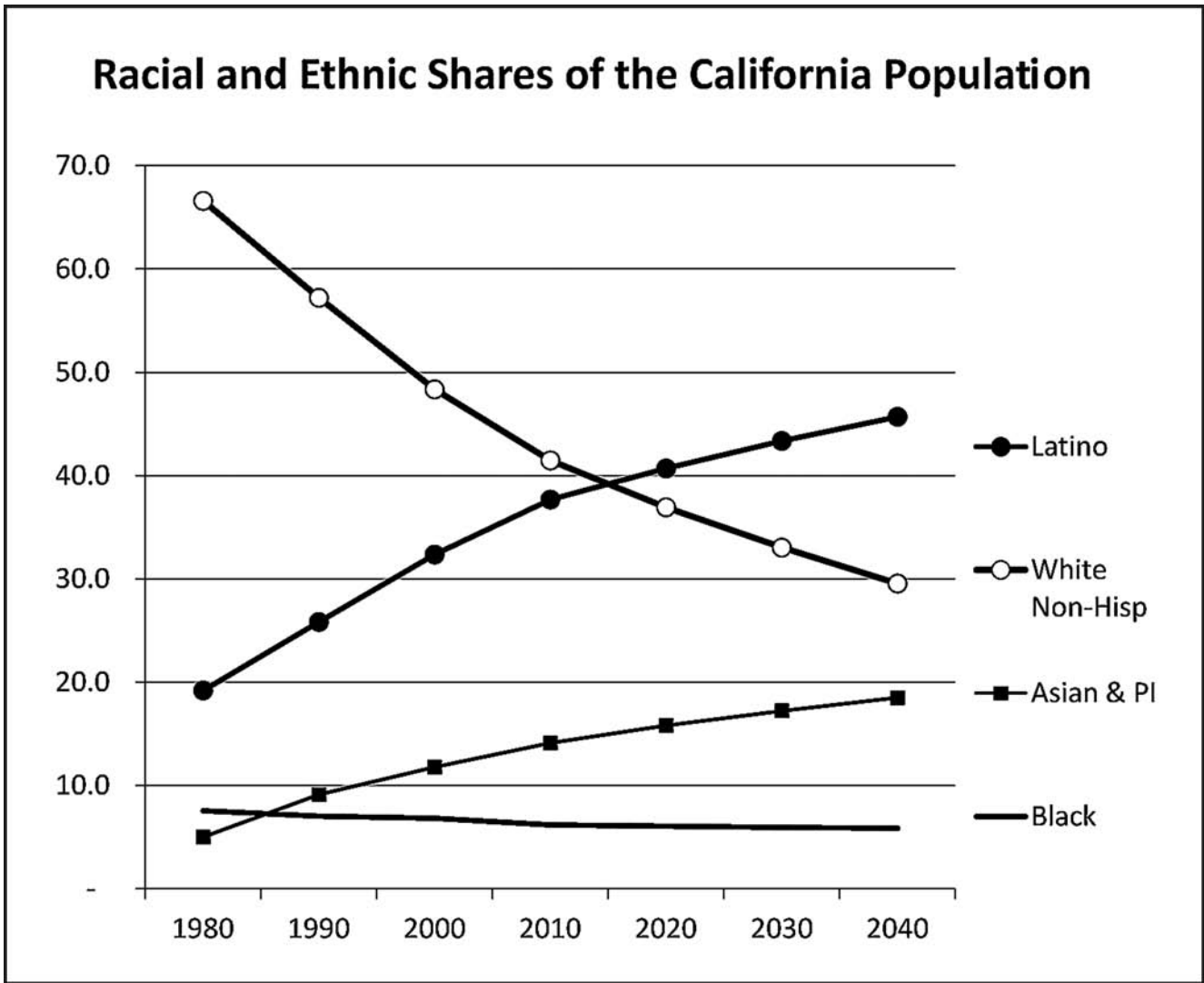


Figure 5. CENSUS BUREAU TO 2010; PITKIN-MYERS 2012 CALIFORNIA GENERATIONAL PROJECTIONS

of the state's total population, all culminating in a veritable foreign takeover of California. In the vacuum created by the absence of any professional projections of the foreign-born population, the only projections to go on were these naïve, mental extrapolations.¹⁵

