

Running Head: PROPOSITION 8

ARTICLE TITLE: Money and Marriage: The Price of Proposition 8

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BYLINE: Lauren Benditt discusses the financial implications of Proposition 8, arguing that Californians might have voted in favor of same-sex marriage had they known what it would do for their budget deficit.

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ABSTRACT: Due in part to the impact of the current recession, the California state budget deficit ballooned to over \$11 billion in the '08-'09 fiscal year. This dire fiscal situation provides just one example of why the economy was at the fore of the American political consciousness during the 2008 election cycle. Though polling indicated that the majority of Americans were significantly more concerned with the state of the economy than they were with moralistic social issues, the Proposition 8 referendum campaign focused primarily on the morality of same-sex marriage while neglecting the financial implications of its passage. Given the importance of the economy at the time of the 2008 election, opponents of Proposition 8 may have been more successful had they emphasized the positive economic impact of same-sex marriage on the California economy.

ARTICLE TEXT:

INTRODUCTION

On November 4, 2008, a California ballot initiative amended the State Constitution to eliminate the right of same-sex couples to marry.ⁱ The outcome of Proposition 8 resembled that of amendments passed in 29 other states.ⁱⁱ However, this was the first time a state that had previously legalized same-sex marriage proceeded to outlaw it. Only six months earlier, the California Supreme Court had declared that limiting marriage to opposite-sex couples was unconstitutional.

The boon to the economy from same-sex marriage was enough to cause Governor Arnold Schwarzenegger to change his position and oppose the amendment during the referendum campaign.ⁱⁱⁱ Though California saw increased revenues while same-sex marriage licenses were being issued in the state, Proposition 8 campaign ads failed to emphasize the fiscal benefits of same-sex marriage, leaving voters under-informed about the initiative's economic implications.^{iv}

This article examines the California structural budget deficit and the institutional and governance structures that have impacted its growth. A discussion of the fiscal implications of

same-sex marriage follows, concluding that, despite strong moral connotations, economic arguments may have persuaded voters to reject Proposition 8 at the polls.

WHY USE AN ECONOMIC ARGUMENT?

Economic issues were more important to voters in the 2008 election than ever before. In every national opinion poll taken between September 5, 2008 and November 4, 2008, the economy proved to be more important than every other issue listed to survey participants.^v Family values and other morally sensitive issues trumped the economy less than 10 percent of the time (see Table 1).

[TABLE 1: IMPORTANCE OF THE ECONOMY AND MORALITY IN THE 2004 AND 2008 ELECTIONS]

While the economy has generally proved to be more important than family values and other moral issues in the past, the importance of the economy increased significantly in 2008, from being the most important issue for an average of 27.9 percent of survey participants in 2004 to an average 49 percent of participants in 2008. During the same period the importance of family values dropped significantly, from being the most important issue for an average of 13.9 percent of survey participants in 2004 to an average of 6.7 percent of participants in 2008 (see Table 2).^{vi}

[TABLE 2: DIFFERENCE IN MEAN IMPORTANCE BETWEEN 2004 AND 2008 ELECTION CYCLES]

With economic stability at the forefront of voters' minds, the economic argument for allowing same-sex marriage to remain legal had increased potential to be convincing. However,

advertising campaigns opposing Proposition 8 focused on same-sex marriage as a civil rights issue, leaving voters under-informed about fiscal implications for the state.^{vii}

THE STRUCTURAL BUDGET DEFICIT IN CALIFORNIA

Cyclical recessions have always posed challenges for state governments.^{viii} However, since the 2001 recession, voters have been less willing to accept tax increases or service cuts to balance their budgets. Data from the National Association of State Budget Officers suggests that budget cuts in fiscal year 2001 were only 0.4 percent of expenditures, compared to 2.68 percent during the recession of 1991 when policymakers were willing to “take drastic and innovative reform actions” including raising taxes.^{ix} Support has since waned for raising taxes to close the revenue-expenditure gap.^x

