

The Public Purpose

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The California Budget: Terminating the Power of Special Interests

California's fiscal crisis survived the recall election and presents Governor Arnold Schwarzenegger with a daunting challenge. The political establishment is confidently predicting that tax increases will become a part of his program. But the governor can prove them wrong by standing up to the special interests that have long controlled Sacramento.

For years, both state and local governments in California have spent as if there were no tomorrow, a trend that continued under Gray Davis. Lt. Governor Cruz Bustamante admitted that "we spent too much" and offered to solve the problem by taking even more money from the people. Voters rejected that approach, and the recall changes everything.

Governor Schwarzenegger may just have the courage to treat Sacramento's hemophilia. Three strategies will help mend the budget crisis, beginning with the inflated state payroll.

During the Davis Administration average state employee pay rose more than \$9,000. The average state employee is paid at least 25 percent more than the average private-sector employee. Those employees in the private sector shoulder the costs of a wasteful workers compensation system.

In his dispassionate misgoverning, Governor Davis oversaw a state employee count that rose 40 percent faster than the state's population. This increase came despite a proclaimed hiring freeze. The modest step of reducing the total state payroll expense (wages and benefits) to the level it was when Governor Davis took office, adjusted for inflation and population, would save at least \$3 billion. Much more could be saved by a serious program to subject state services to competition.

Outsourcing of government services has been shown to save from 15 to 40 percent, depending upon the service. State officials would spend more of their time monitoring the performance of contractors and less dealing with difficult personnel issues. If the competitive market can do the same job for less, a government that is the servant of the people should not stand in the way. But outsourcing will require the governor to stand up to powerful public-employee unions.

The governor should also fully implement Proposition 13. Before some readers were born (1978), California voters sent a strong message to limit taxes and bring local government spending under control. It all might have worked, had not Governor Jerry Brown, and a complicit legislature thwarted the will of the

voters by sending more money to local governments. The state failed to make the tough cuts, despite the bureaucratic squeals to the contrary.

It was not long before local budgets recovered completely, with only superficial changes in how operations were conducted. Today, California sends more than 40 percent of its revenues to local governments, a third more than the average of other states.

If he is to keep his promise to clean house, Governor Schwarzenegger must enforce fiscal discipline not only in Sacramento but also in Los Angeles, San Mateo, Fresno, and the rest of California's cities, counties, and districts. The difference between the national average and California's contribution to local governments is the equivalent of approximately \$20 billion annually. Some reduction in this excessive state aid to local government has to be part of the no-tax-increase package to balance the California budget.

That remains a difficult task but despite what the pundits and establishment politicians claim, there are alternatives to tax increases and business as usual. For too long, special interests have held sway in Sacramento. Candidate Schwarzenegger said he would stand up to them. Californians made him governor and will now be watching his actions.

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