In 1990, no one could see that the rate of increase was destined to level off in future decades. For residents who were uncertain about the future, anti-immigration activists were eager to help them imagine the worst. Fear mongering culminated in the passage of Proposition 187 in 1994.¹⁶

The rapid growth of the 1980s, when large numbers of Latinos and Asians arrived, changed the racial and ethnic complexion of the state. By 1990 African Americans had been exceeded in number by Asians and Pacific Islanders,

relegating them to the status of smallest of the four major race-ethnic groups. Whites then fell to less than 50 percent of the total state population by 1999, making California an all-minority state (Figure 5). The continued growth of Latinos ensured that they would replace whites as the largest population group sometime after 2015, but Latinos were not expected to achieve a majority of the population until after 2040.

Whites were still the majority of voters, however, and were projected to retain that decision-making majority until 2031 or 2046.¹⁷ Latinos in turn would not acquire a majority among the voters until the last quarter of the century.

Most immigrants were recently arrived, and as such they gave the appearance of not being assimilated. Many

observers assumed they would remain a burden on the California middle class, and, again, certain political activists were eager to help citizens come to that conclusion. They asserted that migration was swamping the state with added costs imposed by unwanted population growth, and this reinforced the ethic of Prop 13: make the newcomers pay and give the old timers a break. If services were declining in quality, that was too bad for the newcomers, because it was their fault! Established California residents shouldn't be asked to pay for new residents they had not welcomed.

The prevailing narrative about displeasures and fears over population growth speaks to the perceptions of many Californians. It expresses bitter regret over a lost California, an admittedly white-centered view about belonging, and it exudes discouragement about future prospects. Whether this narrative of demographic change is an accurate guide to California's future requires closer examination, and although it is uncertain whether new facts can alter the entrenched view, a narrative is emerging that is persuasive and compelling in the sense it makes of a new California.

An emerging demographic narrative for California's future

The very foundations of California's prevailing narrative have changed, triggered by shifts that began in the deep recession of the early 1990s; yet the older, outmoded narrative still holds sway. Let's contrast the two narratives point-by-point, as in Figure 6, introducing one crucial new trend overlooked in the older narrative.

The giant baby boomer generation has been prominent for decades, and its steady aging-toward-retirement years were clearly foreseen—but largely discounted—in the 1980s and 90s. For example, the approval of rich pension plans for public employees illustrates that the power of this aging tsunami was either vastly underestimated or simply discounted as being decades away.

In 1990, having just endured a record decade of migration, no one could imagine that California's growth would slow so drastically. The recession of the early 1990s, they thought, would surely be only a temporary setback; and yet subsequent decades revealed a declining attraction to California for migrants. The net migration of 3.3 million in the 1980s shrank to only 893,286 in the 1990s and

then withered to a paltry 235,354 for the first decade of the twenty-first century.¹⁸ In fact, migration has been negative for the last seven years, including not only the boom years of 2004 to 2006, but also the Great Recession. Even in good times people were not moving to California, in large part because high housing prices had thrown up a barrier. The steepest migration losses were interstate, but immigration also declined. In the 1980s, the state drew 38 percent of all newcomers in the nation; that fell to 22 percent in the 1990s and 20 percent between 2000 and 2010.¹⁹

California was becoming a demographic island no longer connected to other locales by the large migration flows of the past. Its growth now was being fueled by natural increase from within, accounting for 81 percent of the state's population growth in the 1990s and 93 percent of the growth in the 2000s. *California was growing from the addition of native Californians, rather than migration.* Only three years ago, researchers from the University of Southern California reported the discovery that, for the first time in the history of the state, the state's population had achieved a majority who were California-born.²⁰ This represented a sea change. These California-born residents were concentrated among the youth of the state, soon to be the new workers, taxpayers, and home buyers. Going forward, California was going to have to make it on its own by relying more on its homegrown resources.

Meanwhile, the immigration that had drawn so much ire was also changing. What had accelerated so suddenly now had ceased its increase, and the share of foreign-born residents had begun to level off. As shown in Figure 4, the wild projections of a foreign-born takeover were proving highly inaccurate. Instead, the newest Pitkin-Myers forecasts indicate a trend that has already leveled off and will maintain a steady 27 percent foreign-born share of California's total population.

