Woe Unto Us

The 1999 California BUDGET

The debate over the automobile tax, more than a mere squabble over a surplus, is a struggle over whether government growth ever can be reversed. Do tax revenues ultimately belong to the taxpayers or to the spending interests? Should we allow the Legislature to adopt the Brezhnev Doctrine?

By Benjamin Zycher

THAT HUMAN wants are infinite is a truth illustrated beautifully in the current debate over the California state budget. Equally obvious is Milton Friedman's old truism that no one spends other people's money as carefully as they spend their own. Accordingly, we have a tug-of-war spectacle over an estimated $4 billion state surplus, between those impatient for ever-more spending and those seeking to reduce the tax burden in general and to end an absurd automobile tax in particular.

Amid that cacophony we have an amusing side show, to wit, the old

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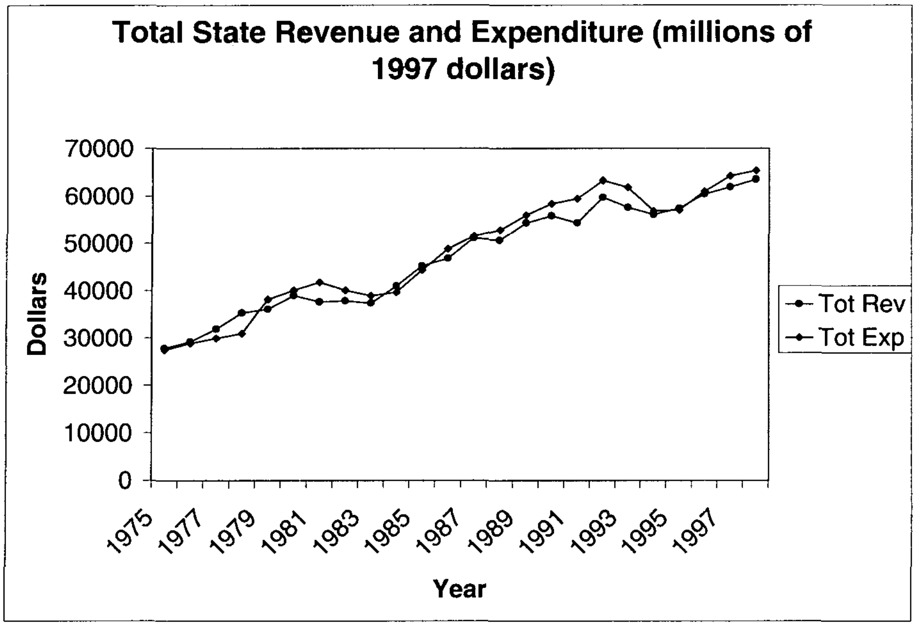


and very tired argument that property tax limitation — Proposition 13 — has squeezed public sector budgets, wreaked havoc upon public education, and brought locusts, lice, and boils down upon the heads of a hapless people. That the ineffable Eleanor Clift of NBC's "The McLaughlin Group" promotes this canard at every opportunity is proof enough that it is false, to which point I return below. For now, it is useful to review the recent history of California state tax revenues and expenditures in real terms (after adjustment for inflation), as illustrated in the figure above.

THE LONG-TERM trend over two decades is decidedly upward for both tax revenue and spending in real terms. Between fiscal years 1975 and 1998, real tax revenue increased at an average annual rate of 3.7 percent. Real total expenditures (General Fund, Special Funds, and certain Bond Funds) grew at 3.8 percent annually on average.

Prospectively, the budget proposed for fiscal year 1999 calls for a general fund spending increase from $53 billion in fiscal year 1998 to $58.3 billion (in nominal dollars), or almost 8 percent in real terms, assuming inflation at 2 percent. Tax revenues are forecast to increase from $54.6 billion to $57.8 billion, or almost 4 percent in real terms. Indeed, in the mere interval between the January submission of the governor's Budget and the May revision, forecasted tax revenues increased by 4.4 percent, from about $55.4 billion to about $57.8 billion, and forecasted expenditures increased by 5.2 percent, from $55.4 billion to $58.3 billion.

