California...as a warning for America

July 13th, 2009

Congressman Tom McClintock offered remarks in Washington, D. C., on Friday to the Competitive Enterprise Institute and Pacific Research Institute that clearly illustrate why California is facing such a large fiscal mess. His beginning joke is so funny because it is so true:

"I know that everybody likes to poke fun at California - but I can tell you right now that despite all of its problems, California remains one of the best places in the world to build a successful small business. All you have to do is start with a successful large business."

Here is the rest of the speech:

Laugh if you will, but let me remind you that when these policies finish wrecking California, there are still 49 other states we can all move to - and yours is one of them.

I should also warn you of the strange sense of de-ja-vu that I have every day on the House floor as I watch the same folly and blunders that wrecked California now being passed with reckless abandon in this Congress.

We passed a "Cash-for-Clunkers" bill the other day - we did that years ago in California.

Doubling the entire debt every five years? Been there.

Increasing spending at unsustainable rates? Done that.

Save-the-Planet-Carbon-Dioxide restrictions? Got the T-Shirt.

To understand how these policies can utterly destroy an economy and bankrupt a government, you have to remember the Golden State in its Golden Age. A generation ago, California spent about half what it does today AFTER adjusting for both inflation and population growth.

And yet, we had the finest highway system in the world and the finest public school=2 0system in the country. California offered a FREE university education to every Californian who wanted one. We produced water and electricity so cheaply that many communities didn't bother to measure the stuff. Our unemployment rate consistently ran well below the national rate and its diversified economy was nearly recession-proof.

One thing - and one thing only - has changed in those years: public policy. The political Left gradually gained dominance over California's government and has imposed a disastrous agenda of radical and retrograde policies that have destroyed the quality of life that Californians once took for granted.

The Census Bureau reports that in the last two years 2/3 of a million more people have moved out of California than have moved into it. Many are leaving for the garden spots of Nevada, Arizona and Texas. Think about that. California is blessed with the most equitable climate in the entire Western Hemisphere; it has the most bountiful resources anywhere in the continental United States; it is poised on the Pacific Rim in a position to dominate world trade for the next century, and yet people are finding a better place to live and work and raise their families in the middle of the Nevada and Arizona and Texas deserts.

I submit to you that no conceivable act of God could wreak such devastation as to turn California into a less desirable place to live than the middle of the Nevada Nuclear Test Range. Only Acts of Government can do that. And they have.

You can trace the collapse of California's economy to several critical events: the rise of environmental Ludditism beginning in 1974; the abandonment of constitutional checks and balances that once constrained spending and borrowing; and the rise of rule by public employee unions. There are other factors as well: litigation, taxation, illegal immigration - but for the sake of time let me concentrate on the big three.

The first was the rise of environmental Ludditism with the election of a radical new-age leftist named Jerry Brown as governor of the state - an election that also produced overwhelming liberal majorities in both legislative houses.

Like Obama today, Brown lost little time in pursuing his vision of California - an incoherent combination of pastoral simplicity, European socialism and centralized planning. At the center of this world view was a backward ideology that he called his "era of limits" - the naive notion that public works were growth inducing and polluting and that stopping the expansion of infrastructure somehow excused government from meeting the needs of an expanding population. Conservation replaced abundance as the chief aim of California's public works, and public policy was redirected to developing irresistible incentives for the population to concentrate in dense urban cores rather than to settle in suburban communities. Brown infused his vision into every aspect of public policy, and it is a testament to his thoroughness and tenacity that its basic tenets have dominated the direction of California through both Republican and Democratic administrations.

He canceled the state's highway construction program, abandoning many routes in mid-construction. He canceled long-planned water projects, conveyance facilities and dams. He established the California Energy Commission that blocked approval of any significant new generating capacity. He enacted volumes of environmental regulations that created severe impediments to home and commercial construction, empowering an incipient no-growth movement that began on the most extreme fringe of the environmental cause and quickly spread. This movement reached its zenith with Arnold Schwarzenegger and the enactment of AB 32 and companion legislation in 2006. This measure gives virtually unchecked authority to the California Air Resources Board to force Draconian reductions in carbon dioxide emissions by 2020.

This has dire implications to entire segments of California's economy: agriculture, baking, distilling, cargo and passenger transportation, cement production, manufacturing, construction and energy production, to name a few.

We, too, were promised an explosion of "green jobs," but exactly the opposite has happened.

Up until that bill took effect, California's unemployment numbers tracked very closely with the national unemployment rate. But since then, California's unemployment rate began a steady upward divergence from the national jobless figures. Today, California's unemployment rate is more than two points above the national rate, and at its highest point since 1941.

The second problem is structural: the collapse of the checks and balances and other constitutional and traditional constraints on government spending and borrowing.

Let me mention a few of them.

The State Supreme Court decision in Serrano v. Priest severed the use of local revenue for local schools and invited the state take-over of public education. AB 8 of 1979 - the legislature's response to Proposition 13 - essentially did the same thing to local governments generally.

This means that vast bureaucracies have grown up over the service delivery level, wasting more and more resources while hamstringing teachers in their classrooms, wardens in their prisons and city councils in their towns.

Next, constitutional constraints on fiscal excesses began to fall. In 1983, Gov. George Deukmejian approved legislation to remove the governor's ability to make mid-year budget corrections without having to return to the legislature. The loss of this provision exposed the state to chronic deficit spending by removing any ability of the governor to rapidly respond to changing economic conditions. In 1989, Deukmejian sponsored Proposition 111 that destroyed the Gann Spending Limit that had held increases in state spending to inflation and population growth. If that limit had remained intact, California would be enjoying a budget surplus today.