The immigrants themselves changed as they settled in and advanced to stronger achievements. Whereas in 1990 over half of all immigrants were newcomers with less than ten years' residency, that fraction was lowered each decade. It fell from 50.3 percent in 1990 to 27.8 percent in 2010; and 21.3 percent is projected in 2030. Conversely, the fraction that had resided for more than twenty years in the United States was rapidly rising, elevating from 24.0 percent to 45.7 percent to 62.1 percent, in 1990, 2010, and 2030.

Old and New Outlooks on the Demographic Future of California

Outlook from 1990

Too Much Population Growth

Migration Swamping the State

Accelerating Immigration

Immigrants not Assimilating

Whites Plunging in California
Majority Status Lost

Few Elderly Compared to
Burgeoning Young and Middle Aged

Too Much Housing Demand
Housing Not Affordable

Education Bankrupts the State

Outlook from 2010

Growth Stalled

Rise of the Homegrown Majority

Foreign Born Levelled to Steady State

Immigrants Settled and Upwardly Mobile

Slower Decline in White Share and
Number Steady at 14 Million

Soaring Senior Ratio Due to
Aging Baby Boomers

Who's Going to Buy Your House?

Education Produces New Taxpayers,
Workers and Homebuyers

Figure 6.

Along with this increasing length of settlement has come an astounding upward mobility among immigrants.²¹

The most remarkable achievement for longer-resident immigrants is their rate of home buying. For example, among California's Latino immigrants recently arrived

by 1980, only 16.3 percent were homeowners, but after another twenty years of residency, in 2000, 51.9 percent had become homeowners.

It is clear from this that Latino residents in California are rapidly increasing in status. Not only are immigrants here for longer periods, but more of the Latino population is native-born—a majority that has been growing from 56.2 percent in 2000 to a projected 69.1 percent by 2030.²² The combination of these trends suggests very different assumptions about Latino residents from the past, and confirms the fact that assimilation is occurring and is a strong and positive trend for California.

This changed meaning of race and ethnicity is vital to interpreting the changing makeup of the California population. The white non-Hispanic population will not suffer being a minority share of the total; whites will still number 14 million strong in 2040, a number that exceeds the total population of all but three states. Their fellow Californians will be more successful residents than we



PHOTOGRAPH BY STEVEN LILLEY

Baby Boomer Tsunami Suddenly Raises the Senior Ratio

Seniors (65+) per 100 Working Age (25-64)

