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Bad Business, as Usual

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Sacramento's politicians broke the budget deadlock by combining billions of dollars worth of spending cuts with billions of dollars worth of tax increases and billions of dollars worth of new borrowing authority.

Chronically unable to live within their means, the governor and Legislature apparently have concluded that fiscal business as usual is the way to resolve the state's financial crisis. As Ronald Reagan might have said, "There they go again."

Whenever the U.S. Postal Service wants to justify higher postage rates, which it does about every other year nowadays, it threatens to stop delivering mail on Saturdays or to curtail counter service so that customers feel the pinch immediately. It would never think of cutting the fat in postal operations that ordinary Americans would hardly notice.

So, too, during the budget deadlock the capital's Cassandras warned that, on top of mandatory two-day-per-month furloughs, 10,000 pink slips might have been issued to state government employees (20 percent of the least senior workers in every department) unless the budget deal was approved. Rowing their own oars, officials in Los Angeles and other localities sounded alarms that cuts would cause catastrophic cutbacks in public education, social services, public transit and other highly visible governmental programs.

City and county officials had a point. The salaries and benefits of government workers account for only about 17 percent of total spending at the state level. Layoffs there would not produce substantial savings. But expenditures on public-sector employees take much larger budget shares locally. Pay represents half of the outlays in most California cities; it is 80 percent in bankrupt Vallejo. With 102,486 budgeted positions, Los Angeles County is the largest employer in the five-county region.

State of employment

And therein lies one source of the problem. Over the past eight years, 85 percent of the jobs "created" in California have been in government, taking it far beyond its core functions. Rather than threatening to fire teachers, throw thousands of children off the welfare rolls and put prisoners back on the street, priority should have been assigned to reducing spending on nonessential public services that the state's taxpayers no longer can afford. Thousands of new, well-paid "green" jobs grappling with so-called climate change apparently are not on the chopping block.

As a sop to fiscal conservatives, Sacramento promised to establish a "rainy day" fund to which deposits will be made in years that state revenues exceed a spending limit determined on the basis of the prior decade's receipts. The laudable idea is to bank revenues during periods of budget surplus so that they can be spent during years of budget shortfalls. But when was the last time California operated in the black?

If the experience in other states is any guide, rather than saving for a rainy day, there is intense pressure to raid the fund in years of surplus so as permanently to expand politically popular government programs. The State Children's Health Insurance Program, an add-on to Medicaid that is now busting budgets nationwide, is a poster child for politicians' unwillingness to leave any penny of current revenue unspent.

The most absurd aspect of the budget is that less of the shortfall will have to be borrowed – by collateralizing anticipated future lottery revenues and taking out $5.5 billion in short-term loans – if and only if California gets at least $9.2 billion in federal stimulus money, which is itself being financed by debt issue. In other words, less of the responsibility for paying interest and principal on state debt will be demanded of Californians provided that the lion's share of that burden can be shifted to taxpayers in the other 49 states. Bernard Madoff, call your office!

The fact of the matter is that government cannot promote prosperity by taxing and borrowing its way to a balanced budget. Raising the state sales tax by one cent per dollar ups the rate in Los Angeles to 9.75 percent, making the city's tax the nation's second highest, exceeded only by Chicago's 10.25 percent. Retail jobs will be destroyed and the pocketbooks of the city's lowest-income earners will be hit hardest.

Gov. Arnold Schwarzenegger should be held to the promises on which he was elected. Returning government to its core competencies, cutting taxes across the board and lightening the regulatory burden is the proven recipe for economic growth.

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