In the last decade California has experienced repeated budget shortfalls that are more connected to the state financing structure than cyclical recessions.^{xi} California relies heavily on a progressive income tax, leaving the state particularly vulnerable during economic downturns.^{xii} During the dot-com heyday, the governor and legislature increased permanent funding for schools, health care and tax relief.^{xiii} When the bubble burst, the state lost \$10 to \$12 billion in anticipated yearly revenue, leaving California with a permanent budget gap between the previously approved mandatory spending and expected revenue. Consequently, budget problems plague California as legislators put off making hard decisions about how to solve this structural deficiency.^{xiv}

The lack of public support to actively address the structural budget gap has given legislators incentive to take a less aggressive stance. As a result, the legislature faces budget problems in every budget cycle. Current revenues simply cannot sustain current funding levels (in real dollars) for all state programs.^{xv}

GOVERNANCE AND INSTITUTIONAL CONSIDERATIONS

Governance and institutional factors unique to California have also contributed significantly to the structural deficit. First, California has relatively weak rules governing its general fund balances.^{xvi} While most other states cannot carry a budget deficit over into the next fiscal year, California can do so as long as the state explicitly accounts for the deficit in the next fiscal year's budget. This system favors one-time solutions because budget gaps do not have to be handled immediately; legislators can sit back and hope revenues will exceed expenditures in the next fiscal year and that the deficit will fix itself.^{xvii} This situation is compounded when there are political divisions within the government.^{xviii} In California's most recent budget cycle, negotiations stood at an impasse for two and a half months past the end of the fiscal year because legislators could not reach a compromise that would eliminate the structural deficit.

California has an easily accessible initiative process that presents challenges of its own. In many states, initiatives must pass through the legislature before being placed on the ballot; in California, if enough signatures are collected, the initiative is placed directly on the ballot. Initiatives have contributed to the expansion of the structural budget deficit both by enacting term limits for legislators and by allowing voters to earmark revenues for specific services.^{xix} Proposition 140, which mandated term limits for legislators in 2004, may have led to a lack of experience with and expertise in budgeting.^{xx} When legislators know that they have a set limit on the time they are allowed in office, they tend to show less fiscal restraint, leading to expenditures that outpace revenues.

The initiative process gives citizens the opportunity to bypass the budget process completely, leaving the state and local governments less discretion in program expenditures.^{xxi} Though these referenda may be revenue neutral at the time of their passage, they can severely

limit discretionary spending when the budget gets tight. Research by Matsusaka found that, in reviewing all initiative measures approved by voters since 1912, 32 percent of appropriations in the 2003-04 budget were required by initiatives.^{xxii} Though Matsusaka argues that this is a relatively small percentage and that voters have shown restraint in using the initiative system, codifying spending requirements limits legislators' flexibility when significant budget deficits arise.^{xxiii}

ADDRESSING THE BUDGET DEFICIT

This general reluctance to take action that would rectify the structural deficit has followed California into the most recent economic downturn. While most other states opted to close their budget gaps by reducing expenditures, California opted to issue deficit bonds.^{xxiv}

Governor Schwarzenegger and the State Legislature have become very creative in their various reforms and financing methods.^{xxv} They have borrowed against future lottery revenues, suspended net operating loss deductions for businesses, capped the use of tax credits, and shifted earmarked revenues to be used for different purposes.^{xxvi} This borrowing has led California to carry the largest state debt burden in the country---\$4,679 per person---almost double that of the second-highest state.^{xxvii}

THE FISCAL IMPLICATIONS OF SAME-SEX MARRIAGE

While same-sex marriage is an inherently moral policy issue, it is also a fiscal one.^{xxviii} As states become increasingly strapped for cash, legislators find it necessary to either cut state budgets or find new sources of revenue.^{xxix} However, in a society increasingly opposed to taxation, it is difficult for legislators to provide the government services citizens have come to expect without sacrificing their political viability by raising taxes.

Proposition 8

Though controversial, legalizing same-sex marriage has the potential to ameliorate this fiscal dilemma: it increases government revenue through sales taxes and provides a boost to the economy through the wedding industry without requiring a vote to raise taxes or fees. While married couples receive tax breaks, generating less government revenue than if they filed individually, a large number of Californian and non-Californian same-sex couples already reap tax benefits as domestic partners, and will continue to do so in the absence of same-sex marriage. It is unlikely that the state will see significant reductions in current tax revenue streams as a result of Proposition 8.

