

How to Solve California's Budget Mess



Thursday, July 16, 2009 3:59 PM
By Newsweek

California is \$26 billion in the red and handing out IOUs. The solution is likely to include both tax hikes and spending cuts.

Which should lawmakers do more of?

Tad Dehaven: Cut spending. This mess is the direct result of years of excessive spending. If, since 1990, California had just spent at the rate of inflation and population growth, it would have a \$15 billion surplus. Taxes are already high in California. Raising them any higher would be about the worst thing it could do; it would kill whatever growth is out there.

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Nick Johnson: Increase taxes. It's Econ 101 to say that spending cuts exacerbate a recession and cost more jobs than tax increases do. California could lay off every single state employee and still not balance its budget. The worst thing is to cut services families rely on. Obviously, cuts in spending are inevitable, but tax increases have to be a bigger part of the solution.

Our Verdict

Voters already rejected a mishmash of proposed tax increases, and Arnold is dead set against any more, having already raised them by \$12 billion. Hiking cigarette taxes by \$1.50 makes sense, but more cuts seem inevitable.

Dehaven is a budget analyst with The Cato Institute. Johnson is director of the State Fiscal Project at the center on Budget Policy and Priorities.