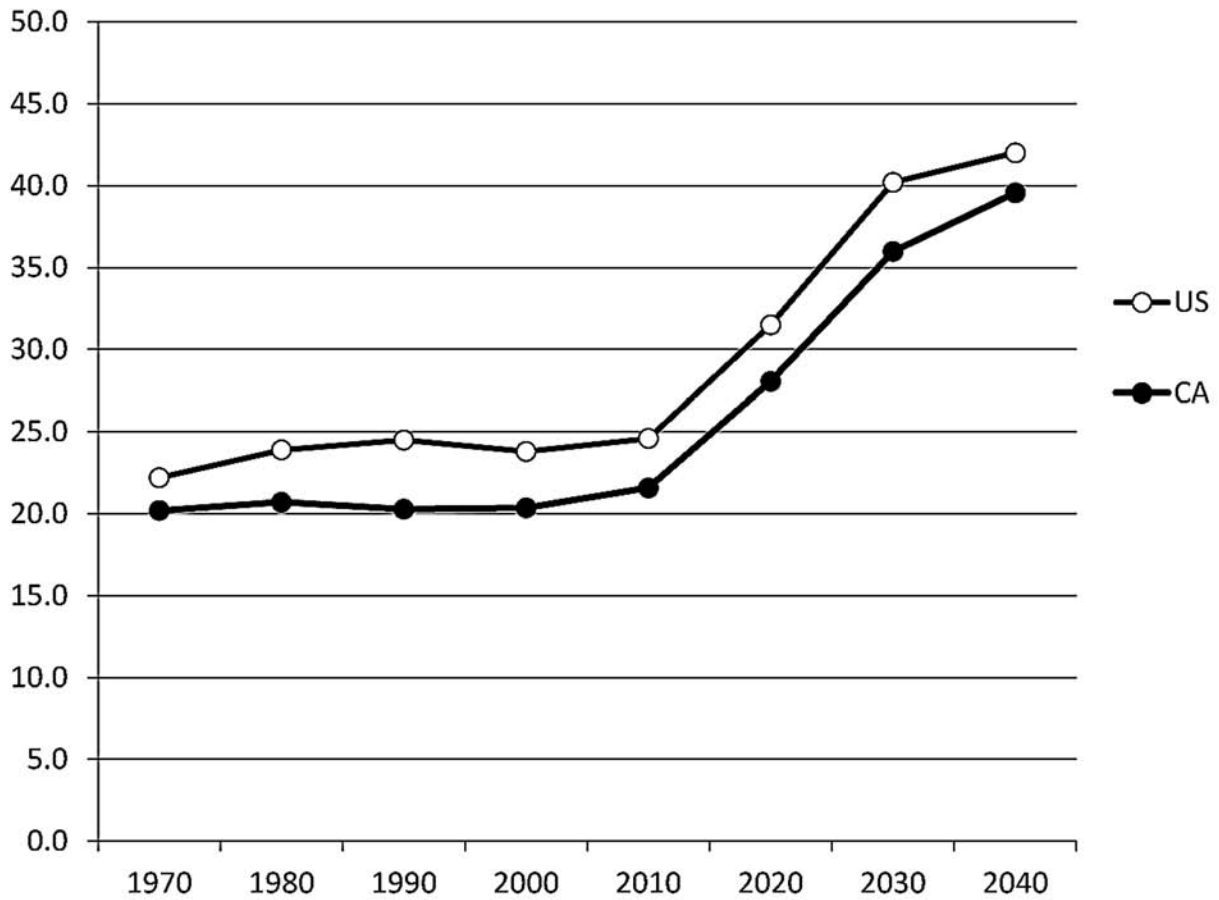


Figure 7. CENSUS BUREAU TO 2010; PITKIN-MYERS 2012 CALIFORNIA GENERATIONAL PROJECTIONS

knew in 1990, when they were smaller or newly growing minority groups.

The aging demographic

Demographics involve much more than race and immigration, and a far larger problem looms in California's future. The giant baby-boom generation born 1946 to 1964 has finally arrived on the threshold of retirement. Although full retirement age varies a great deal among individuals, we can use age 65 as a standard marker. The key importance for our society and economy is not how many seniors we have, but the ratio between their number and the working age

people who will support them in different ways. The "senior ratio" refers to the number of people age 65 and older relative to the number of prime working-age people (25 to 64). As this ratio slowly rises, it will gradually tip the scales toward more emphasis on behaviors that the elderly are likely to engage in—not simply retirement but consumption of public entitlements, reduced taxpaying, and increased home selling.

The first boomers crossed 65 in 2011, and it is shocking how rapidly the senior ratio rises after 2010 (Figure 7). After four decades of remaining almost flat at the same constant level, the ratio of seniors suddenly begins to shoot upward. In California, what had been 20 or 21 seniors per 100 working-age residents begins to climb to 28 in 2020

Origins of the Population Expected to Reside in California in 2030 by Age Group of Each Race and Ethnicity

