

## **Dan Walters: Politicians finally craft a state budget, but it's already collapsing**

**By Dan Walters -- Bee Columnist**

*Published 2:15 a.m. PDT Monday, September 2, 2002*

That giant shwooshing sound you heard early Sunday morning was the collective sigh of relief among California politicians, and perhaps a few real Californians, as the Legislature finally passed a two-month-late state budget, ending a record-long stalemate.

That giant crackling sound you heard a nanosecond later was that same, nearly \$100 billion budget beginning to collapse on its rotten foundation, weighed down by its unsustainable gimmicks.

Many lies were told about the budget during the self-congratulatory speeches in the Assembly, about how it will do various wonderful things, or at least avoid various terrible things. Republicans crowed that by holding out, they were able to head off billions of dollars in new taxes, while Democrats were pleased that essential health, welfare and education programs were protected.

One morsel of truth, however, crept into the verbiage -- something to the effect that the budget that emerged from intense backroom negotiations was probably the best that the Capitol's politicians could muster. And that unto itself is a sad commentary.

California found itself in a deep budgetary hole, with spending outstripping revenues by an official \$23.6 billion, but really much more, because political expediency overwhelmed common sense. When the high-tech industry pumped tens of billions of extra dollars into the state treasury in the late 1990s -- income taxes on capital gains and stock options, for the most part -- economists and a few responsible politicians warned about making long-term commitments based on a windfall that could vanish overnight.

Gov. Gray Davis and legislators paid lip service to the warnings, and then ignored them. And when the dot-com bubble burst and revenues dropped back to more ordinary levels, they found themselves with an immense gap between income and outgo. They've dreamed up all sorts of rationalizations to absolve themselves, but the simple fact is that they ignored the warnings in their rush to deliver goodies to their constituents.

As the fiscal crisis emerged this year, Davis shunned direct engagement, hoping that his re-election would thus not be tarnished, and proposed a series of quick-fixes, mostly massive borrowing, that did nothing about the underlying problem. His what-me-worry attitude, however, was undermined by reports from the Legislature's budget office predicting massive deficits -- at least \$50 billion over the next half-decade -- and memos from Davis' own Department of Finance, warning state agencies about bigger cuts to come.

Davis just wanted a budget, any budget, that would hold together until Election Day, and had little interest in facing the underlying dichotomy. And, with few exceptions, neither did lawmakers. Republicans didn't want to retreat on the tax cuts that had been enacted during the binge, nor did Democrats want to reduce their new programs that had driven the state's budget up by nearly 40 percent in three years.

The budget that emerged from Capitol negotiations satisfied both parties' core ideological interests and is a personal triumph for freshman Republican Assemblyman Keith Richman, who developed its chief provisions and provided one of the four GOP votes for it. But it takes only baby steps toward the longer-term fiscal imbalance and is marked by its even greater dependence on borrowed money.

The centerpiece of the budget is a \$2.4 billion "revenue enhancement" package that avoids direct new taxes. But half of the supposed revenue comes from suspending, for two years, the partial deductibility of businesses' operating losses on income taxes and then reinstating the deduction at a much-higher level thereafter. It is, in effect, a multibillion-dollar loan from California businesses to the state, which will have to be repaid at a very high interest rate, along with those other billions of dollars in loans.

The day of fiscal reckoning has been postponed again, but it will come. Authorities are warning that while this budget papers over the \$23.6 billion official gap, revenues are already running so much lower than official estimates that the budget may be \$3 billion or more deeper in the hole. What happened Sunday was not the end, but merely the beginning, and not a very good one.

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#### **About the Writer**

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