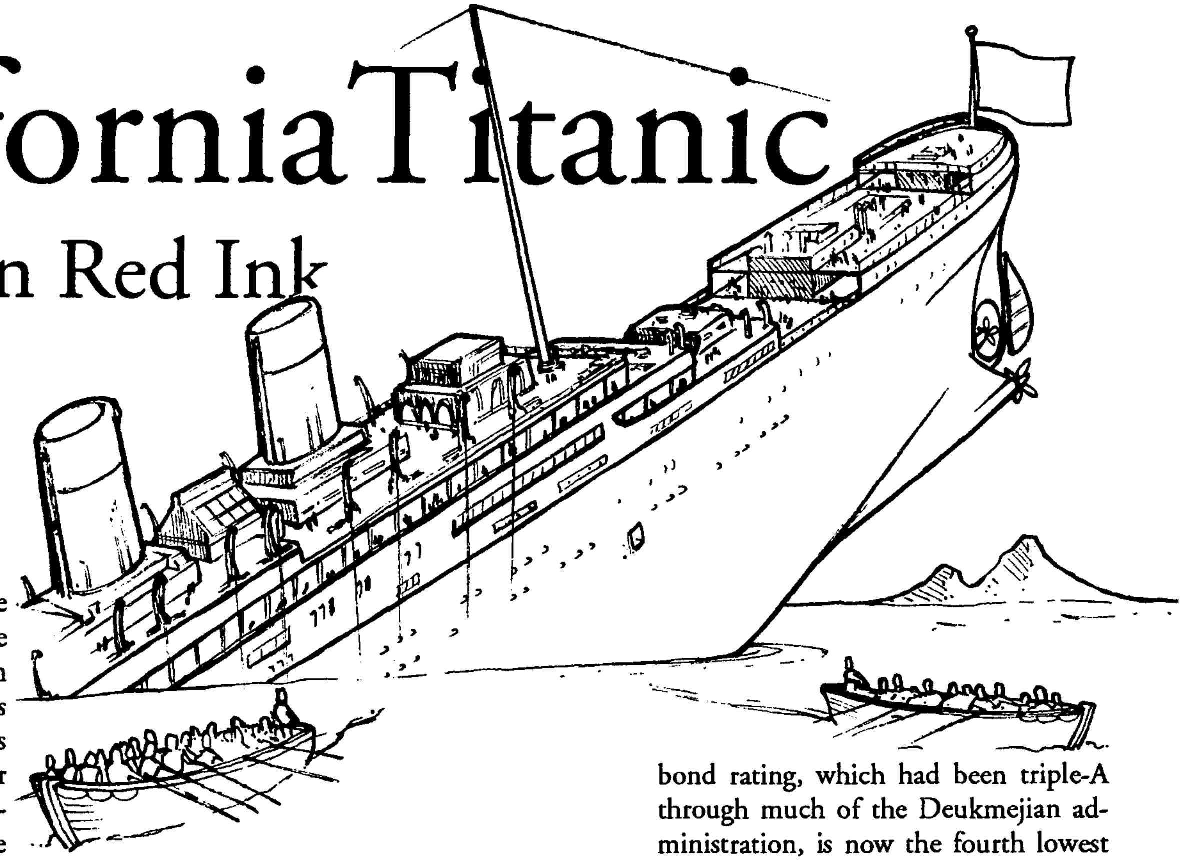
California Titanic

Sinking In Red Ink



Tom McClintock

A STUNNED silence fell over the bridge of the Titanic when Captain Smith was apprised of the damage to his "unsinkable" ship. Seawater flooding the forward compartments was dragging the Titanic down by the bow, progressively lowering each of the ship's watertight sections just enough to allow water to spill over the bulkheads between them, filling one, then the next, then the next. Once this process began, the ship was doomed.

Today in the state Capitol, the same sort of daze seems to paralyze the officials who recklessly ran California full speed into a recession. As in-rushing red ink spills from one fiscal year to the next, the state is inexorably being dragged toward bankruptcy. At some point, that process will also become irreversible. If such a disaster seems implausible simply because it is unprecedented, today's newspaper will carry a list of businesses and households that have irresponsibly managed their financial affairs, ignored repeated warnings from accountants, failed to restrain their expenditures, refused to make adequate provision for uncertainty, and then unexpectedly struck a financial hazard that plunged them so deeply into debt they could not recover.

