

Howard Jarvis Taxpayers Association

California Commentary

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Still Digging

By Jon Coupal

Compared to prior years, the resolution of the 2006-07 California state budget was a relatively benign affair. True, it was still late, as the constitutional deadline was June 15th. But like the line from the first *Pirates of the Caribbean* movie, this constitutional provision has always been treated more like a “guideline,” not a firm rule. (This alone tells us a lot about the fidelity to constitutional principles held by our ruling elites).

The budget was passed, happily, before the beginning of the fiscal year which started on Saturday. That has not happened since the year 2000. And there is more good news. A massive influx of new revenue is making it easy for Governor Schwarzenegger to adhere to his no-new-taxes pledge while, at the same time, expanding state government to a level that, more or less, placates the tax-and-spend crowd.

How much new revenue? About *\$7.5 Billion* more than expected. Indeed, all told, revenues are up a staggering 23% over a 3 year period. While state politicians are all smiling about this revenue, not everybody is smiling about how it is being spent.

First, let’s give credit to the Governor for *not* raising taxes. Other Republican governors have raised taxes without having a legislature dominated by the opposition party. This governor understands that raising taxes would inflict a fatal wound to California’s economic recovery.

Second, while it is true that the national economic recovery has played a large role in the flood of tax receipts to California’s coffers, the Governor can take substantial credit for setting the tone — in word and deed — that California is not as hostile to business as its reputation would warrant. Workers compensation reform and job creation are two weapons Arnold will aim squarely at Phil Angelides this fall.

Now the bad news. Despite buckets of new cash, California is still spending more money than it is taking in. It is a well-worn budget cliché that if you find yourself in a hole, the first thing you do is stop digging. Well, California continues to dig away and that probably explains why, in the budget vote, a large number of Republicans said “No.”

Budget contrarian and fiscal expert Senator Tom McClintock spells out the numbers in stark detail: Income: \$94.4 Billion; Spending: 101.3 Billion; Deficit: \$6.9 Billion.

McClintock also makes a valid point with respect to the vaunted “paying down the debt” argument. Yes, the budget does repay some debt, but much of that which is characterized as “debt” reduction is merely transferring funds to prior obligations, including transportation and education.

The sad truth for taxpayers is that it was truly a “get out of town” budget. Instead of addressing the structural deficiencies in the cur-

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rent budget process, our political leaders have put it off, yet again. And they did so for political reasons.

The Governor signed off on the massive spending increase to better position himself for his political battle against Angelides in the fall. He can rightfully claim that he has reached out to Democrats in the crafting of this budget which gave a huge infusion of cash to the prodigious education bureaucracy — a major constituency of the political left. The Republicans can claim that they have not raised taxes. The photo of the budget signing ceremony was dominated by big smiles.

Yet, California is still on the precipice. With all the new revenue, we had a rare opportunity to step back from the cliff, but our elected leaders demurred. We can only pray that our national economy doesn't backslide because, if it does, there will be the same recriminations and finger-pointing that transpired when Gray Davis was unceremoniously kicked out of office.

Yes, there are a few good things about this budget. Unfortunately, it still fails to meet the ultimate acid test: It calls for spending in *excess* of revenues.

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