Editorial: Business leaders need to help fix state budget

Published 12:00 am PDT Wednesday, April 30, 2008

California has faced budget crises before, but this is turning out to be one for the ages.

With tax revenues continuing to fall – and the tailspin in the housing market far from over – the state faces at least a $10 billion budget deficit for the coming fiscal year. Gov. Arnold Schwarzenegger says it could be as high as $20 billion, even after February action by lawmakers.

No one knows the precise figure. The governor won't release his revised projections until May 14, and even that forecast could be quickly overtaken by the continuing downturn.

All we know is the news is bleak and probably will get bleaker – and not just because the budget gap is so large. There's also a leadership gap. It must be confronted.

In the Senate and Assembly, termed-out leaders Don Perata and Fabian Núñez are in a transitional void. They still are engaged and have control of their caucuses, but they no longer have the clout they once commanded. Incoming Assembly Speaker Karen Bass will officially take over in May, but it remains to be seen what kind of relationship she can build with Schwarzenegger.

For the governor's part, he seems to be numerically daunted by the size of the shortfall – is it $10 billion or $20 billion? – and is floating trial balloons. A few weeks ago he suggested he's open to changing the state's tax structure to include levies on services. But the governor and other Republicans say that such a change must be "revenue neutral," which doesn't provide a solution for the current budget crisis.

Can we get out of this mess? Yes, but it will take concerted pressure to force politically unpopular decisions out of the Legislature, and this pressure will need to include the state's business leaders.

More than any other interest group, the titans who run companies in Silicon Valley and Southern California have the ability to bridge the partisan divide in Sacramento and demand short-term and long-term solutions to California's fiscal meltdown.

They also have a huge stake in the outcome. Growing businesses need engineers, trained workers and a university system that serves as an incubator for research and
development. All that is threatened if lawmakers slash funding for schools, universities and community colleges to balance the budget.

To date, the business lobby has focused largely on stopping proposals they don't like – such as Legislative Analyst Liz Hill's proposal to reduce the research tax credit. What's missing is a unified voice for reform.

Writing in these pages a week ago, Loren Kaye, president of the California Foundation for Commerce and Education, laid out a reasonable road map for business interests to pursue.

"Any budget solution – but especially one purchased with new taxes – must unshackle elected officials to set priorities," Kaye wrote. "Repeal automatic inflation adjustments, cap guaranteed benefit programs, reopen union contracts that automatically boost wages (including in school districts) and at long last control future public employee health care and retirement obligations."

Sadly, some business leaders reacted tepidly to Kaye's sensible prescription, because he dared use the T-word – taxes. As long as orthodoxy trumps reality in this state, we will never dig ourselves out of this hole.