Tom McClintock is Director of the Center for the California Taxpayer. He served in the California Assembly from 1982 until 1992.

The spectacle of the great Golden State, stopped dead in the economic water and slipping steadily beneath a sea of red ink, leaves one with an inexpressible sense of tragedy and awe.

In its annual survey of the fiscal competence of state governments, *Financial World* magazine in April rated California the "worst managed" state in the nation. This dubious distinction completed California's fall from 41st place in 1991 and 46th place in 1992. To add insult to injury, the editors explained, "you guys really deserved this."

In May, Wall Street financiers warned the California Debt Advisory Commission that California's deficit now exceeded that of New York City in the mid-1970s. Calling California's short-term debt "unprecedented," a vice president with Standard and Poor warned that Wall Street could not indefinitely lend billions for California's bulimic borrowing binge. California's bond rating, which had been triple-A through much of the Deukmejian administration, is now the fourth lowest in the nation and is under review for further downgrading.

Last year, an estimated 40,000 to 100,000 Californians abandoned the state in a frenzied evacuation of jobs and wage earners. Manufacturing jobs are disappearing at the rate of one per minute, and moving companies are swamped with out-of-state requests. One U-Haul agency in Agoura Hills reported receiving 35 outbound orders for every truck arriving. When Hughes Aircraft announced it was moving 3,000 jobs from the San Fernando Valley to Tucson, a company official noted that the cost of the entire move would be repaid in just three years from the savings of doing business in the Arizona desert's vastly more hospitable business climate.

CALIFORNIA'S FISCAL distress is no more the fault of the recession than the Titanic's sinking was the fault of the iceberg. Just as the Titanic's officers ignored repeated warnings of ice fields ahead, the state's officials continued to spend recklessly despite repeated warnings of the darkening economic situation. When George Deukmejian took office in 1983, California government's finances were a shambles, but the state's economy was sound. Inheriting a billion dollar deficit from the outgoing administration of Jerry Brown, Governor Deukmejian's first instinct — like most politicians elected on no-new-tax platforms — was to raise taxes. Nearly $1 billion of levies were exacted through imposition of the supplemental roll property tax that year. Legislative Democrats and the administration wanted still more, and only a Republican revolt in the Assembly blocked larger tax hikes. But Deukmejian and the state were fortunate. President Reagan's tax cuts and defense increases gave California's economy an extraordinarily favorable current, and the Brown deficit placidly disappeared in the wake of the first Deukmejian budget. The "Iron Duke" began touring the state bragging that he had steered California from "I.O.U. to A.O.K."

Deukmejian's phony parsimony played well with the public, but was largely unsupported by fact. During his eight years in office, while California's population increased 18 percent, state general fund spending grew 76 percent. When the Iron Duke's record-shattering 1986 budget was unveiled, a Republican legislator was heard to complain, "I guess we'd better spend this money before the big spenders get their hands on it."

The excesses of the Deukmejian administration pushed state spending and government expansion in all sectors full speed ahead into perilous waters. The number of state employees grew by 34,000 and salary increases far surpassed the private sector. Long term pension obligations expanded exponentially. New regulatory bureaucracies were created, including an unprecedented grant of power to the South Coast Air Quality Management District which soon became the very model of a bureaucratic Frankenstein's monster: a $100 million bureaucracy answerable to no one and financed entirely by the fines and fees it levies on local businesses. In a rare moment of candor, one of the governor's top lieutenants told reporters that Deukmejian didn't necessarily object to big government — only to big government that didn't work. The two, of course, are synonymous, which the near-sighted lookouts of the administration didn't see until it was too late.

By 1989, it was becoming apparent to anyone with a pocket calculator that the mounting obligations of California government would soon vastly exceed the ability of taxpayers to support them. At least Deukmejian maintained a 3 percent budget reserve: a "rainy day fund" for unforeseen emergencies like fires, floods, and earthquakes. But when an earthquake struck San Francisco in the fall of 1989, the state's finances had deteriorated so dramatically that he dared not tap the reserve for emergency expenses. Deukmejian instead used the opportunity to press for an $800 million increase in the state sales tax, much of which disappeared into the general fund.

