

=====
From the Los Angeles Times

Dust-Up #1

California's day of reckoning: What's next for the Golden State?

Are tax increases inevitable given the failure of the budget-reform measures, or can the state shrink its way to a balanced budget? What's the future of the California GOP? UCLA's Daniel J.B. Mitchell and former Schwarzenegger financial director and U.S. representative Tom Campbell discuss fixing the state's financial mess.

Cuts, tax increases or both: What's next for California?

Daniel J.B. Mitchell says Washington could throw California a lifeline. Tom Campbell says the state should temporarily raise the gas tax.

11:31 AM PDT, May 20, 2009

Today's topic: Now that voters have rejected the budget reform propositions, are tax increases inevitable? Or could the state shrink its way to a balanced budget without making disastrous cuts?

Expect painful cuts, but Washington may help us

Point: Daniel J.B. Mitchell

Tom,

The voters have spoken. They are unhappy with Sacramento and the fact that the Legislature and governor seemingly tried to turn budgeting over to the electorate rather than fix the problem in house. Voters are annoyed, but is their reaction entirely justified?

Let's look at the budget crisis from the viewpoint of the Legislature. Over the years, voters have severely limited legislators' ability to fix things in house. Proposition 13, which passed in 1978, indirectly pushed the burden of funding education from local districts -- which had depended on property taxes -- to the state. The initiative also imposed a two-thirds requirement for increasing taxes. In 1979, voters passed Proposition 4, which imposed a spending cap that eventually triggered tax rebates under Gov. George Deukmejian. The rebates and spending cap pushed the educational establishment to put Proposition 98 on the 1988 ballot. It requires that roughly 40% of the general fund be set aside for K-14 education. In 2002, voters passed Proposition 49, which put a formula into the state budget to fund after-school activities. Proposition 140 of 1990

imposed term limits, which is why most of our legislators are novices. Bond issues and spending plans are often put on the ballot by various interest groups. Those that pass further constrain the possibility of responsible fiscal policy to come from the Legislature.

In short, piecemeal direct democracy has played a major role in our current fiasco.

As we exchange views, Tom, I will come back to these points. But the issue before us, now that the election is over, is what is to be done immediately. My sense is that the next stop is Washington, where Gov. Arnold Schwarzenegger spent election day. There will be requests for federal guarantees of state borrowing -- and there will be requests for plain vanilla bailout money.

California has leverage. The Washington bailout frenzy started in financial markets, saving particular institutions on the rationale that their failure would trigger still worse consequences. There is yet another financial market that is potentially frail: municipal bonds. Although it is unlikely that California will default on state obligations, there are many local governments and districts that depend on the state in varying degrees for support. If the state cuts back on that support, raids local treasuries or simply runs out of cash to pay the locals, their default risk rises. That specter may buy us something in Washington.

Beyond the federal government, there is only the unpleasantness of budget cuts, layoffs, furloughs and so on. There has been some talk about clever schemes to get around the two-thirds vote requirement by turning the gas tax into a user fee. But with Proposition 1A's failure, I doubt you could get a simple majority for that because 2010 is an election year in which legislators will be re-applying to voters for their jobs or for some other office. If cuts are not made explicitly, we may see a return to last winter's scenario when Controller John Chiang became the de facto state commissar, determining who got paid and who got an IOU.

Tom, maybe you should run for controller!

Daniel J.B. Mitchell is professor emeritus at UCLA's Anderson Graduate School of Management and School of Public Affairs.

Lay off teachers, or raise the gas tax for a year

Counterpoint: Tom Campbell

Dan,

We're not far apart -- except for the bit about running for controller. I especially agree with you about the degree to which ballot-box budgeting has tied the hands of California legislators. More than 60% of our budget is already committed, every year, before negotiations even begin. I do part company with you about getting help from Washington.

As you know, I was congressman for five terms. California is not universally liked in Washington. If other states can live with the restrictions required for federal stimulus money, California will be expected to as well. The fact that House Speaker Nancy Pelosi is from

California might actually cut against us, as she'll be wary of being perceived as wanting a special exception that other states don't have.

Here's the truth: We're now talking about actual cuts, not just reductions in the rate of growth of spending. The initiatives' failure means \$2.4 billion less for schools if nothing else happens. That's because the Proposition 98 guarantee gives 40% of state revenue to schools, and the defeat of the initiatives means \$6 billion less in revenue. I don't bring this fact up as a scare tactic, but it is scary.