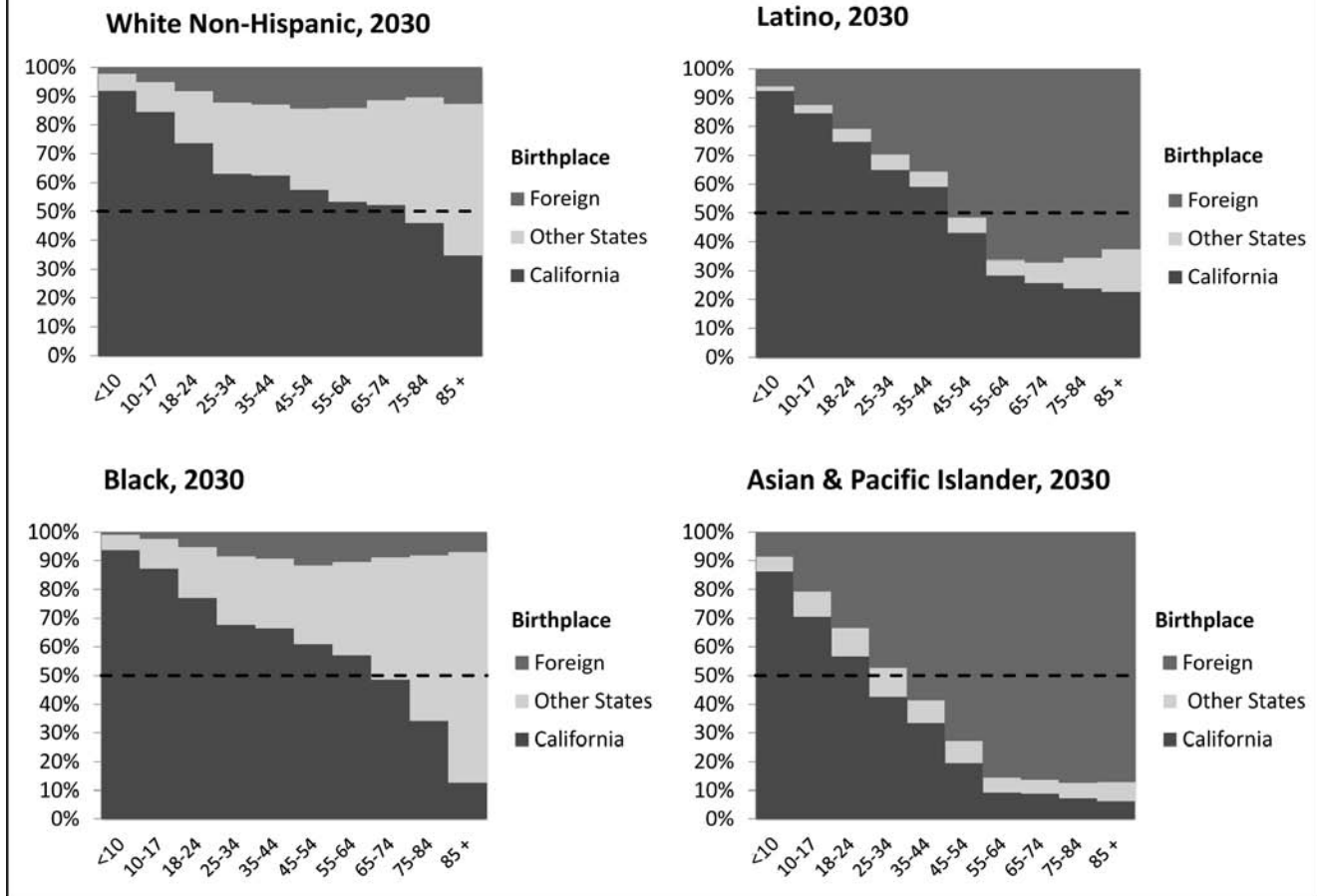


Figure 8. PITKIN-MYERS 2012 CALIFORNIA GENERATIONAL PROJECTIONS

and then to 36 in 2030. This two-thirds increase in the ratio of seniors to working-age Californians will stress our governments and taxpayers like never before. Our seniors deserve their entitlements, but how can we make that work?

The burden will fall on our children who are about to grow up and enter adulthood. A quarter-century ago, David Hayes-Bautista and colleagues identified this “burden of support” as a future challenge for California, emphasizing that older whites would be supported by young Latinos.²³ But at that time, the oldest baby boomers were only 42, and retirement in 2011 was far from anyone’s concern.

Now the day has arrived, and unfortunately, it has come at a time when the state is severely stressed economically. Not only are the state and federal governments faced with major deficits that force spending cuts, but the housing

market has flipped from a condition of excess demand that drives up prices to a new era of record-low home sales that depresses prices. This housing market weakness is a boon for young home buyers—if they can qualify for a mortgage—but it is terrible for anyone who wants to sell his home, whether to downsize or relocate for retirement or health reasons. With the senior ratio headed so high, the balance between the potential number of sellers and buyers is top-heavy with sellers.