By 1990, the only remaining semblance of fiscal discipline was the Gann spending limit, a voter-approved 1979 provision of the state Constitution that even liberal Democrats had embraced, never dreaming the stratospheric and expanding "limit" would ever actually be reached. But the Iron Duke had reached and exceeded it. Even so, like the repeated "ice fields ahead" messages ignored by the Titanic's Captain Edward Smith, this critical development was dismissed by the governor as a mere nuisance. Worse, he spearheaded the successful effort to blow the lid off the Gann limit with Proposition 111. At the time, the governor cited Proposition 98 as having "blown big holes" in the limit, implying we had little left to lose in that regard. He was wrong. Proposition 111 infinitely worsened the damage done by 98.

Deceptively labeled the "Transportation Improvement and Spending Limitation Act," Proposition 111 not only imposed $15.5 billion in new taxes over 10 years (chiefly for mass transit), it increased the state's total spending ceiling by an additional $53.3 billion for general fund purposes unrelated to transportation. This had enormous

STATE OF CALIFORNIA DEBT

A look at the state's debt, long term: General Obligation bonds (excluding Lease-Purchase debt) and short term: notes repaid in one year or less.

LONG TERM

	Issued	*Outstanding*
1987-88	$500.8 million	$8,007 million
1988-89	$1,140 million	$8,631.5 million
1989-90	$2,155.1 million	$10,231.9 million
1990-91	$2,956 million	$12,571.3 million
1991-92	$4,157 million	$15,946.7 million

SHORT TERM

	Issued	
1987-88	$2,100 million	
1988-89	$3,200 million	
1989-90	$3,000 million	
1990-91	$4,100 million	
1991-92	$4,100 million	(In addition, $475 million in Revenue Anticipation Warrants were issued in June and paid in July 1992.)

Source: State of California, Office of the Treasurer consequences in the battle against higher taxes. Among other things, the Gann spending limits were intended to limit tax increases, which were routinely justified as "necessary" to balance the budget. With spending curtailed by Gann, this excuse for raising taxes would be much diminished. By raising the spending ceiling astronomically, Proposition 111, of course, destroyed this brake on tax growth.

The proposition's supporters, however, assured voters that the new power to spend would not mean higher taxes because Republican legislators could always be counted upon to block the two-thirds vote needed to raise taxes. Based on these assurances, voters narrowly approved this vast new taxing authority. Five months later, Pete Wilson, running as a fiscal conservative, was elected governor.

When Wilson took the helm in January of 1991, the state was churning at a reckless speed into a dangerously deteriorating economy. State government was out of money and would end the fiscal year $1.3 billion in debt. New regulatory burdens imposed during Deukmejian's eight years in office, combined with record state and federal tax increases, had stopped the revenue growth that had fueled his government's blissful spending.

THE CHINESE write the word "crisis" by combining the characters for "danger" and "opportunity." The opportunity to reconstruct California government and change California history for the better was as immense as the danger of the state's impending economic calamity. At a similar climacteric 80 years before, California Governor Hiram Johnson by-passed a recalcitrant and special-interest dominated Legislature, took his case directly to the people, and with their support instituted a breathtaking range of reforms in an epoch that still bears his name. It was only for Wilson to exercise similar leadership to avert disaster for his state and secure an honored and revered place in its history.

For a fleeting moment, it appeared Wilson would respond to history's call for greatness. On January 10, 1991, the new governor, at the height of his popularity and with a united party behind him, faced a joint session of the Legislature, surveyed the fiscal situation, and warned:

> ... slow revenue growth and massively expanding expenditure increases could create over the next 18 months a deficit of more than $7 billion. Fortunately, you and I will not let that happen. However, if we did absolutely nothing to control programs and to erase this deficit over the next 18 months, the average family of four would see their state taxes go up by almost $1,000 per year. As an alternative, state sales taxes would have to increase by 42 percent. That simply is not fair — especially in a time of recession.

