

Forbes

California Still Doesn't Get It

Todd Ganos

Nine years ago, the Cato Institute published a study of the State of California's spending during the preceding 25 years. It noted that since the passage of Proposition 13 – which limited increases in property taxes – State spending had increased 25 percent more than the State's economy grew during that same period. The Cato Institute posited that the State's economy could not support the level of spending at that time and the State would ultimately experience a budget crash. The Cato Institute's findings showed the orgy of spending occurred under both Democratic and Republican leadership. Beginning in 2008, the State has experienced significant budget challenges each fiscal year.

While Proposition 13 held property taxes increases in check, sales tax and income tax revenues have skyrocketed to fuel the State's spending. In the mid-1960s, the sales tax rate was 5 percent. Today, the sales tax rate is as high as 10.75 percent in certain counties. It's acknowledged that sales tax affects lower income families the most. And, since the enactment of Proposition 13, income tax brackets have been adjusted by only one-half the amount of inflation, thus causing "bracket creep". As this has worked out, it has affected lower income families the most.

During the past four budget cycles, the State's legislature has had to engage in smoke and mirror games to make the numbers appear to work out. It is a safe statement to say that no one believes the State of California's finances are okay. In spite of this, the State's Legislative Analyst's Office notes the legislature intends to increase spending by 5 percent per year over the next 5 years. This is roughly twice the current rate of inflation. Where is this money coming from? On top of this and

new to the budget, legislators are proposing a \$1 billion per year college scholarship program. Where is this money coming from?

Let's say that every line item in the State's budget is a worthy program. Let's also say that there are hundreds of other worthy programs not yet funded but should be funded. Where is this money coming from? What can the State afford? A line needs to be drawn. The State's economy can only support so much taxation and so much spending. In spite of all that has happened, California – rather, its legislators – still don't get it.