



California's Economic Implosion

For months, Gov. Arnold Schwarzenegger and the state legislature have acted like Nero, fiddling while Rome burns. On Wednesday, July 1, Gov. Schwarzenegger declared a fiscal state of emergency, following failure of his office and the legislators to reach an agreement on a state budget before the midnight June 30 fiscal year deadline.



That failure came at a heavy price, adding another \$2 billion — overnight — to the state's already staggering debt burden. On Tuesday the state's debt stood at \$24.3 billion; on Wednesday it jumped to \$26.3 billion, due primarily to the failure to adopt education spending cuts and funding transfers under the complicated formula prescribed by the voter-passed Proposition 98. In addition, California is on the hook for \$59 billion of general obligation bonds and \$8.1 billion in appropriation-backed debt. On July 2, the state began the process to start issuing \$3.3 billion of IOUs, in an attempt to conserve cash. Even so, the state's cash reserves will run out by July 28, at which point California will be insolvent.

"Our wallet is empty, our bank is closed and our credit is dried up," Schwarzenegger declared in his June 2 budget address to the legislature. What the governor didn't do was issue a mea culpa for his own role in emptying the state's wallet. Following the historic recall of big-spending liberal Democrat Governor Gray Davis, Arnold rode into the governor's mansion on promises of fiscal conservatism. However, as Rep. Tom McClintock (R-CA), a former California state senator who led the campaign to unseat Davis, [noted in a recent commentary](#):

The recall of Gray Davis in 2003 offered California the last chance to avert the fiscal collapse that now appears imminent. Voters elected Arnold Schwarzenegger on a pledge to "stop the crazy deficit spending," reduce tax and regulatory burdens, "blow up the boxes," and "cut up the credit cards."

Alas, he did exactly the opposite. He increased the rate of spending that had proven unsustainable under Davis, began an unprecedented borrowing binge that has tripled the state's debt-service ratio, and has now imposed the biggest tax increase in the state's history.



Written by [William F. Jasper](#) on July 3, 2009

As predicted, that tax hike has made the deficit worse. The recession had reduced the state's March sales tax collections by 19 percent. After Schwarzenegger increased the sales tax 13 percent on April 1st, April sales tax revenues plunged by 44 percent. The Laffer curve is alive and well.

With the fiscal nightmare he helped create now staring him in the face, Schwarzenegger has been making a half-earnest attempt to trim spending, but nearly enough. By executive order, he expanded unpaid furloughs for 200,000 state employees from two days per month to three days. He has proposed eliminating and consolidating various agencies, boards, and commissions, selling many state properties, and closing many state parks. However, the spendthrifts in the legislature will have none of it; they insist the solution lies in more new taxes and increases in current taxes. This is causing an accelerated flight of productive citizens from California. The tax base is dwindling rapidly.

Jon Coupal, president of the Howard Jarvis Taxpayers Association, [in a July 2 op-ed](#) for the *Orange County Register* compares the legislature to a plague of locusts that is oblivious to the calamitous destruction they are causing. He writes:

Sacramento is filled with a new crop of cash-eating locusts, and they are no better than their predecessors. They show no remorse or regret for their overspending and no sympathy for the taxpayer ants who are struggling to get by and are wondering if they will make it through the winter of our declining economy.

To add insult to injury, the grasshopper chorus now sings a new song, led by Assemblywoman Noreen Evans, D-Santa Rosa. "This mantra out there, 'Live within our means,' while it sounds really nice, while it sounds really simple and it sounds really responsible, it's meaningless," she said a few days ago to a committee meeting on the budget.

K. Lloyd Billingsley of the Pacific Research Institute notes that in the midst of the worst budget crisis in state history, many [politicians are still pushing to create more bureaucracy and more spending programs](#):

Assemblywoman Fiona Ma, a San Francisco Democrat, wants California to have a Blueberry Commission, with an operating budget of \$1.2 million, funded by a surcharge on blueberries. The body would join many others on everything from cut flowers to avocados.

"The true utopians are those who believe that California's financial woes can be fixed without economic growth," notes Billingsley. "They can't, and current policy is decidedly unfriendly to such growth."

Billingsley also observes: "California is a high-regulation state, which some legislators want to make even higher." But Gov. Schwarzenegger and the Democrats are charging proudly ahead with their draconian "climate change" emissions regulations that require new cars to increase their fuel economy by 40 percent by 2016. [Investor's Business Daily editorialized on July 1](#):

Gov. Arnold Schwarzenegger, captain of a ship seriously listing to port, hailed the decision as a "huge step for our emerging green economy that will create thousands of new jobs and bring



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Californians the cars they want while reducing greenhouse gas emissions." So far the green economy is withering on the vine.

Californians don't want clown cars any more than the rest of the country. That's why they're driving their real cars out of the state. For four straight years California has suffered a net loss of population to other states. Without illegal immigration, California would be shrinking. For the rest, it's go east, young man.

California is headed for disaster. Unfortunately, President Obama and the U.S. Congress seem determined to replicate that on the national level.

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