Clearly, it would be wise to strengthen the home-buying capacity of the younger generation as much as possible if that proportionally smaller group is going to meet this challenge.

Who will be California’s residents in 2030—those who have to shore up the state’s housing market, workforce, and tax base? This has been the subject of the generational

projections newly developed by John Pitkin and myself. The origins of the population within each age group and within each ethnic group are portrayed in Figure 8. Immigrants are still prominent among Asians and Latinos, although they will remain a dominant share only among those over age 54. Migrants who were born elsewhere in the United States are more typical among whites and blacks; but by 2030 they also will be common only in late middle age.

Most significant of all is the growing dominance of homegrown Californians, who will constitute a majority of all whites younger than 75, all blacks younger than 65, all Latinos younger than 45, and all Asian and Pacific Islanders younger than 25. The importance of being homegrown is that these people are rooted here. They have been California-educated by California taxpayers, and they may be the answer for California employers and home sellers. The homegrown Californians will carry the future like never before.

Joining the narratives

Here is where the narratives of the demographic future and Prop 13 are joined. The old narrative of Prop 13 assumed that growth was coming from outside California. Migration was swamping the state and the newcomers should be made to pay more for the right to buy homes in our state. That old narrative assumed a surplus of people competing to gain entry to California. That is not true today. If anything, due to the soaring senior ratio, we have a relative shortage of young adults to take up the slack, and the ones we have are homegrown.

According to the principles of Prop 13, if we are going to impose a higher tax burden on new buyers today so that they can make up for the tax reductions granted longtime homeowners, this burden will fall on the native sons and daughters of California. We cannot realistically wish for a greater number of these young people to materialize, but we can imagine how we might strengthen their capacity to carry the load of a heavier senior ratio. The grown children of California will only be able to offer a purchase price that is consistent with their earnings, which in turn depends on their level of education. Typically, the college-educated home buyer can offer a purchase price that is 50 to 65 percent higher than those with only a high school degree. Those with a college degree also contribute much greater tax



PHOTOGRAPH BY QUINN DOMBROWSKI

dollars, consistent with their earnings that are about twice as high as the high school graduates.

Under the new narrative of Prop 13, we want to maintain stability in the face of the soaring senior ratio. We need to make it a priority that educational institutions receive enough funding to educate the children who will become the future senior supporters by virtue of working, taxpaying, and even home buying. Recent polls from the Public Policy Institute of California show that the majority of voters buy into this priority.

Conclusion

The dramatic economic and demographic changes being experienced in California call for a more contemporary narrative of California's future, one that incorporates new interpretations of Prop 13, house prices, and changing demographics.

We need to let go so that we may see the promise ahead.

It now is clear how much the time-honored narratives that have prevailed so long are designed for realities of the past. Those older narratives do not match with recent trends and cannot serve the future well. Framed as guides for the protection of California's established residents, they have grown ineffective now that the old threats have subsided. In fact, in the presence of growing new threats of a different nature, the old narratives operate in counterproductive ways, and are ill-suited to fostering hopeful opportunities. In fact, clinging to outdated stories actively discourages the new hope that is so desperately sought in California today. We need to let go so that we may see the promise ahead.

California's guiding narrative, in response to changing conditions, requires updating for the twenty-first century. The new narrative features our growing population of retirees and their many needs. The new narrative embraces the homegrown younger generation, a relatively scarce and precious resource. Cultivating the next generation of home buyers is crucial to every would-be home seller, and this targets our newfound threat of a weakened housing market. The same investment in younger, homegrown Californians also improves the tax base of California and the workforce required by employers.

Most importantly, our younger generation makes California's outlook hopeful and inspired. In comparison to other states in the nation—all of which also suffer from a surplus of aging baby boomers—we have more young people. The fact that they are deeply rooted in California provides a lasting advantage. We also have an institutional structure in place that enables us to invest in the younger generation.

The new narrative does not specify the exact policy prescriptions for solving our problems. Rather, it helps to direct attention and inform priorities. It helps us interpret our current and future situations, showing how the needs today are different from those before.