The wedding industry is an extremely lucrative sector of the economy.^{xxx} It creates jobs, sells goods and services, and, consequently, generates a significant amount of government revenue. This is especially true in California, where sales tax is high, at 8.25%. In 2004, Forbes Magazine estimated that the extension of marriage to same-sex couples would only expand this sector further, predicting that same-sex weddings could become a billion dollar-per-year industry on their own. Sears and Lee Badgett estimate that same-sex marriages could result in \$683.6 million in additional spending on weddings and tourism and the creation of over 2,000 new jobs during the first three years of legalized same-sex marriage in California.^{xxxi} The expansion of this industry would then increase the amount of income tax and sales tax revenue (along with marriage license fee revenue) that states could bring in without requiring legislators to vote for tax increases.

The impact of these revenues could be particularly important during a fiscal crisis. Due to pent-up demand for marriage among same-sex couples, states would see a surge in the wedding industry immediately following the legalization of same-sex marriage. Though the recent actions by the Iowa State Supreme Court and the Vermont Legislature, legalizing same-sex marriage in

those states, may now deplete the demand somewhat, California remains the only state on in the western United States to have legalized same-sex marriage and most of the out-of-state couples would likely have come from neighboring states.^{xxxii} Lee Badgett and Sears and Lee Badgett also estimate that half of the same-sex couples in a state would marry within the first three years of legalized same-sex marriage, providing an added boost in a slumping economy.^{xxxiii}

Conclusions

I do not imply that California would be free of its budget deficit had Proposition 8 not passed. A structural budget deficit such as the one that plagues the California state government must be addressed with long-term fiscal solutions in mind. With an \$11.8 billion dollar deficit to fill, the \$32 million in government revenue that same-sex marriage was expected to generate in its first year barely seems like a drop in the bucket (see Appendix A).^{xxxiv} Still, the decision whether to frame the debate as a salient and hotly contested moral policy issue and a dull (for many) and complicated fiscal one leaves the economic argument at an inherent disadvantage.^{xxxv} However, when the economy is at the forefront of the nation's political consciousness, it may be useful to inform voters about the economic implications of all policies, even moralistic ones.

Where does this go? I don't think it goes anywhere anymore—feel free to get rid of it.

It will require about \$18 per person to offset this loss to the economy.¹ Though this is a fairly small dollar amount per capita, without raising taxes citizens may simply have to give up the \$63.8 million in government services that same-sex marriage would have funded.

¹ The population estimate for California as of July 1, 2007 is 36.5 million people (U.S. Census Bureau 2008).

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APPENDIX A: Fiscal Effects of Same-Sex Marriage in California

SUMMARY OF FISCAL EFFECTS IN MILLIONS, FIRST THREE YEARS

Revenue Source	Year 1	Year 2	Year 3	Total
Tax Revenue from Out-of State Couples	\$7.9	\$7.9	\$7.9	\$23.7
Tax Revenue from California Couples	\$20	\$6.7	\$4.7	\$31.4
License Fees from Out-of-State Couples	\$1.7	\$1.7	\$1.7	\$5.0
License Fees from California Couples	\$2.4	\$0.8	\$0.6	\$3.8
Total	\$32.0	\$17.1	\$14.8	\$63.8

SOURCE: B. Sears, B. and M. V Lee Badgett, *The Impact of Extending Marriage to Same-Sex Couples on the California Budget*, (Los Angeles: UCLA, 2008).

ENDNOTES

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iii J. Ewers, “An Economic Boost From Gay Marriage,” *U.S. News & World Report*, 11 June 2008, <http://www.usnews.com/articles/news/national/2008/06/11/an-economic-boost-from-gay-marriage.html>. J. Ewers, “Schwarzenegger Hints at Raising Taxes” *U.S. News & World Report*, 15 May 2008, <http://www.usnews.com/articles/news/politics/2008/05/15/schwarzenegger-hints-at-raising-taxes.html>. J. McKinley, “Demise of Same-Sex Weddings Disheartens Businesses,” *New York Times*, 7 November 2008, A20. M.S Bajko, “Breaking News: Schwarzenegger vows to veto marriage bill,” *Bay Area Reporter*, February 15, 2007. Accessed on November 16, 2008 from http://www.ebar.com/common/inc/article_print.php?article=1578&sec=news.

