Dan Walters: Budget gap looming over 2008

By Dan Walters - dwalters@sacbee.com
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This was supposed to be the "year of education" in the Capitol, so declared by Gov. Arnold Schwarzenegger after an immense package of critical studies on public schools by a Stanford University-directed team was unveiled early last year.

Never mind. The governor's education declaration assumed that last year would be a successful "year of health care," but by year's end he had managed only to move a half-finished plan through just one house of the Legislature.

So this will be another "year of health care," right? Maybe. The governor and Democratic legislators hope to get it enacted quickly so that they can then push a November ballot measure that would provide all-important financing.

Most of all, however, 2008 will be, whether the Capitol politicians like it or not, the "year of the budget" because years of deficits are finally becoming an inescapable crisis, thanks to a cooling economy. They didn't balance the budget when the state was enjoying huge increases in revenues, and now they face an 18-month deficit of at least $14 billion as revenues flatten.

The central question is whether Schwarzenegger and lawmakers will try to skate through another year or finally confront the chronic gap between income and outgo, created by multiple decisions of voters and politicians to lock in certain levels of spending while eroding the revenue base through tax cuts.

Logically, Schwarzenegger should set aside everything else and devote himself to closing the structural deficit once and for all, no matter how much political angst that might generate.
He knows he should do it. "We are anywhere between $10 (billion) and $14 billion dollars in the hole when it comes to the budget," Schwarzenegger said during a late December news conference. "But this is a common thing for California, that we're going on this roller-coaster ride. What we have to do is fix the budget system. The system itself needs to be fixed, and I think this is a good year, this coming year, to fix it."

He has, however, uttered such words before, when he was running for the governorship in 2003 and promising to end "crazy deficit spending" and two years later when he was trying and failing to persuade voters to adopt some budgetary reforms. But if he's serious, what kind of fix would he propose?

Initially, the governor and his minions are claiming that they'll attack the deficit with spending cuts. "Some of these cuts will be tough," his budget director, Mike Genest, said in a year-end radio broadcast on Schwarzenegger's behalf. "But we have no choice for the next budget. We have to make those tough choices and balance the books."

The question is whether that stance is for real, or merely the precursor to raising taxes, as his last three Republican predecessors did when confronted with budget crises.

Although Schwarzenegger has long resisted new taxes, he wants a boost in cigarette taxes to finance his health care scheme and has endorsed tax-like fees on shipping containers to finance environmental cleanups.

Schwarzenegger probably won't propose new taxes, although he may seek some kind of revenue-raising tax plan in his 2008-09 budget proposal, such as leasing the state lottery, but in the end, he may well emulate his GOP predecessors.

There's little or no chance that the Legislature could muster two-thirds votes for straight tax increases, since Republicans remain adamantly opposed. So it could mean either craftily writing bills to raise taxes while skirting the two-thirds barrier – difficult but not impossible – or asking voters for new taxes, as he may be doing with his health plan.
Whatever it takes, it is, indeed, high time for Schwarzenegger to make good on his 2003 campaign promise to end "crazy deficit spending." If not now, when?