California Careens Toward Ungovernability

by Harley Schlanger

The State of California has a constitutional provision that the legislature must complete a budget by June 15. But June 15 came and went, with no agreement in sight to close the record $38.2 billion budget shortfall.

This fact, in itself, is not so crucial. The constitutional requirement has been met only four times in 25 years. Of far more significance, is that the ongoing stalemate between Democrats and Republicans is adding to the size of the deficit; Moody's Investor Services took the occasion to downgrade further the state's credit outlook, from stable, to negative. California already has the lowest credit rating of any state in the nation, just two steps above junk bond status. Moody's report warns investors to be wary of California bonds, due to the "politically polarized nature" of the budget debate.

The downgrading of the state's bond status will add at least $210 million to the deficit, as state officials have been forced to borrow $11 billion to keep the state from running out of funds by September. Even the most optimistic forecasts from the state's financial officers project continued drops in revenue for the months ahead.

Partisan Warfare Intensifies

The reasons behind the partisan gridlock are not mysterious. The Republican leadership refuses to accept even modest proposals from Democratic Governor Gray Davis for tax increases to close the deficit, with the Senate GOP leader Jim Brulte threatening that he would personally campaign to end the career of any Republican legislator who votes with the Democrats for a tax increase. For the Republicans, the only acceptable option for balancing the budget is savage cuts in education, health and human services funding, and improvements in infrastructure. These cuts, which would result in major layoffs of state workers, are unacceptable to Democrats.

Thus, the budget stalemate deepens, and the once-Golden state is careening into chaos. Even before the beginning of Summer, a heat wave led to power outages in Sacramento, blacking out the Capitol building, reminding legislators that the energy crisis of 2001—brought on by deregulation, which cost the state directly more than $12 billion—has yet to be resolved. State officials warn that rolling blackouts are likely this Summer.

To add to the uncertainty, a small group of extremist, neo-conservative Republicans has launched a campaign to recall Governor Davis. Backed by nearly $1 million from Congressman Darrell Issa (R), who wishes to replace Davis, it appears increasingly likely that the campaign will gather enough petition signatures to place the recall of the Governor on the ballot, perhaps as early as November.

Among the fanatically anti-government neo-conservatives who initiated the recall campaign are individuals, such as Ted Costa, who were instrumental in the first major attempt to destroy state government in California—1978's Proposition 13, whose passage bears historical responsibility for the budget crisis today.

The Recall and Proposition 13

In the midst of the current disintegration, California's press and pundits used the crisis as a backdrop for musings on an event of 25 years ago, which played a leading role in initiating this end-of-the-system breakdown: the victory, on June 6, 1978, of Proposition 13, a referendum which placed limits on property taxes, and the ability of local government to generate revenue. Neo-cons in the American Enterprise Institute and the Cato Institute were recently quoted hailing Prop 13. One correctly portrayed it as "the prelude to the Reagan income tax cuts of 1981," which Lyndon LaRouche called one of the most damaging pieces of legislation of the 20th Century.

Proposition 13 was a radical plan to restructure the state's economy and government, disguised as a taxpayer revolt which preyed on the fears and littleness of the voters. Journalist Peter Schrag, whose 1998 book *Paradise Lost: California's Experience, America's Future* (Berkeley: University of California Press, 1998) offers an insightful overview into the destructive nature of Prop 13, characterized it as the beginning of "a nearly constant revolt against representative government." Presented by its sponsors, Howard Jarvis and Paul Gann, as a defense of homeowners from "runaway government spending," it gave a new impetus to the deindustrialization of California, while providing a cover to the anti-government ranting of populists whose real goal was the destruction of the legacy of Franklin D. Roosevelt, and the New Deal-type government programs which were responsible for California's prosperity.

Jarvis, a huckster who was the director of a Los Angeles association of apartment owners in 1978—a group which benefitted far more, in dollar terms, than the home owners he alleged he was defending—often referred to all tax collection as "felony grand theft."

The anti-tax populism of Prop 13 is reflected in the hard-line stance of those such as Senator Brulte, whose threats of retaliation are keeping Republicans in California from reaching a compromise on a budget. On the Federal level, it can be seen in the anti-human posture of House Majority Leader Tom DeLay (R-Tex.), who led the fight for the Bush Administration's tax cuts for the rich, while insisting that poor wage earners supporting families are not entitled to relief.