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v Only opinion polls that are included in the Roper Center Public Opinion Archives were used in this analysis. These polls include: CBS/New York Times, ABC/Washington Post, Gallup/USA Today, Kaiser Health, Ipsos-Public Affairs/McClatchy, FOX News/Opinion Dynamics, CNN, TIME, and LA Times/Bloomberg (Roper Center, 2008).

vi In a two-tailed t-test, both changes are significant at the $p < 0.01$ level.

vii Assessment based on the author’s content analysis of all of the television and web advertising sponsored by No on 8, retrieved from noonprop8.com.

viii B. Knight, A. Kusko and L. Rubin, “Problems and Prospects For State and Local Governments,” *State Tax Notes*, (2003): 427-439. S. M Sheffrin, “State Budget Deficit Dynamics and the California Debacle,” *Journal of Economic Perspectives* 18 no. 2 (2004): 205-226.

ix National Association of State Budget Officers, “Fiscal Survey of the States,” (Washington D.C.: National Association of State Budget Officers and National Governors Association, various issues; 1991-2008). Sheffrin, “State Budget Deficit Dynamics and the California Debacle,” 2004. J. E. Kee and J. Shannon, “Crisis and Anti-Crisis: Why Recessions Weaken Washington and Strengthen State and Local Governments,” *Proceedings of the 84th Annual Conference on Taxation of the National Tax Association*, (Columbus, OH: National Tax Association, 1992), 3-10. The reduced inclination to make budget cuts is not solely attributable to voter preferences. In their analysis Knight, Kusko and Rubin find a residual for "policy and other" factors that takes into account exogenous cost pressures from goods and services consumed or provided by state and local governments. This variable includes, for example, increases in the relative price of health care and requirements from an increasing number of unfunded federal mandates. B. Knight, A. Kusko and L. Rubin, “Problems and Prospects For State and Local Governments,” *State Tax Notes*, (2003): 427-439.

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xii D. Reed, “Today’s Choices, Tomorrow’s Changes,” (San Francisco: Public Policy Institute of California, 2008). Public Policy Institute of California, “Just the Facts: California’s Tax Burden,” (San Francisco: Public Policy Institute of California, 2008).

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xv California Budget Project, “Stretched Thin 2008: State Budget Cuts Undermine Human Services Programs,” 2008. California Budget Project, “Two Steps Back: Should California cut its way to a balanced budget?,” (Sacramento: California Budget Project, 2008). Spending is higher than anticipated due to lower than expected local property tax collections, which boosts the state’s costs for education as required by Proposition 1A population grew by 438,455 between July 2006 and July 2007; with the elderly as the fastest-growing segment of the population, there have been increasing demands on health and age-dependent programs. Also, voter approved measures such as Proposition 42, which mandated almost \$1.5 billion in transportation spending, \$500 million for after-school programs, required by Proposition 49, and \$5.5 billion in bond service that has been approved by the voters in a number of referenda. Finally, other mandated spending includes Medicaid and SSI, which consumes an increasing portion of the budget due to health care costs increasing faster than inflation and annual COLAs.

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xxvii The state with the second-highest debt burden per capita is New York at \$2,600 per person. Reed, “Today’s Choices, Tomorrow’s Changes,” 2008.

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xxxiii Lee Badgett, “Economic Benefits from Same-Sex Weddings in New Jersey,” 2006. Sears and Lee Badgett, “The Impact of Extending Marriage to Same-Sex Couples on the California Budget,” 2008.

xxxiv Sears and Lee Badgett, “The Impact of Extending Marriage to Same-Sex Couples on the California Budget,” 2008.

xxxv The Exemplification Effect explains judgments about social phenomena based on samplings of observed, concrete examples that share important characteristics and research on this effect suggests that these concrete examples are more influential in decision-making than is statistical information. H. B Brosius and A. Bathelt, “The Utility of Exemplars in Persuasive Communications,” *Communication Research* 21 no. 1 (1994): 48-78. D. Zillmann, R. Gibson, S. S. Sundar and J. W. Perkins Jr., “Effects of Exemplification in News Reports on the Perception of Social Issues,” *Journalism & Mass Communication Quarterly* 73 no. 2 (2008): 427-444.