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| California needs to save money, not spend more on educationBy Robert Krol LA Daily NewsPosted: DailyNews.com, January 17, 2013 |  |

 Gov. Jerry Brown's new budget projects a $1.6 billion surplus for the next fiscal year. This is good news given the large deficits Sacramento has been dealing with over the past few years. However, a highly uncertain economic future can quickly throw a wrench into any budget forecast. It will also take all of the governor's political skills and experience to constrain the spending desires of the Democratic supermajority in both houses of the Legislature.To ensure a stable budget future and healthy economy, the governor must initiate budget reforms. California needs a larger rainy-day reserve fund and a constitutional limit on how fast government spending can grow in the future.The surplus is the result of past spending cuts, higher taxes and a one-time windfall as investors sold off stocks and companies shifted dividends to 2012 to avoid the expected higher 2013 tax rates. The governor's budget estimates this windfall to equal about $1.8 billion.Looking to the future, this revenue windfall will not be available on a recurring basis. Capital gains tax revenue remains a highly unpredictable revenue source. Additionally, California's highly progressive income tax structure results in wide swings in income tax revenues as the economy fluctuates.The economic growth forecast that is the foundation of any tax revenue forecast is highly uncertain. The recovery from the Great Recession has been very weak. Higher taxes, the phase in of the new health care law and additional financial regulations may limit job creation and income growth in unpredictable ways. The fiscal picture in Washington is unsettling. A recession in Europe and slower growth in China can all contribute to slower economic growth in California and lower tax revenues.With all this economic uncertainty, adding $1 billion to the state's rainy-day reserve fund is far too little. This would result in a reserve balance of about 1 percent of general fund expenditures which would not come close to being able to help smooth out the budget during economic downturns. Past unexpected budget shortfalls were much larger. Economic research suggests rainy-day funds should be 5 percent to 10 percent of general fund expenditures to be of much help in bad economic times.The budget projects the school-age population will fall by almost 1 percent per year and the college age population will increase very little over the next five years. Furthermore, a recent report from researchers at USC suggests birth rates have declined in the state. Given a sluggish state economy, migration inflows will be limited. These demographic trends suggest stable or even declining school enrollments in the future.Yet despite these trends, the governor increases K-12 education funding by 7.2 percent and higher education funding by 13.6 percent in the new budget.The budget promises additional increases in the future. Since the population trends suggest a likely decline in the demand for educational services, these spending increases can only be interpreted as a reward for past political support. Rather than expanding education at a time of projected stable enrollments and a highly uncertain economic future, the governor should instead propose to use these revenues to build a larger rainy-day reserve fund.Finally, last November Californians elected Democratic supermajorities in both houses of the Legislature. The final budget is a negotiation between the governor and Legislature. The Republicans in the Legislature have no power to constrain spending. The governor will have few allies in his attempts to further constrain spending.The solution is a constitutional ballot initiative to permanently limit spending growth. State expenditures should grow no faster than inflation and population growth. If revenues exceed the limit, excess funds should be deposited into the rainy-day fund or refunded to taxpayers. When the spending limit is violated, the governor should have the power to cut spending.The California budget situation has improved over the last few years.Legislators and the governor have made hard choices in order to get a handle on the budget. More work remains to be done. We still face daunting pension issues. In the near term, much like his Prop. 30 campaign, Brown could leave a lasting legacy by proposing an initiative that would require a large rainy-day fund (5 to 10 percent of general fund expenditures) and a spending growth limit. These reforms would put California on a sounder financial footing. Robert Krol is a professor of economics at California State University, Northridge. |