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INVESTING

# Can California Get Its Finances Straightened Out?

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As the State of California finalizes its 2011-2012 budget, looming issues make one ask whether it can get its finances straightened out without Greek-style austerity.

A 2003 report by the non-partisan Cato Institute found that during the 25-year period from 1978 to 2003, the growth in State of California expenditures significantly outpaced growth in personal incomes (a typical measure of economic size at the State level). Indeed, spending grew 25 percent more than the tax base grew.

As we recover from the budget devastation and trickery of the past three years, one might think that California's legislature would realize that spending growth would need to ratchet down to perhaps only the rate of inflation. Not so.

Each year, California's Legislative Analyst's Office publishes a report on the State's fiscal outlook. The most recent report, dated November 2010, includes spending forecasts going out to 2016. According to the report, page 24 to be specific, the legislature plans on growing State spending by an average annual rate of 5.2 percent. This is would suggest that the legislature intends to grow State spending nearly 3 percent ABOVE the historical rate of inflation.

Is it beyond their self-control to simply keep spending at only the rate of inflation? Oddly enough, the electorate keeps voting for them.

For reference, this is the link to the report http://www.lao.ca.gov/reports/2010/bud/fiscal_outlook/fiscal_outlook_2010.pdf