INDIVIDUAL REPUBLICAN legislators and taxpayer organizations responded with extensive lists of long pent-up reforms like those enacted by Massachusetts Governor William Weld and Michigan Governor John Engler, who faced similar budget crises that year. By March, $14 billion of spending cuts had been proposed; by April, $27 billion. Some required no legislation. Repealing California's prevailing wage, which requires contractors to pay unskilled labor on public works projects in excess of $25 per hour, would have saved nearly $200 million in public construction costs and required only administrative action of the governor.

Unfortunately for California, the vast

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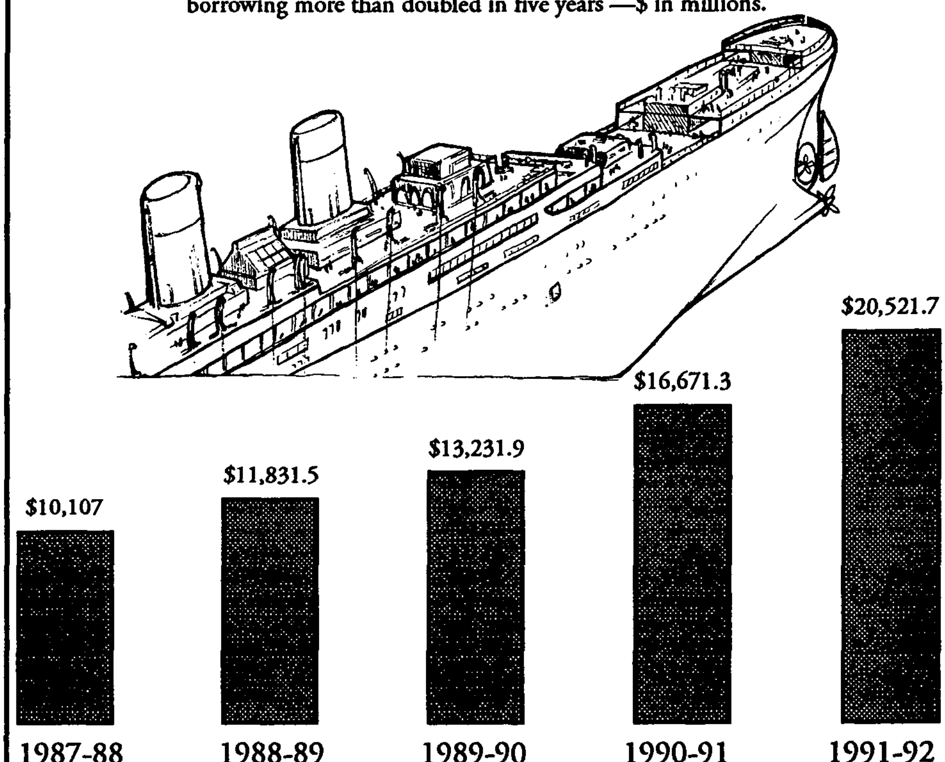
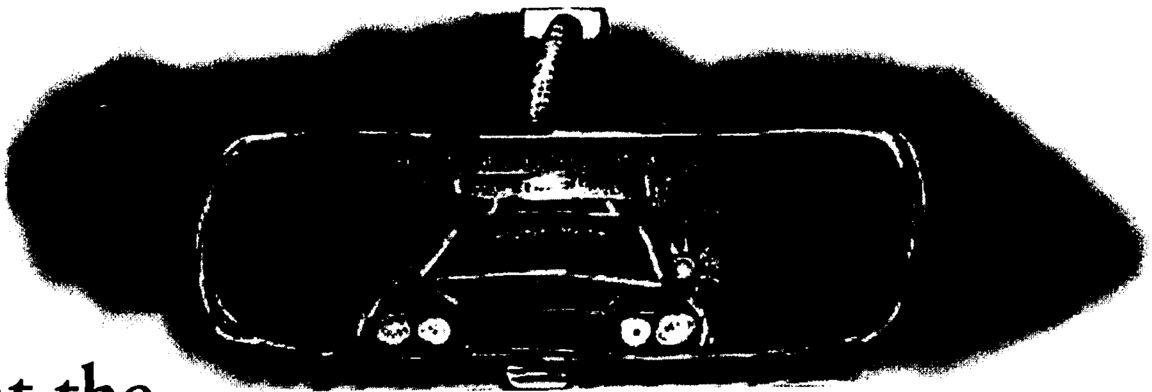
California Titanic — Sinking in Red Ink

California's combined long term outstanding debt and new short term borrowing more than doubled in five years —$ in millions.