Our schools have many problems, and voters are disappointed in their performance. Despite this, laying off teachers is on the table as an immediate response to the budget crisis; long-term fixes are not. Our grade-school children should not be put in larger classes with less personal attention, and cutting funding to community colleges when we're in a recession and Californians looking for jobs need retraining is terrible policy. That's why I'm supporting a one-year increase in the state gas tax. The increase would bring the price of gas to where it was last November and raise the \$6 billion needed to avoid the cuts in schools.

State spending has been too high for too long, but we're now down to 1999 levels in real, per-capita terms. We could get by on \$15 billion in cuts and \$6 billion in gas tax revenue this year. I think this is still an achievable compromise if legislators do what the voters on Tuesday told them to do: Work together and abandon the slogans and partisan posturing for the good of all of us.

Tom Campbell is a former U.S. representative, state senator, state finance director and dean of UC Berkeley's business school. He has formed an exploratory committee to run for governor.

=====
From the Los Angeles Times

Dust-Up #2

State GOP's future: resurgence or extinction?

Tom Campbell says Republicans can win by shedding their reputation as the 'party of no.' Daniel J.B. Mitchell warns that if the GOP continues to punish its own centrists, California will become a one-party state.

12:57 PM PDT, May 21, 2009

Today's topic: What do Tuesday's results mean for the California GOP? Does the voters' rejection of the budget deal empower Republicans to be even less compromising, or does it encourage Democrats in Sacramento to marginalize and ignore the GOP by any means necessary?

How Republicans can be an effective check on Democrats

Point: Tom Campbell

Voters on Tuesday said they want Sacramento to do its work. They don't want one side just to blame the other. With the Legislature in Democratic control, the Republican governor and legislators are in a position to check what would happen under single-party rule. If Republicans fulfill that role, the voters will follow them.

Sacramento calls a "cut" anything less than the expected increase over the previous year because of inflation and population growth. Republicans have long objected to this. We should insist on "household" accounting, in which a cut is when we spend less this year than last, just like at home.

However, the national recession has plunged California into real cut territory. Republicans ought to protect essential programs and work toward a compromise that includes more cuts than the Democrats would make by themselves. They should also concede to some measures that boost revenue if necessary to end a budget stalemate. Past governors -- Ronald Reagan (1971), George Deukmejian (1983) and Pete Wilson (1991) -- did just that, with support from Republican legislators.

Californians elected each of those Republican governors because they showed they could govern.

In your Wednesday post, Dan, you mentioned a possible scheme the Democratic legislative leadership actually floated last December -- trying to pass a tax increase without a two-thirds vote, and I think they'll try it again. Last year, they started with a proposal to increase income taxes on the wealthy (never mind that about 50% of California's income tax is already paid by only 3% of Californians). They then said the gasoline tax should be cut an equal amount and claimed that the legislation was "revenue neutral" and therefore needed only a simple majority in the Legislature to pass instead of the two-thirds supermajority. Then they proposed something new: a freeway and road "user fee" equal to the amount by which the gas tax was reduced. When they try this scheme again, they'll claim like they did last time that the tax increase needs only a majority vote to pass because it's not a tax.

Republicans would be right to oppose this gimmick. Still, the popular will to put up with a such a scheme -- and possibly even the California Supreme Court's eventual ruling on its constitutionality -- may depend on how reasonable the alternative is. If the Democratic leadership were to get away with this, it will be because the Republicans have come across as entirely obstructionist. Democrats will claim they had no choice but to overcome the intransigence of the Republican legislators.

If Republicans are portrayed as the "party of no," we might see the end of our state's two-thirds rule on tax increases. Most Californians, however, see the two-thirds rule as the last line of defense against a perpetual growth in taxation that has left us today with the highest marginal personal income tax and the highest sales tax rates in the country. (Proposition 13 doesn't offset this. Yes, property tax rates are lower here than in other states, but property values are higher in California, so our median property taxes are the 10th-highest in the nation.)

Here, then, are the two routes for Republicans. They respond pragmatically to a compromise budget that includes some temporary tax increases (to me, a gas tax boost would be better than an income or sales tax increase), or they become the "party of no." Democrats might act responsibly and meet Republicans halfway by agreeing to more cuts and fewer tax increases than if they were the monopoly party, or they might overplay their hand by attempting an unconstitutional gimmick.

