

“PERISHING REPUBLIC”: A CALIFORNIA PRIMER ON STATE FINANCES AND STATE UNIVERSITIES

ATLAS SHIRKED

If the California dream was a nuclear family in every Mchouse, two SUVs in every garage, and children in higher education at low cost, then the dream is bust. This dream is the American dream, too.

The state faces a massive deficit of 28 billion dollars, more than the entire budgets for higher education and health and welfare. The legislature has been in such denial that Governor Schwarzenegger called them into special session to see a powerpoint. This is the land—the age—of media. So, when the Terminators fires bulleted text at the term-limited, how could they resist?

No problema, it turns out. Resisting was easy.

Fixing the nation’s credit debacle will be easy, in comparison. California has a genius for reform that worsens the institutions that people no longer trust. Its peculiar corruption—“vulgarity, thickening to empire” by gorging on credit—has produced a culture in which simulated wealth is the good (Robinson Jeffers, “Shine, Perishing Republic.”)

In California, as in the nation, many problems are unintended consequences of efforts to restore trust in the self-correcting mechanisms of the market and the republic. Free marketers imagined America as the land where scarcity could not shackle innovation. Abundant resources fueled growth cheaply. Affordable land accommodated increasing populations who produced and purchased. Investing, buying, and selling created wealth and built industries. Investors abandoned industries that, like the Tin Man, rusted from stasis. Shiva was the god of markets. Cyclical destruction was part of the upward spiral of better goods and better lives because of better productivity.

To people at ground zero, the experience was like a tornado on the plains, fracturing lives and vacuuming jobs into its funnel, to be flung afar.

Americans have responded to creative destruction in two ways that reverberate in California. Progressives and New Dealers tempered the effects of the storms by regulating excessive concentration and speculation, and by pre-empting sudden losses in liquidity and confidence. They also sheltered the dispossessed. Advocates of limited government and minimal taxes objected to the need, size, and permanency of such corrections. By 1978, minimalists became

proponents of Proposition 13. Their leader, Howard Jarvis, had been for Hoover. Jarvis thought the New Deal heedless as a short-term fix and disastrous as a permanent endorsement of big government. Jarvis and others defended their correction to the market as anti-tax. It was that and more.

According to 13, home ownership needed relief from property taxes. They were tied to rising home prices and vulnerable to reassessment to equalize school spending in California, after the Serrano decision. A man's home was his castle. 13 limited "tribute" to the county to no more than 1% of assessed value, which could increase no more than 2% a year under an owner. 13 also mandated a two-thirds vote for new revenue sources. It thereby limited funding for common purposes like schools. Indirectly, 13 encouraged counties to zone for mega-stores; sales taxes would replace property revenue. Indirectly, it contributed to inflation in home pricing; it decreased the cost of ownership. Inflated values fed capital gains and facilitated lines of equity. They enabled more consumption. From consumption trickled taxes.

OF MARKS AND CONFIDENCE MEN

In the '90s, California realtors plumped up with tears, like rehydrated tofu, when they learned that the housing market lifted prices beyond what SUV nation could afford. In the '70s, owners could not afford their taxes. In the '90s, buyers could not afford their prices. Financiers reengineered the market so that the rickety roller coaster had cheap tickets, safety railings, and magnetic tracks.

Talk radio aside, most Americans never trusted the market. They wanted a Disney version with thrills from profits, few spills to sustain the illusion, and no kills. The simulated market kept owners in their seats and discounted the ticket to ride. Bankers knew some buyers might default at the end of the teaser period. They fashioned investments that hedged these individual risks in a statistical thicket of risks. Only the ten-thousand year storm could call in most risks simultaneously.

The inconvenient truth is that this is the Age of Katrina. The environment, natural or man-made, turns on vulnerability like a heat-seeking missile. We need not get overly technical about the vulnerability in this episode. Herman Melville, Ambrose Pierce, and H. L. Mencken knew it, as did Jimmy the Greek and Minnesota Fats. It is the American dalliance between people of winking credulity and exploitative confidence men. They are chaperoned by regulators who wink, too, because their pay depends on the volume of transactions.

MAD AS HELL

California generated such private wealth from the '60s through the '00s, that the state filled its general fund by relying excessively on personal income tax. Personal income tax built from 16% to 47% of the revenue. Capital gains rode the housing and stock markets, amounting to a third of the revenue from personal income. Corporate taxes and estate taxes decreased as proportions of

the revenue into the state general fund. This singular focus on private income exposed the general fund to gyrations in employment, salary, property sales, and dividends. California wagered on the 10% of taxpayers who paid nearly 75% of taxes. Like the state's speculative economy, the general fund was forever blowing bubbles.