It is useful to review the year-over-year changes by state function so as to cast light on the perennial claim that "more" is needed. Table 1, below, presents those data. The total planned increase in general fund expenditures is 7.7 percent, about double the real long run growth rate for total expenditures from 1975 through 1998. Notwithstanding the usual shrieking about "unmet needs," nowhere have we observed our citizens dying in the streets *en masse.* "Needs" and interest-group wants are very different things.

The summary data outlined above do not control for the size of the state population, which, since 1975, has grown at a bit less than 2 percent annually on average. Accordingly, spending *per capita* has grown rapidly, at an annual average rate — again, in real terms — of almost 2 percent. The figure on page 19 illustrates the long-term upward trend in spending *per capita.* Declines in *per capita* spending occurred in the early 1980s and early 1990s, recessionary periods during which tax revenues were declining or flat.

That suggests that it is revenues that drive expenditures as a central dynamic, or, more crudely, that the bureaucrats and politicians spend what they can get. Clearly, the tax system affects the size and composition of the budget, as citizens vote their pocketbooks on both sides of the ledger. But the usual reverse inference made by most journalists — that the state government collects revenues sufficient to support "needed" expenditures — is inconsistent with any reasonable view of spending programs tailored to satisfy competitive interest-group demands for subsidies under the institutions of indirect democracy. And the truly simple-minded view — that government spending creates aggregate wealth and thus tax revenue — is too Keynesian to be taken seriously, although in a long-run sense it is clear that some gov-

TABLE 1
GENERAL FUND EXPENDITURES BY FUNCTION
(millions of 1997 dollars)

Function	FY1998	FY1999	Percent Change
Legislative, Judicial, Executive	$ 1561	1816	16.3
State and Consumer Services	388	409	5.4
Business, Transportation, Housing	275	454	65.1
Trade and Commerce	53	195	267.9
Resources	734	1103	50.3
Environmental Protection	105	194	84.8
Health and Welfare	14376	14765	2.7
Youth and Adult Correctional	3991	4231	6.0
K-12 Education	21997	23107	5.0
Higher Education	6507	7236	11.2
General Government	2005	2501	24.7
Total	$51992	$56011	7.7

Source: *California Governor's Budget May Revision 1998-99*, page 54.
Note: Assumes annual inflation of 2 percent.

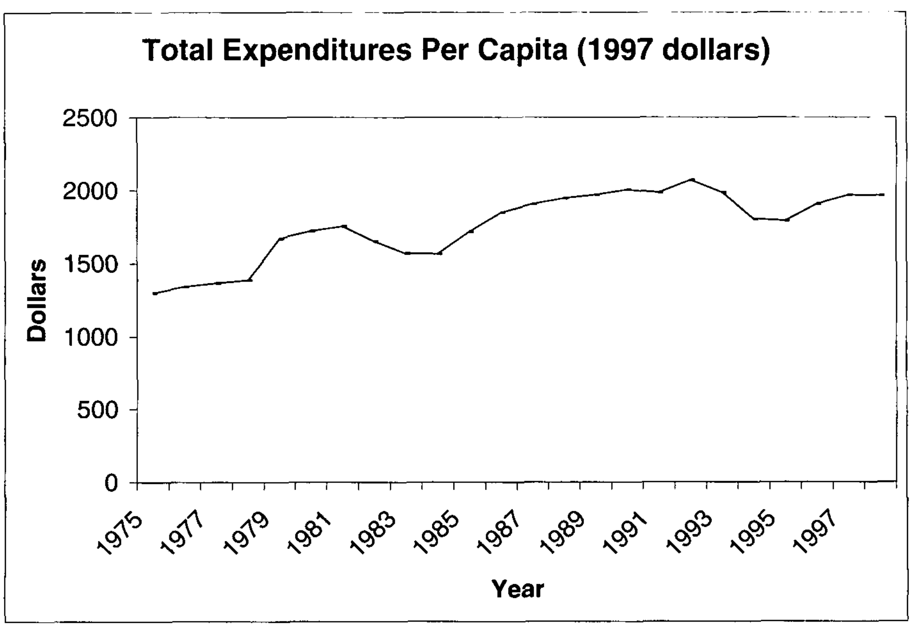
ernment spending is productive. That expenditures tend to follow revenues is supported by the data: The simple correlation between total revenue and total expenditure is .988, and that between *per capita* income and *per capita* total expenditure is .925. Thus, the variables move together closely, suggesting strongly that spending growth has been slow or negative when the government is "starved" (in a relative sense) for revenues, that is, during (or just before and/or just after) recessions. It is far less plausible to argue that spending "needs" decline during recessions, and with them the public sector demand for revenue.