Republicans, however, must make the first move. If they put forth a tone of responsibility, maturity and competence, Democrats will know the gimmick can't work and will likely respond maturely themselves -- for the benefit of us all.

Tom Campbell is a former U.S. representative, state senator, state finance director and dean of UC Berkeley's business school. He has formed an exploratory committee to run for governor.

Cannibal conservatives

Counterpoint: Daniel J.B. Mitchell

Tom,

I think we agree on a starting point. Republicans have a registration disadvantage. The latest data from the secretary of state indicate that about 45% of registered voters are Democrats and 31% are Republicans. Four percent belong to third parties, leaving one-fifth of California voters as independents -- and it is the independents who call the tune. Back in 1994, when Republican Pete Wilson won reelection as governor, he got 52% of the independent vote, according to the Field Poll. Four years later when Gray Davis won, he got 53% of those voters. As the independents go, so goes the election. Despite the Democratic tilt in California, centrist Republicans can win, as you say, by focusing on the independents and emphasizing competence, pragmatism and ability.

But there is a problem. Recently, the Sacramento Bee published a list of the state's 10 most Democratic and most Republican cities (greater than 5,000 in population). You would not be surprised by the list. The Democratic cities are concentrated in the San Francisco Bay Area and in parts of Southern California with large minority populations. The top Republican cities are mainly in Orange County, Riverside and wealthy areas of Southern California.

However, Republican voters typically account for 5% to 10% of voters in the extremely Democratic cities. But Democrats account for 20% to 25% of voters in the extremely Republican cities. As long as we have partisan primaries, Democrats and Republicans can stick to appealing only to their party base. Yet these numbers suggest that even in heavily Republican districts, a GOP who sticks to his or her base is ignoring a lot of voters from the other side. Democrats who stick to their base in heavily Democratic districts are ignoring a smaller group.

As part of the budget deal last February, Republican state Sen. Abel Maldonado of Santa Maria got the Legislature to put on the 2010 ballot a proposition to create nonpartisan primaries. If voters approve that change, parties that eschew centrist, pragmatic candidates are at risk in almost all districts, but the risk is greater for Republicans.

On the flip side, nonpartisan primaries open the door to centrist Republicans. Consider Republican Richard Riordan, who won two terms through the nonpartisan route as mayor of heavily Democratic Los Angeles. But Riordan failed to win his bid for the Republican nomination for governor in 2002, running in a partisan primary. For that matter, the 2003 recall was effectively a nonpartisan primary, and it put centrist Republican Arnold Schwarzenegger in office. It is not clear that Schwarzenegger, despite his celebrity status, could have won in a conventional Republican primary, given his views on social issues.

Right now, however, the GOP seems bent on punishing Maldonado, Schwarzenegger and any elected Republican who will deal with Democrats. Precisely because of such cooperation, the Republican leadership in the state Senate was replaced with hard-liners during the budget negotiations. If that behavior continues, Tom, California will become a one-party state, and that party won't be the GOP.

Daniel J.B. Mitchell is professor emeritus at UCLA's Anderson Graduate School of Management and School of Public Affairs.

=====

From the Los Angeles Times

Dust-Up #3

Stopping California's next meltdown

Daniel J.B. Mitchell says the governor should be vested with real authority to balance the state's books. Tom Campbell lays out proposals to make revenue decreases more predictable.

May 22, 2009

Today's topic: The failure of the propositions didn't eliminate the need for budget reform. What are the right steps for California to take to prevent the next fiscal meltdown? Daniel J.B. Mitchell and Tom Campbell finish their discussion on the state budget crisis.

Give the governor real budgeting power

Point: Daniel J.B. Mitchell

Tom,

Our question today asks us to consider the *next* budget crisis, not the current one. There are calls in the wake of the present crisis for another round of initiative reforms or even a constitutional convention.

I have to admit a bias. I was raised in New York City, and when I looked across the East River, I saw the Brooklyn Bridge. The Brooklyn Bridge was completed in the 1880s, hardly a time of good government in the city or state of New York. "Boss" Tweed of Tammany Hall went to

prison in part because of corruption related to the bridge, but at least they did get it built. In contrast, California, with all its do-good reforms and direct democracy, can't accomplish the basics. So I am skeptical that the proposals currently on the table would avert the next budget crisis.