In reaction to 13, K-14 designed Proposition 98 in 1988. It mandated school spending by formula, now amounting to more than 40% of the state's budget. Other propositions, like 21 that treated more juvenile offender as adults in 2000, tapped directly into the general fund. Upstream of legislative allocation, they limited funds available for UC and CSU.

Indeed, since "Three Strikes" in '94, California locked away evil doers at several times the world average. In 1995, Governor Pete Wilson urged that not another university and library be built until there were sufficient prisons. The legacy of the New Deal and the Great Society was the gang banger born of parents addicted to misguided programs run by corrupt officials feeding on excessive taxes. Wilson spoke for millions. They were mad as hell. California flowed into a penal master plan that accounted for 4% of the budget in 1980, 9% in 2008. Meanwhile the Master Plan ebbed. Higher education decreased from 12% to 9% of the budget.

Propositions reflected Californians' ambivalence for republican government. In 1911, Progressives argued that these tools for imposing the people's will directly would be used infrequently as checks. But Californians used them often. The people became a fourth branch of government. Because these measures trump legislation, they are not subject to legislative checks and balances. Lobbies bypass bicameral deliberation and use the *vox populi* as a ventriloquist does a puppet. Was Friedrich Hayek right? We veered off the road to happiness and onto the road to a serfdom of our own devising. Did we tinker so much with market and republic that the spring of self-correction no longer worked?

UNDOING THE MASTER PLAN

The question is, though, who tinkered first—and worst?

Governor Edmund Pat Brown, UC President Clark Kerr, and others who channeled Progressivism and the New Deal, created California's Master Plan for higher education in 1960. In 1967, Governor Reagan crashed the party, trumpeting the "creative society" of market and limited government. Before Reagan, planners envisioned a three-tiered system, UC, CSU, and community colleges. Its uses were to undertake research and train the intellectuals, civil service, and technical workers for a market economy that depended on advances in knowledge to propel growth. It was a sorting system for human capital management in an open society. Students were shuffled by aptitude into a tier, but talent could lead to resorting. Research would open a lifeline of sponsored funding to UC (which owned the franchise on advanced degrees), after the federal response to Sputnik in the 1958 National Education Act.

CSU had fees but minimal tuition. It was not open admission; it drew from the top third of state high school students as well as qualified transfers. The state would recoup its funding through taxes on escalating wealth that knowledge created. By '64-'65, students—beneficiaries of the Master Plan— criticized higher education for sorting for the “machine.” Their call for “power to the (excluded) people” indicted the represented people for supporting the capitalist system. Eventually, proponents of the creative society regrouped under the banner of Proposition 13. Public subventions exacted more than they returned to the creative society, they believed.

It is hard to say when exactly the vision of affordable access in the Master Plan died. But just as Roy Rogers preserved and mounted Trigger, Californians have propped up the core of the plan. It indulges their self-image of foresight and generosity, while they have neither mind nor means to revive it.

These trends have battered CSU since 1980, shortly after 13. The state contribution to the CSU per full time equivalent student has increased by less than the rate of inflation, as is the case in state universities across the nation. Fees have increased 1,500%. (CSU fees are still only 70% of the average of M.A. granting institutions.) Total revenue growth per full time equivalent student exceeded inflation because of fees. But follow the money. In 1980, the ratio of full time equivalent students to full time equivalent faculty was 18/1. Today it is 22/1. In 1980, 85% of full time equivalent faculty was tenure track. Today the count hovers around 60%. Salaries lag peers, as well as per capita income growth in the state. If today's student to faculty ratio and proportion of tenure track faculty matched 1980, CSU faculty budgets would increase by 34%.

The fee revenue beyond inflation has gone where since 1980? 33% goes to student aid. Benefits are up 150%, energy cost is up, insurance cost is up, compliance cost is up, and legal cost is up. Al Gore invented the internet since 1980; technology costs are up.

Meanwhile, federal data also show the CSU students' continuation and graduation rates rival rates at peer urban universities. At Northridge, faculty publish more scholarship, get more grants, and supervise more community service than in 1980. And accountability demands by accrediting agencies and professional associations are much greater now.

Policymakers and legislators reverse the facts. Faculty are demonstrably more productive in 2008 than 1980. In 1980, the state cost to educate a full-time equivalent student, once inflation was accounted for, exceeded the cost in 2008. The paradox is this: the core of the Master Plan is dead; but CSU is doing well educationally. Dedicated faculty and staff revere the mission of public higher education.