Comparing old and new narratives side-by-side, it's striking how dramatically the key premises have reversed. Public discussion should focus on two key questions. Which of the reversals in premises is most surprising or

important? And which narrative overall is the more useful as a guide to the future?

In the Prop 13 narrative, is the most compelling reversal that booming house prices are no longer to be feared and guarded against? Or might it be the reversal of fortunes for the older generation—once overburdened and now more privileged? Or could the most compelling be that the future of California today depends on the state's own children, rather than migrants from out of state or abroad?

And then in the demographic narrative, is the most compelling reversal that immigration has stopped accelerating and has leveled off at a steady rate? Or could it be that in earlier decades we had an excess of young people but now we face the challenges of the soaring senior ratio? Or might it be that migration has dramatically slowed and we now are dependent on our homegrown population?



PHOTOGRAPH BY THE SHOPPING SHERPA

Further, can we expect these children to grow up and buy the homes of our seniors, and if so, what will that transaction look like? How can we best spend our tax dollars to educate them and cultivate their talents so that they will become the backbone of California's economy?

And finally, in the presence of such rapid change in California, the citizens need to be asked which narrative is the one that best informs their commitments. They need to choose their preferred California story for guiding a future that begins in 2012, not the future that began in 1978 or in 1994. Californians need to get talking, rethink, and then hurry up. The future is coming fast, and we need to catch it before it's too late to make it better. **B**

Notes

- ¹ The Haynes Foundation is gratefully acknowledged for supporting the research included here. John Pitkin had lead responsibility in producing our California projections. I am also indebted to the inspiration provided by Peter Schrag and Kevin Starr, among a host of fellow California problem solvers. Thanks are due Louis Warren for encouraging and guiding this essay.
- ² Joe Mathews and Mark Paul, *California Crackup: How Reform Broke the Golden State and How We Can Fix It* (Berkeley, CA: University of California Press, 2010), 7.
- ³ Poll data from the Public Policy Institute of California, directed by Mark Baldassare, found a record low 8 percent of likely voters believing in July 2010 that the state is "going in the right direction."
- ⁴ In 2008, the great majority of voters younger than age 60 stated that they did not know much about the details of Prop 13, but they still say it is a good thing. See Mark DiCamillo, "Californians' Views of Proposition 13 Thirty Years After Its Passage," in Jack Citrin and Isaac Martin, eds., *After the Tax Revolt: California's Proposition 13 Turns 30* (Berkeley, CA: Institute of Governmental Studies and Berkeley Public Policy Press, 2009), 11–28.
- ⁵ The price surge in the late 1970s was truly unprecedented. Just from 1974 to 1979 the median sales price in California climbed 143 percent, compared to a 74 percent gain in the U.S. As a result, California house prices, which in 1974 had been 8.2 percent higher than the national average, expanded their gap to 51.1 percent. What triggered the take-off of house prices in the mid-1970s were the nationwide escalation in general price inflation (measured by CPI-U), which averaged 8.8 percent per year from 1973 through 1982, compared to 3.3 percent per year in the preceding ten years; and the demand shock caused by the sudden entry into the housing market of the massive baby boom generation, the leading edge of which crossed age 25 in 1971. Dowell Myers and John Pitkin, "Demographic Forces and Turning Points in the American City, 1950 To 2040," *Annals of the American Academy of Political and Social Sciences*, 626 (2009), 91–111.
- ⁶ The fearful situation confronting homeowners is well described in David O. Sears and Jack Citrin, *Tax Revolt: Something for Nothing in California* (Cambridge, MA: Harvard University Press, 1982), 22: "because of the two-to-three-year reassessment cycle, many people experienced this increase in one painful bite. And those yet to be reassessed waited in fear and trembling for the blow to strike them." The reassessment in Los Angeles County was especially damaging, both in magnitude and timing, as it was announced just one month before the pending vote on Prop 13. The Los Angeles assessor Alexander Pope said the tax on his own home was slated to rise from \$1,224 to \$3,130 [cited in Peter Schrag, *California: America's High Stakes Experiment* (Berkeley, CA: University of California Press, 2006), 101].
- ⁷ Joel Fox, "Proposition 13 Thirty Years after the Revolution: What Would Howard Jarvis Say?" in Citrin and Martin op. cit., 157–65, emphasis in the original.
- ⁸ Dowell Myers, "The Demographics of Proposition 13: Large Disparities between the Generations and the Unsustainable Effects of House Prices," Special Report, Population Dynamics Research Group, School of Policy, Planning, and Development, University of Southern California, 2009.
- ⁹ According to figures of the California Association of Realtors.
- ¹⁰ The 2 percent growth would be a highly respectable return on investment. Home investments are leveraged by small down payments, or equity positions, because the 2 percent appreciation accrues to the total house value. As a result, given a \$300,000 purchase price with a 20 percent down payment (\$60,000), a 2 percent increase on the total, which amounts to \$6,000, translates effectively to a 10 percent annual increase on the homeowners' equity stake. Very few investments can offer 10 percent per year on your money.
- ¹¹ California flourished so prominently because of defense spending promoted by President Ronald Reagan in a contest with the Soviet Union. Aerospace jobs boomed, especially in Southern California, and drew migrants from elsewhere in the nation who fled the rustbelt and the oilpatch, both of which were depressed in the 1980s. Subsequently, the defeat of the Soviets and the end of the Cold War led to cuts in defense spending that made the 1990s recession so much worse in California.
- ¹² John Pitkin and Dowell Myers, *Generational Projections of the California Population, by Nativity and Year of Immigrant Arrival* (Population Dynamics Research Group, Price School of Public Policy, University of Southern California, 2012).