What I do know about California is that voters look to the governor when they want a problem fixed. We elect many state officials in California, but most voters don't know the difference between the controller and the treasurer. Voters have effectively neutered the Legislature through a series of initiatives going back to the late 1970s. In contrast, they see the governor as California's CEO.

Thus, when we had the budget crisis under Gov. Gray Davis, voters replaced him with Arnold Schwarzenegger, who promised to fix the problems. Through their actions (though they may not say so), voters seem to want a weak Legislature and a strong governor. The problem is that an ineffective Legislature is a severe handicap for a governor who wants to exercise leadership. In the end, there is no budget without the Legislature.

So here is my proposed reform to avert the next budget crisis. Henceforth, if the Legislature has not enacted a budget by July 1 of any fiscal year, the governor's May revise is the budget until some other plan is enacted. My reform would end the situation in which the state has no budget in place and bills can't be paid, even when there is money to do so. More important, if you look at recent governors, all were centrists who believed in fiscal prudence, whatever their spending priorities were. If Davis had operated under my reform, he wouldn't have allowed the tax windfall from the dot-com era to be spent. He would not have allowed the Legislature to spend so much during the recession of the early 2000s, causing the state to run out of cash.

If the reform had been in place under Schwarzenegger, we would have built up a rainy-day fund without any need to pass the defeated Proposition 1A. And we would have adjusted to reduced revenues as other states have. Voters expect the governor to manage the budget. The next governor needs the tools to do so if we are to avert future budget crises. And what if voters don't like the next governor's budgets? There is always the option to recall or to not reelect. What do you think, Tom?

Daniel J.B. Mitchell is professor emeritus at UCLA's Anderson Graduate School of Management and School of Public Affairs.

Making the ups and downs more predictable

Counterpoint: Tom Campbell

Dan,

I have enjoyed our exchanges and appreciate your knowledge and insight, but I can't agree with the idea you present today. The California budget should not be decided by one person. In the May revise, the governor could propose a tax increase; as I understand your suggestion, if the Legislature stalemates, we could actually increase taxes on Californians on the say-so of one person. And even without an increase, if revenue is rising naturally, a liberal governor could

spend it all and lock that spending increase into state spending formulas for years to come.

I have an alternative. When we don't have a budget on time and revenue is rising from the previous year, we should extend the previous year's budget. After all, the previous year's budget is the most recent expression of the will of the people's representatives. This approach would provide a useful check against what has happened so often in our state: Temporary revenue increases get locked into permanent formulas for increased spending well into the future. When revenue is falling and the Legislature fails to pass a budget on time, we ought to use the previous year's budget, with all categories of spending cut across the board until the Legislature passes a new, balanced budget. Of course, some categories can't be cut because of the U.S. Constitution (payments on state bonds, for instance), but these categories are few. If we have a rainy-day fund, funds could be used to augment the spending levels up to the amount of the previous year's totals. I drafted this proposal in 2005 for the Legislature's consideration when I was the state's finance director, but the Democratic leadership did not even allow it to come to a vote.

We need to go even further. In any given year, we should not spend more than we did the previous year, adjusted for inflation and population growth. We used to have this rule in California, from 1979 to 1990. It was adopted by initiative with the support of then-Democratic Assembly Speaker Leo McCarthy and Assembly Republican leader Carol Hallett. There would be exceptions only for projects that had their own funding source (such as bonds paid for by toll-road fees) and natural disasters.

We need to build up a strong rainy-day fund as well. Over the course of 10 years, we should gradually save enough from every year's budget so that, at the end of that period, we could actually budget based on the amount of taxes received in the previous year. Put the taxes Californians pay to the state in an interest-bearing account for one year; don't spend the money until next year. That way, everyone in the Legislature would know exactly how much money we had to spend. Democrats and Republicans could disagree in good faith about where to spend, but not on how much money is available. And were revenue to fall, as it is now, we'd see it a year in advance and begin to take the steps needed for the next year.

All these changes and the one you suggested, Dan, would require a constitutional amendment. At least while a fiscally responsible governor is in office, however, we have another approach that doesn't require a constitutional amendment: The governor can use the line-item veto to cut spending down to achieve a real balanced budget.

Tom Campbell is a former U.S. representative, state senator, state finance director and dean of UC Berkeley's business school. He has formed an exploratory committee to run for governor.

=====