The disastrous tax increases by Pete Wilson in 1991 and Arnold Schwarzenegger this year were made possible by this tragic blunder. Finally, we've watched the constitutional budget process that had produced relatively punctual and relatively balanced budgets for nearly 150 years collapse in favor of an extra-constitutional abomination called the big five.

That new process, that began under Pete Wilson and has culminated under Arnold Schwarzenegger bypasses the entire legislative deliberative process in favor of an annual deal struck between the governor and legislative leaders behind closed doors and handed to the legislature as a fait accompli.

This short-circuits the separation of powers that is designed to discipline fiscal excess and it literally bargains away the line-item veto authority of the governor. It is a process that allows legislative leaders to extract concessions from the executive that would not be possible if the separation of powers were maintained. With the checks against excessive spending broken down, borrowing became the preferred method of public finance. The Constitutional requirement that all taxpayer-supported debt be approved by voters began to erode in the 1930's, when a depression-era Supreme Court decision allowed the state to run a temporary deficit in the event of an economic down-turn - as long as the shortfall was addressed in the following fiscal year. This practice was narrowly construed until the Wilson administration began using it to justify spreading out a single year's budget deficit over several years.

During the 1980's, Gov. Deukmejian began employing a legal fiction called a "lease revenue bond," to circumvent constitutionally required voter approval.

Although Proposition 13 still protects property owners from unsustainable increases in their property taxes, most of the other fiscal constraints are now gone, and California has entered a period of unprecedented public debt to finance an unprecedented expansion of state government.

The third factor that also can be traced back to the 1970's was the radical transformation that took place in the nature and power of the state's public employee unions. Until that time, state law prohibited public employee strikes against the public and prohibited collective bargaining or closed shops.

During the Jerry Brown era, a series of collective bargaining acts handed to public sector unions all the rights and powers of private sector unions - but without any of the natural constraints on private sector unions. The unions soon brought these newly-won powers to bear to elect hand-picked officials to state and local office.

Today, political expenditures by public employee unions exceed all other special interest groups, while they hold compliant majorities in the state legislature and most local agencies.

The result has been radically escalating personnel costs and radically deteriorating performance.

The impact on governmental services has been devastating. Despite exploding budgets, service delivery is collapsing. Firing incompetent teachers has become a virtual impossibility, adding to the deterioration of educational quality. Essential services can no longer be performed because labor costs have made it impossible to sustain those services.

Today, California is like the shopkeeper who leased out too much space, ordered too much inventory, hired too many people and paid them too much. Every month the shopkeeper covers his shortfalls with borrowing and bookkeeping tricks. Ultimately, he will reach a tip ping point where anything he does makes his situation worse. Borrowing costs are eating him alive and he's running out of credit. Raising prices causes his sales to decline. And there's only so much discretionary spending he can cut.

That's the state's predicament in a nutshell. California's borrowing costs now exceed the budget of the entire University of California and it is increasingly likely that it will fail to find lenders when it must borrow billions to pay its bills at the end of this month. Ignoring dire warnings, Gov. Schwarzenegger and legislators from both parties earlier this year imposed the biggest state tax increase in American history.

And I can assure you that the Laffer curve is alive and well. In the first two months after the tax increase took effect, state revenues have plunged 33 percent.

Although the re are many obsolete, duplicative or low priority programs and expenditures that the state can - and should - do without, there aren't enough of them to come anywhere close to closing California's deficit.

Sadly, California has reached the terminal stage of a bureaucratic state, where government has become so large and so tangled that it can no longer perform even basic functions.

Fortunately, we have a model that we know works. A generation ago, it produced a high quality of public service at a much lower cost. It maximized management flexibility and it required accountability at the service delivery level. It recognized that only when commerce and enterprise flourish can we finance the basic responsibilities of government.

Restoring this efficiency will require a governor and a legislature with the political will to wrestle control20from the public employee unions, dismantle the enormous bureaucracies that have grown up over the service delivery level, decentralize administration and decision making, contract out services that the private sector can provide more efficiently, rescind the recent tax increases that are costing the state money and roll back the regulatory obstacles to productive enterprise.

Alas, we don't have such leaders and even if we did, the systemic reorganization of the state government can't be accomplished overnight. Restructuring the public schools would take at least a year; prisons at least two; and health and welfare three to five years before serious savings could be realized.

This brings us to the fine point of the matter. What Churchill called history's "terrible, chilling words" are about to be pronounced on California's failed leadership: "too late."

A federal loan guarantee or bailout may be the only way to buy time for the restructuring of California's bureaucracies to take effect, but the discussion remains academic until and unless the state actually adopts the replacement structures, unburdens its shrinking productive sector and presents a credible plan to redeem the state's crushing debt and looming obligations.

Without these actions, federal intervention will only make California's problems worse by postponing reform, continuing unsustainable spending and piling up still more debt.

In short, if California won't help itself, the federal government cannot, should not and must not.

And before anyone gets too smug at California's agony, remember this: Congress is now enacting the same policies at the national level that have caused the collapse of California. So whistle pas t this cemetery if you must, but remember the medieval epitaph: "Remember man as you walk by, as you are now so once was I; as I am now so you will be." The good news is there is still time for the nation to avoid California's fate. If anything, the collapse of California can at least serve as a morality play for the rest of the nation - unfortunately in the form of a Greek tragedy.