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My View: Budget crisis is built on spending gone wild

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Californians are right to be frustrated: despite collecting 40 percent more revenue now than four years ago, the state faces a cash shortfall of $15 billion on a total budget of $145 billion, and legislative leaders are calling for higher taxes.

Had the Legislature managed the new money prudently, there would be more than enough to invest in important programs like education and roads without raising taxes.

Even more frustrating, this is the state's second budget crisis in less than 10 years and it's a carbon copy of the last one. During the 1997-2001 tech boom, state revenue grew by 45 percent, most of which the Legislature immediately spent, resulting in a huge hole in the budget when the tech bubble burst and contributing to the recall of Gov. Gray Davis.

The government has a serious spending problem that pushes the state to the edge of financial chaos far too often. Why does this keep happening – and how can we stop it from happening again? To answer these questions, we have to move past the popular scapegoats.

The crisis is not the result of the state's 75-year-old constitutional requirement that budgets be approved by two-thirds of both houses. The two-thirds rule mainly prevents tax increases – the Republican minority doesn't hold out for higher spending. Fifteen other states have some form of supermajority requirement for tax hikes, including Delaware and Washington, which earn high grades for money management from the Pew Foundation and don't bounce from one fiscal crisis to the next.

The crisis is not the result of too many citizen initiatives tying the hands of the Legislature, making it impossible to budget responsibly. One initiative, Proposition 98, does require the state to devote 40 percent of the budget to education, but the Legislature often spends more than is required, such as in the recently concluded fiscal year, and the Legislature has the power to suspend the proposition if it chooses. Other than Proposition 98, all other initiatives ever approved lock in only 2 percent of the state budget, according to a study I conducted three years ago. Proposition 13, which limits property tax rates, also can't account for the state's proclivity to overspend.

The crisis is not the result of a surging need for new government services. If it were, the extra $40 billion we now spend compared with four years ago would have made an appreciable improvement in the daily lives of most Californians. But most of us don't see any difference in the quality of our schools, roads, and so on today compared with four years ago.

While it is convenient to blame the budget process, the initiative process, and even voters, the root cause of the state's financial problems is a political system in which legislators have a short-term perspective and depend on the support of narrow interest groups for re-election.

When the state enjoys a revenue windfall, the pressure to channel the money to programs favored by those groups is almost irresistible.

Fortunately, there is a way to break the cycle of fiscal crises: tie lawmakers' hands so they can resist the pressure to spend every dollar when the next revenue windfall comes along. The way to do this is a constitutional amendment that limits how fast government spending can grow from one year to the next, and requires unusually large windfalls to be returned to taxpayers.

California does have a constitutional restriction on spending growth, the so-called Gann Limits adopted by the voters in 1979 with 79 percent in favor, that restricted spending growth to the rate of inflation plus population growth. The Gann Limits worked in the 1980s, forcing the state to disgorge a $1.1 billion cash windfall in 1987 that resulted from the booming economy, instead of pouring all of the money into new spending programs.

But the Gann Limits have been amended into irrelevance. A variety of appropriations are now exempt, including "qualified" capital outlay and transportation projects, and instead of requiring excess revenue to be returned to taxpayers, half of the money must now be spent on schools.

Most important, the Gann Limits are no longer tied to inflation and population growth, but to the growth in personal income. In years when personal incomes surge and cause a revenue windfall – the precise years when spending needs to be controlled – the Gann Limits go up.

If state spending is going to be controlled during the next cash windfall, we need to have meaningful spending and revenue limits in place – limits that are transparent, comprehensive and tough.

The state's cycle of fiscal crises undermines confidence in public institutions and threatens provision of important public services for everyone. In 1979, four in five voters – a nonpartisan coalition if there ever was one – supported the idea of meaningful spending and revenue limits. We need to recommit to their vision if we want to end the cycle of budget crises.

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