Source: State of California, Office of the Treasurer



What the RODNEY KING Video *Didn't* Show

Sgt. Stacey C. Koon, L.A.P.D.
With Robert Deitz
Illustrations By Mike Shelton

IT WAS shortly before midnight on Saturday, March 2, 1991. I was just leaving the Foothill Station, early in my 11 P.M. — 7:45 A.M. morning shift, when the California Highway Patrol pursuit went down. A CHIP unit had a major chase under way.[1] It was just a few miles away. The CHIPs had radioed a request for LAPD help. Two of my units had responded and an LAPD police helicopter had been dispatched. I began paralleling the pursuit, based on what was coming over the police radio band. The chase was happening fast, 70, maybe 80 miles an hour and faster.

It had started as the CHIP cruiser approached the end of a long, steep descent of the 210 Freeway. The driver, Officer Melanie Singer, a three-year veteran of the California Highway Patrol, had first noticed the suspect vehicle's headlights in her rearview mirror. The headlights of the approaching car were rapidly narrowing the gap between it and the CHIP cruiser. That wasn't unusual, given the steep incline. Still, it looked to Melanie Singer as though the vehicle was traveling not just at an excessive speed, but at a speed that was unusually dangerous. She told her partner, Tim Singer, who was also her husband, about the approaching car. To get a handle on the vehicle's estimated speed, Melanie and Tim Singer decided to exit at the Sunland Boulevard off-ramp. Then they'd re-enter the freeway immediately to gauge the suspect auto's speed. By the time the CHIP cruiser got back to the 210 Freeway, the suspect car had passed the off-ramp and was almost out of sight. To Officer Melanie Singer, that meant it had to be traveling at 100 miles per hour plus. Melanie Singer floored the accelerator of the cruiser — her speedometer read 115 miles per hour — but she wasn't getting closer to the suspect, she wasn't narrowing the gap.

The suspect's vehicle began to jam up in traffic and slow down. It was the break Officer Singer needed to close in on it. She neared to within a couple of car lengths of the speeding suspect, her speedometer now reading 80 miles per hour. She should have slowed to a safer speed and distance, but Melanie Singer was too wrapped up in the moment. It was a dangerous reaction, one that marks an inexperienced officer. She was eager, too eager, to turn on the lights and siren and force a traffic stop.

It was a poor police tactic. Stopping at that point would have put her partner flush against a freeway sound wall (a high wall intended to confine the din of traffic to the roadway). This would have made it difficult for her partner to get out of the cruiser. It would have limited his ability to move and defend himself, if the need arose. Besides, Officer Tim Singer wanted to run a status check on the suspect's vehicle to see if it was stolen or involved in a recent felony. He waved his partner-wife away from forcing the suspect's vehicle to stop at that moment.

AS THEY approached the 118 Freeway Interchange — about three miles from where they first noticed the speeding vehicle — Melanie Singer turned on the lights and siren. The suspect didn't stop. Instead, he exited the freeway at Paxton Avenue. To make the exit, he had to turn sharply to the right across at

Sentencing is scheduled for August 4 for L.A.P.D. Sergeant Stacey C. Koon, the senior officer at Rodney King's March 3, 1991, arrest, and Officer Laurence Powell following their convictions in federal court on felony charges of violating King's civil rights. After Koon and Powell, with two other officers, were acquitted in state court, but before their federal trial, Koon wrote a book: Presumed Guilty, The Tragedy of the Rodney King Affair, *giving his account of the entire incident. This excerpt from the book's first chapter covers the events of March 3. Federal prosecutors have recommended that Koon receive a nine-to-11-year prison term and Powell from seven-to-nine years. This is Koon's side of the story.*

1. The California Highway Patrol is known as CHP to LAPD personnel. However, the CHP was popularized by the television show, CHIPs, a designation that is more familiar to most general readers. For that reason, CHP will become CHIP in this article.