- ¹³ These data are from the E-6 series published by the Demographic Research Unit of the California Department of Finance. Immigration was not distinguished from total migration until 1991, but for the 1990s decade it accounted for 2,140,055 of the migration, whereas interstate migration accounted for a net loss of -1,235,170. From other data we know that immigration was about 10 percent higher in the 1980s than the 1990s, and therefore in the 1980s immigration could have been 2.3 million, allowing for about 950,000 migrants from other states (the two components summing to the reported total net migration of 3,254,649).
- ¹⁴ The estimate is based on census data reporting year of US arrival for immigrants. The number residing for less than five years in the United States is compared between California and the whole of the United States.
- ¹⁵ The first professional projections of California's immigrant population were not made public until Dowell Myers and John Pitkin, *Demographic Futures for California: Projections 1970 to 2020 that Include a Growing Immigrant Population with Changing Needs and Impacts* (Population Dynamics Research Group, University of Southern California, 2001). A series of studies out of USC subsequently detailed the dramatic turnaround of the 1990s. However, the official population projections by the State of California never incorporated an immigrant dimension.
- ¹⁶ Of some irony, despite the campaign rhetoric associated with the Save Our State initiative (Prop 187), when the first professional estimates of illegal immigration in California

were produced in 1996, Hans Johnson of the Public Policy Institute of California estimated that the recession had forced the flow of illegal immigrants to approach zero by 1994, the year when Prop 187 was passed.

- ¹⁷ The 2031 date when whites lose their voting majority is projected by Dowell Myers, while the 2046 date is by Jack Citrin and Benjamin Highton. Details of these electoral projections are described in chapter 7 of Dowell Myers, *Immigrants and Boomers* (New York, NY: Russell Sage Foundation, 2007).
- ¹⁸ These estimates are taken from the E-6 series published by the Demographic Research Unit of the California Department of Finance.
- ¹⁹ The estimate is based on census data reporting year of US arrival for immigrants. The number residing for less than five years in the United States is compared between California and the whole of the United States.
- ²⁰ Dowell Myers, John Pitkin, and Ricardo Ramirez, "The New Homegrown Majority in California: Recognizing the New Reality of Growing Commitment to the Golden State" (Special Report, Population Dynamics Research Group, School of Policy, Planning, and Development, University of Southern California, 2009).
- ²¹ Chapter 6 of Myers, *Immigrants and Boomers*, op. cit.
- ²² Pitkin and Myers, *Generational Projections*, op. cit.
- ²³ David Hayes-Bautisa, Jorge Chapa, and Werner Schenk, *Burden of Support* (Stanford, CA: Stanford University Press, 1988).