Prop 13 was a fraud from the start. The most serious economic problem for Californians in 1978 was not the increase in property taxes, though that was a symptom of what was wrong. Instead, the state was afflicted by double-digit inflation, which resulted from President Nixon's failed efforts in August 1971 to address the breakdown of the Bretton Woods system, and the decision by Wall Street to impose a post-industrial economic policy on the United States.

Jarvis and Gann appealed to homeowners who were mostly World War II veterans, and their Baby Boomer children who were just becoming homeowners, with demagogic demands to reduce the size of government. One of their slogans, which targetted the known selfishness of the Boomers, was "Vote for Yourself! Vote for Prop 13!"

The spectacular growth of the city of Los Angeles in the 20th Century had been due to major publicly financed infrastructure projects—especially water and power—which had been initiated by FDR's New Deal, and then continued with huge investments by the state, such as the California Water Project (CWP) of the 1950s and 1960s. The CWP included the construction of 16 dams, 18 pumping stations, nine power generating plants, and hundreds of miles of aqueducts, canals, and levees. It was the largest public works project ever undertaken by a state, and was complemented by a dramatic expansion in funding for public education from grade school to the university system.

This aggressive commitment to public infrastructure by the government supported an agro-industrial base, centered on manufacturing, which created hundreds of thousands of productive, high-paying jobs. This base was hit hard by the post-industrial policies of the 1970s, with ten of the 12 largest non-aerospace employers closing their plants by the end of the decade. Auto, tire, and steel plants were replaced by low-wage industries.

To carry out this low-wage "reindustrialization," newly incorporated "industrial districts" were created, with significant tax abatement. As this reduced revenue further, local governments made up the difference by increasing property taxes, based on the explosion of property values due to the rapid growth of a real estate bubble. This provided the impetus for the success of Jarvis's and Gann's Prop 13 initiative.

Lasting Effects of 1978 Referendum

While the backers of Prop 13 claim that the effects of the referendum—primarily lower taxes and "less government"—were good for the state and local economies, the opposite is true. The only real economic growth in the 1980s came from the Reagan defense build-up, in which 17% of national defense spending went to firms in the greater Los Angeles area.

This bonanza did not last, and the city became increasingly dependent on non-productive Hollywood, the "entertainment" sector, and the financial/insurance/real estate sector, in addition to low-wage jobs in apparel, furniture-making, and construction. By the 1990s, with the introduction of NAFTA and "globalization," there was a further erosion of productive jobs.

The situation was no better statewide, as the "New Economy," based on so-called "high-tech, Information Age" industries, produced another bubble, one which popped at the end of 1999, devastating Silicon Valley and the San Francisco Bay area. While "high tech" jobs in computers, telecom, and biotech dominated the business headlines, more than twice as many jobs—a total of 160,000—were created in the apparel sector, many of which paid below minimum wage. Add to this the effects of electricity deregulation—another "innovation" of the anti-government crowd—and the state's once-productive economy has been shattered. The constraints on government spending have created what Schrag calls the "Mississippification" of public services and infrastructure.

There is, therefore, dramatic evidence, when viewed from the "long wave" of 25 years, that Prop 13 and its deindustrialization tide have shattered California. Two statistics make this clear. In 1980, California was 30th among American states in poverty rates. In 2003, it has the 12th-highest percentage of population living in poverty. In 1980, as Prop 13 took hold, 15.2% of California's children lived in poverty; today, it is 25.1%.

The budget crisis, which is presently paralyzing California's political and economic elite, is a product of this 25-year degeneration since Prop 13. No combination of tax or budget cuts, populist appeals for further "downsizing" of government, or recalling the Governor, will solve this systemic problem.

There are indications that Davis, facing a serious threat from the recall campaign, is finally beginning to address the real problem. One indication is his belated, but nevertheless positive announcement that he now favors re-regulation of electricity. A bill to re-establish state regulation of electricity is moving ahead in the legislature.

But what is ultimately required is a return to the bold designs which created the California economic miracle in the first place. For this, the Davis administration and the legislature must take up the "Super TVA" infrastructure program of Democratic Presidential pre-candidate Lyndon LaRouche, which would commit the Federal government to generate the hundreds of billions of dollars of credit for infrastructure to immediately jump-start the nation's moribund economy. The return to this kind of "big government" of the FDR New Deal goes against the accepted axioms of the post-Prop 13 populism of Wall Street's anti-government extremists, but it is the only way out for California, and the nation.