Let us consider more carefully the precise implications of these data. For fiscal year 1966 — the last full budget year for the administration of Pat Brown — total state spending *per capita* was about $990 in constant 1997 dollars. For fiscal year 1998, the figure is about $1960, effectively double the earlier total. If we assume, generously, population growth of 4 percent over the next fiscal year, real spending *per capita* will grow by almost 4 percent as well, to roughly $2030 for fiscal year 1999, more than double the level at the end of Pat Brown's tenure in office. These comparisons are slightly misleading, in that fiscal functions have become more centralized, particularly for education in the aftermath of Proposition 13. But real spending *per capita* has increased by almost 42 percent between fiscal years 1978 and 1998, or about 1.8 percent per year, over the period during which the major shift took place. That is hardly surprising, in that centralization increases the monopoly power of government, easing the burden faced by public employee unions and other interest groups as they pursue taxpayer dollars through political processes. Accordingly, it still is reasonable to ask whether Californians are receiving half-again-to-double their money's worth from state government. As the lawyers would put it, the question answers itself.

CONSIDER STATE spending for K-12 education, for which the fiscal year 1999 budget totals a bit over $24 billion ($23.1 billion in 1997 dollars). That will be about $5,506 per pupil (in 1997 dollars); per-pupil spending will have worked out to about $5,319 in fiscal year 1998, and was about $5,124 in 1997. The figures for fiscal years 1970, 1980, and 1990 were, respectively, $3,583, $4,559, and $5,398. Notwithstanding the dip in the early 1990s, therefore, real per-pupil state spending on average has increased 1.0 percent annually since 1980, that is, in the aftermath of Proposition 13. Can anyone argue with a straight face that the performance of our bureaucratized public school monopoly has reflected that commitment of tax dollars?

BEAR IN mind that these figures exclude local and federal spending; total per-pupil spending in fiscal year 1999 is likely to be about $7,000. Consider a typical classroom of, say, 25 pupils. That yields a per-classroom budget of $175,000. Suppose, generously, that the teacher's salary and benefits total $70,000. Suppose that debt retirement (construction costs) is $15,000. Suppose that utilities and maintenance are $15,000, and that administration, library, other programs, and the like total $20,000 *per classroom.* Suppose finally that textbooks, computers, etc. are $25,000. Those figures range from high to absurd; but we still have $30,000 left per classroom. What is happening to these resources?

Whatever the answer, it is the death knell for the argument, summarized above, that property tax limitation — Proposition 13 — has caused the decline of California public education. That Proposition 13 dramatically centralized education and other local finance is clear; only the property tax is consistent with local control, that is, real competition among such government units as counties. Thus, Proposition 13 has had the indirect effect of reducing that competition, upon which outcome there is likely to have occurred an attendant decline in the efficiency of gov-



ernment spending and taxation, and an increase in the power of the unions and other interests to extract subsidies from the taxpayers and to ignore their preferences. That the non-education of the inner-city poor is the major manifestation of this trend is a moral outrage, the monstrous dimensions of which have exposed once and for all the blinding selfishness and hypocrisy of the Democratic Party in general and of the left in particular. Such attempts as Proposition 174 in 1993 to introduce competition into the system have been met with displays of crass dishonesty shameless even by California standards; this contempt with which the education unions and bureaucrats hold parents and taxpayers finally has come home to roost in the forms of Propositions 209 and 227, respectively ending government racial quotas and the bilingual education charade.

Asked whether he would give automobile tax revenues back to taxpayers, Assembly Speaker Antonio Villaraigosa responded, 'We do give it back when we spend it for them.' Well, now. If government spending counts as tax reduction, then perhaps private spending ought to count as tax payments.

