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California Must Cut Spending and Restructure

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Dealing with California's budget problem requires a two-stage plan. One is to face the immediate crisis of the budget shortfall before the state runs out of cash. The second is to begin restructuring the way government operates that will pay off for California citizens in coming years.

Given the result of the Special Election, the first order of business is to cut spending. The governor's budget proposal carries over \$15 billion dollars in cuts. Many of those cuts will have to be applied. While some programs designated for the chopping block such as CalWorks

may be saved in part to handle the immediate crisis, few programs will be left unscathed.

State revenue stands approximately equivalent to the level of the 1999 Gray Davis budget if it were adjusted for population and inflation over the last decade. Scaling back spending to those budget levels is appropriate in this time of crisis, although money can be redirected in various budget categories to limit damage from cuts in certain areas. For example, if education were required to adopt a "Classroom First Budgeting" proposal, the education cuts will fall more heavily on bureaucratic practices or support staff and less on students and teachers.

Some previously offered methods to achieve savings, which would have been unthinkable a few years ago, will likely find traction. Releasing some nonviolent prisoners near the end of their terms, or elderly prisoners, will reduce

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some of the costs in a prison system that have increased dramatically. Seeking private operators for prisons as other states have done will also reduce costs.

I would support former Assemblyman Keith Richman's plan for a one-year suspension in contributions from both the government and state workers to the state retirement funds. This means the workers would get a larger paycheck this year since the retirement contribution would not be taken from their check and the state will have an additional four-and-a-half billion dollars to spend. It also means that workers would have to put in an extra year to reach certain retirement markers, for instance, 31 years of work to get 30 years of retirement credit.

The state workers could use the increased money in their checks to offset other cuts they will be forced to take in their incomes. Just like private-sector workers who make the choice between pay cuts and/or furloughs to keep fellow workers on the job, state workers will have to follow the same path.

One long-range fix to consider among many, many reforms that need be applied is that of a two-tiered retirement system for the public sector. The current public-sector pension plan is out of proportion with the retirement plans of private-sector workers. Taxpayers who struggle to meet their own retirement needs will have little sympathy in helping fund a public-sector retiree in luxurious appointments, while the taxpayers just get by. Furthermore,

spiraling government contributions to retirement kitties take away money needed to fund government programs.

On the tax side of the ledger are the billions of dollars in tax increases that were passed in the February budget deal. Despite the sales taxes already kicking in, tax revenue continues to fall below expectations. If the economy settles, the temporary tax increases over the next two years will fill some of the budget hole while giving the legislature time to implement programs to reap the financial benefits of economic growth.

California's avenue to greater government revenue is through economic growth in the private sector. Less difficult regulations, a business friendly environment, and a welcome mat for entrepreneurs have always grown government coffers more steadily and faster than tax increases, according to California tax historian Dave Doerr.

Voters in the Special Election made it clear that new taxes are not acceptable. Efforts to raise targeted taxes on business products or on high-end income groups will only delay a recovery.

More revenue will be produced for government by a tax system that encourages economic growth. One item that will both reduce the volatility of the current tax system and spur economic activity is the creation of a flat, or at least, a flatter income tax. We will see if the Commission

on the 21st Century Economy will suggest a progrowth tax system when it reports in July.