COMPACT TRASH-COMPACTED

Policymakers, legislators, unions, and administrators cannot bury Trigger. They dream of frisky days when the state shall honor the Master Plan. In 2005, the Compact among the Governor, CSU, and UC promised a 26% increase in the CSU budget through 2010-11, as well as up to

60% increase in fees and 15% increase in enrollment, totaling over \$2,000,000,000. With no changes in sources of revenue, after a decade of Enron brownouts, Orange County bailouts, and Silicon Valley blowouts, CSU planned for a 50% increase in current funds. Unions thought that the Chancellor sold the system short.

Negotiators for the faculty contract had a dream, too. Between '06 and '10, the Compact increased the CSU budget by 18%. Over the same years, the faculty contract would deliver a 25% increase, plus an added \$30,000,000 in '07-08 to make up for salary lag. Campuses were to fund their shares of the lag, plus their shares of the 8% gap between Compact and contract, by cannibalizing existing sources and services. Surely the legislature, out of love for Trigger, would pony up.

Two years ago, the good times rolled. CSU lived under a fantasy Compact. We reread Shirley Jackson's "The Lottery" to plan strategically for sacrifices to support the contract. Then things got bad.

The CSU budget for '08-09 called for a \$322,000,000 increase. In his January, '08 budget proposal for 2008-09, the Governor zeroed out this request with a reduction of \$347,000,000. In May he added back \$97,000,000, still short of the CSU's number.

By fall, '09, personal and corporate earnings crashed. A \$3,000,000,000 prison settlement loomed. Counties tanked. Banks tumbled, won tax exemptions, and tightened credit. The state budgets for '08-09 and '09-10 crumbled. The deficit was gruesome; it neared \$26,000,000,000 over two years, about 25% of an annual budget. CSU general fund and fees are \$4,000,000,000.

WHAT IS TO BE DONE?

One looks to leadership. California's bureaucracy houses duplicative administrators, redundant agencies, and legislative committees that credit anecdote, not evidence. There is no hierarchy, no leader. There is shared fantasy but no purposeful vision. A revised Master Plan cannot be forged until the Governor convinces narrow administrators to be broad leaders, partisan legislators to be representatives of the people, and the people to accept their role as "the people" in a democratic republic. Reconsideration of key provisions in 13 cannot happen unless these dialogues succeed.

Together, Californians must create a new society out of the discredited heaps of the great society and the creative society. Two principles should be salvaged as guides to funding higher education. Pass education, not debt, to the next generations. Structure home ownership so it is not a windfall for some, a pitfall for the public commons, and a pratfall for the marginally eligible.

Unfortunately, California is plagued with zealots and the cubicle-minded, not blessed with leaders. Such change likely cannot occur. Without that, there is no context to change the Master

Plan. With less ambition but more effect, policymakers should amend the education code to make the system viable and reduce state obligations.

Call fees tuition. Peg undergraduate fees at 90% of the metropolitan university average nationally. Raise both graduate and non-resident fees to national averages.

Do not artificially limit freshmen enrollment. That disarms the tax and knowledge producing workforce. Combined with the growing high school drop-out rate, this tactic moves us back toward 1900, blunting the nation's competitive edge. A realistic tuition policy, with means-tested aid, is a better answer, as is stricter enforcement of academic disqualification to economize expenditures.

However, the high rate of remediation in the CSU suggests the need to incentivize regional consortia of school districts and universities to fix this. A reduced rate would lower expenses considerably, given that 50% of students require remediation. Give college credit for remedial work. The CSU has accepted these students. This step would reduce students' cost-bearing credits, and it would enable aid to cover more students.

A concerted effort to control book costs through rentals and e-texts can offset fee increases.

Allow the CSU to offer advanced, applied degrees and charge market rates. Protectionism reserves these degrees for UC and the privates. Dozens of out-of-state providers sweep around this Maginot line, taking revenue out of state and under-serving Californians. Protectionism stymies diversification. Advanced degrees provide the infrastructure for clinical services that bill and research that compete for grants.

Change capital bonding policy. Associate a percent of enrollment with fiber build-out, not buildings, to tamp down bonding yet support growth in off-site enrollment.

LONG DISTANCE SWIMMING

This story is American, not just Californian. We cling to generous ideals that we recoil from supporting. We rely on a bubble and prayer to get from here to there. We are like Gatsby, lured by the "green light," to reach back against the currents.

It is time to turn away. The swim will be long. No shore is in sight.