

Dan Walters: Budget crisis as bad as ever, but stalemate on taxes remains

By Dan Walters -- Bee Columnist

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The Legislature's budget office confirmed anew this week what everyone in the Capitol had already assumed - the chronic state budget deficit is as worrisome as ever - and warned that it will worsen if lawmakers and Gov. Arnold Schwarzenegger don't deal with it in 2005.

Legislative Analyst Elizabeth Hill noted that the state has already accumulated \$26 billion in debt to cover deficits over the last four budgets (not counting additional billions in off-the-books debt), and even though revenues have been growing nicely, faces another \$7 billion gap between income and outgo for the 2005-06 budget and close to a \$10 billion hole in the following fiscal year. The deficit will grow because short-term fixes enacted to cover past deficits will expire in 2006.

Lest anyone forget, this chronic problem was caused not by any unforeseeable cataclysm but by some very irresponsible political decisions in 2000, when revenues surged suddenly due to gyrations in the high-tech sector of the economy, and in the years that followed.

California received a one-time windfall of roughly \$12 billion, but then-Gov. Gray Davis and legislators of both parties foolishly spent most of it on permanent spending increases and tax cuts. When revenues returned to normal growth levels the following year, the state was left with a "structural deficit" of about \$8 billion a year, but Davis and lawmakers papered it over with a series of short-term loans, thus worsening the crisis and leading to last year's recall of Davis.

Schwarzenegger was elected on his promise to clean up California's fiscal mess but so far has made almost no progress. He borrowed even more money to refinance short-term loans and finance the current year's budget, reinstated a \$4 billion per year reduction in taxes on cars that Davis had rescinded, and restored \$3 billion in spending that he had originally reduced in his 2004-05 budget. The \$7 billion in car tax cuts and spending increases are virtually identical to the deficit that Hill projects for next year.

There's no excuse for it - and there's no excuse for Californians to allow their elected officeholders, no matter how charismatic they may be, to continue this Enron-like shell game. That said, politics of the budget are very contentious. The Democrats who control the Legislature believe that if they continue to resist deep spending cuts, they'll force Schwarzenegger and the Republicans to accept new taxes. Republicans believe that if they hold out against taxes, they'll force the Democrats to cut spending.

Schwarzenegger shows no signs of backing away from his no-new-tax pledge. "The people of California don't like to be taxed," he said the day after this month's election. "I would always vote against a tax increase."

At the same time, however, he failed to dent the Democrats' ranks in the Legislature, which will make them even less likely to sanction the big health and social-services spending reductions that it would take to balance income and outgo without new taxes.

The prevailing issue, therefore, remains taxes. Schwarzenegger would appear to be on solid political ground on the tax issue. One state tax measure was approved this month, but it limited new levies to a handful of super-affluent taxpayers to finance mental health services. The vast majority of those who voted for the measure will not pay the new taxes - and they rejected a second measure to raise taxes on their own telephone service to underwrite emergency medical care.

Voters seemingly voiced the same skepticism about paying new taxes in dozens of local tax elections this month. Fewer than half of them were approved, and those suffering the worst were broad levies to support general services. Taxes for specific projects and programs, such as those to build local roads, fared much better.

Tellingly, voters in such liberal-leaning enclaves as San Francisco, Berkeley and Los Angeles were no friendlier to new taxes than those in conservative suburbs. A general-purpose sales tax hike in San Francisco, championed by Mayor Gavin Newsom, was rejected overwhelmingly, while a sales tax to support law enforcement failed in Los Angeles County.

The crisis continues, therefore, and it's not improving with age.

About the writer:

- Reach Dan Walters at (916) 321-1195 or dwalters@sacbee.com. Back columns: www.sacbee.com/walters.
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