NOTWITHSTANDING THE adverse indirect fiscal effects of Proposition 13, its passage was absolutely necessary as a message to the Establishment that its disregard for the needs and preferences of taxpayers demanded an answer. The failure of Proposition 13 would have delayed the tax revolt at best, and would have signaled the viability of any and all falsehoods and demagoguery put forth in support of public sector waste. And that is why Proposition 13, whatever its downside effects, must not be repealed or even reformed. It must stand as a monument to the ability and willingness of the taxpayers to exercise final authority in the face of the coercive and confiscatory impulses of government.

The fiscal dilemma facing the citizens of any political community is that of matching their preferences for government spending, in terms of both total cost and the mix of various services, with the tax burden that they must bear. This becomes more difficult to achieve at higher levels of government because the monopoly power of government grows with the size of governmental units; it is more difficult to vote with one's feet at the state level than at the local level, and similarly for the federal level relative to the state level. Because Proposition 13 must remain sacrosanct, this limitation of government must be achieved through direct constitutional constraint of fiscal instruments: reduction and limitation of taxes, spending, and debt.

That is why the debate over the automobile tax is so crucial. More than a mere squabble over a surplus, it is fundamentally a struggle over the issue of whether government growth ever can be reversed. Do tax revenues ultimately belong to the taxpayers or to the spending interests? Ought the Legislature to be allowed to adopt the Brezhnev Doctrine: We own what is ours, but yours is up for grabs? More narrowly, the automobile tax, the last remnant of the old California personal property tax, is a poor instrument in terms of matching a tax base with the generalized demand for public services financed through general-fund budgeting. Broader-based taxes paid by all citizens are far better for that purpose. The fact that the automobile tax is earmarked for local governments does not help, because it is not raised locally; therefore, it is a poor device for matching the costs and benefits of government services. That it is raised by the state and then distributed to localities means that it is, in effect, a cartel arrangement: The state government imposes a higher tax than localities would be able to impose given the stronger competition among them. The automobile tax — like all taxes with relatively narrow bases — is appropriate only if the revenues are earmarked for services benefiting the owners of automobiles. Since that is not a relevant option — and since the additional services would in all likelihood be worth less than their cost — elimination of the tax is the appropriate course.

WHEN ASKED several weeks ago whether he was prepared to give the automobile tax revenues back to the taxpayers, Assembly Speaker Antonio Villaraigosa responded, "We do give it back when we spend it for them." Well, now. If government spending counts as tax reduction, then perhaps private sector spending ought to count as tax payments. More to the point, that statement captures beautifully the mentality of the left: It is the people who serve the government rather than the reverse. CPR

It *Ain't* So

Ron George's conservative credentials

by George Deukmejian

Responding to criticisms of California's Supreme Court appearing in recent issues of *CPR*, George Deukmejian argues that in the areas of criminal law, social issues, tort reform, reapportionment, term limits, property rights, and judicial philosophy the George Court has a solid conservative record.

No one was more surprised than I to read a story *CPR* carried in its March/April issue entitled "Say it ain't so, Duke," which alleges that the California Supreme Court under Chief Justice Ronald M. George is no longer a conservative one. So, I did what any fair-minded person ought to do — and examined the record of judicial decisions by Ron George. After conducting that review, I must respond in no uncertain terms to the article: "It ain't so."

Look at the Whole Record — It's Conservative

The George Court is one that produces conservative results, and does so by following the first principle of strict constructionism in reaching its decisions. To suggest otherwise — as the previous article did — is to fail to look at the whole record of the Court, and to misread various of its decisions. Moreover, for the author to suggest a likeness between the judicial philosophy of Chief Justices Ron George and Rose Bird is not only misguidedly hysterical, but misleading to *CPR's* readers.

Criminal Law; The Death Penalty

Chief Justice George's voting pattern in *criminal law matters* achieves the goal of conservatives who understand a court's role in protecting public safety. His voting record on death penalty matters is superb. He has participated in 117 capital cases during his tenure on the high court as of the time of this writing, voting more than 91 percent of the time to uphold jury-imposed death sentences. It is sig-

George Deukmejian served California as legislator, attorney general, and governor. A partner in the law firm of Sidley & Austin, he is honorary co-chairman, with Senator Dianne Feinstein, of Chief Justice Ron George's retention campaign.