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John G. Matsusaka: Prop. 1A won't cure state's overspending

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California desperately needs a spending limit and a rainy-day fund for emergencies, but Proposition 1A won't do the job. It won't contain spending, and its rainy-day fund is full of leaks.

The need to control state spending is now plain to any impartial observer. Revenue from all sources grew from \$100 billion to \$194 billion over the 10 years preceding the fiscal crisis that hit last year, almost twice as fast as inflation and population growth.

Yet despite this gusher of new money, the state emerged in mid-2008 with a prospective deficit in the vicinity of \$15 billion. As the economy slid into recession, the prospective deficit grew to \$42 billion by Jan. 1 of this year, according to the Department of Finance.

This did not have to happen. Even without the recent tax increases, anticipated revenue from all sources this year is about \$185 billion. If spending for the last 10 years (starting in 1998-99) had been capped at inflation plus population growth, this year's budget would be \$168 billion, a surplus of \$17 billion. And if revenue in excess of the limit had been deposited in a rainy-day fund each of the last 10 years, the fund would be worth about \$237 billion, not counting interest.

This is \$237 billion that could have been spent on extraordinary needs during an economic crisis, from increased unemployment benefits to stimulus spending. The state could even be reducing taxes to ease the burden in tough times.

A few pundits still continue to blame the state's problems on a shortage of revenue, Proposition 13 or the state's two-thirds rule for budget approval, but the problem is much simpler: The Legislature and governor can't stop themselves from spending.

The voters thought they had solved this problem in 1979 when 74 percent voted in favor of Proposition 4, the so-called Gann limit that restricted state spending to the growth in population and inflation. The Gann limit kept expenditure under control in the 1980s, helped avoid the cycle of fiscal chaos that has plagued the state over the last 10 years, and even forced the government to rebate excess revenue to taxpayers in 1987.

Unfortunately, voters gutted the Gann limit in 1990 with Proposition 111, which tied the spending limit to growth in income rather than population and inflation. The new spending limit formula in Proposition 111 allowed spending to grow rapidly in years when Californians had unusually high earnings, such as during the dot-com boom, precisely the years when excess revenue should have been stashed away rather than spent.

Proposition 111 was placed on the ballot by the Legislature and sold to the voters as a way to relieve traffic congestion; most voters probably did not realize that they were killing the Gann limit when they approved it.

Proposition 1A is a complicated measure with so many moving parts that the nonpartisan legislative analyst has concluded that its fiscal effects can't be predicted. It is clear that 1A does not limit the growth of spending.

While it restricts the use of unusual revenue windfalls, it does not prevent the Legislature from increasing or creating new taxes to fund additional spending.

And the restrictions are weak: Once the rainy-day fund is topped off, the Legislature is free to spend the rest of the money in a variety of ways, including on infrastructure and benefits for government workers. Proposition 1A proposes to increase the rainy-day fund from \$8 billion to about \$12 billion, which is a step in the right direction, but \$4 billion feels like a drop in the bucket in the context of a \$185 billion budget.

A recent study by political scientists Thad Kousser, Mathew McCubbins and Ellen Moule at the University of California, San Diego, and the University of Southern California found that in 19 of 20 states with tax and expenditure limits, the limits had no detectable effect over the last 30 years. They conclude that spending limits seldom work because state officials are able to circumvent them.

The current budget crisis will end someday, probably when the economy rebounds, but as long as the Legislature is unable to control its spending, another crisis will be just around the corner. California needs a spending limit to break the cycle, but it has to be one that works. Experience and common sense tell us that an effective limit must be simple and clear, with realistic limits, and exceptions allowed only with approval of the voters.

Proposition 1A is the right idea but done in the wrong way.

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