

Cut Spending, But How?

Where should state lawmakers make spending cuts to balance the state budget this year? I have been asking myself that question a lot lately as, once again, California has a budget deficit--this time \$8 billion. There are not many good answers--just some tough decisions.

Many people cannot understand why the Legislature doesn't just trim \$8 billion off the state's annual spending plan, which has been around \$100 billion in recent years. That's only eight percent, and trimming spending is something families and businesses all face and must do to remain solvent. However, upon closer examination, it's easier said than done at the state level. And we are to blame for it as much as the legislature.

In recent years, as the influence of special interests has grown, voters have been asked to set aside large portions of spending for specific purposes, often without additional revenue to fund the mandates. This means that large portions of the budget are off-limits for discretionary spending reductions. It is estimated that the legislature today can only realistically impact 11 percent of the \$100+ billion budget.

Therefore, the targets for cuts are those areas that don't have constitutional protections. Targets like local government, health care, courts, and others are often funded by local tax revenues and, if services are to be maintained, the burden falls even more heavily on the local taxpayer.

Gov. Schwarzenegger has proposed to cut money from just about every area of state government. And the special interests (including some of us, on occasion) are predicting disaster. Gov. Schwarzenegger doesn't want that to happen, nor does he want to prolong and further exacerbate the state's fiscal crisis. But he is doing the responsible thing by placing the options we must consider before the legislature and the voters.

We have all supported set-asides for transportation, education and the like. We did so because we believed at the time that they were necessary to protect priorities that had long been under-funded. But despite passage of measures like Prop. 42, which secures money for transportation, all of the money for the past three years has been diverted away from transportation because of fiscal emergencies. As a result, we have not been able to fund our transportation priorities here in LA.

But am I comfortable demanding that lawmakers restore Prop. 42 monies when seniors are pleading for renters' tax credits so that they don't have to choose between food and medication? Not really. And the list goes on.

Identifying waste in state spending looks easy. We see it every day. We should cut every last penny of waste, without delay; without debate. Unfortunately, there is not enough waste here to make enough of a dent in the budget deficit.

Instead, state policymakers need to look at the big-ticket items--such as the pensions for state workers, and the generous pay raises and fringe benefits to employees from public unions that contribute the most money to state politicians. They need to look at work rules that increase state costs for overtime and related expenses. With personnel costs being such a significant part of government costs, we simply cannot afford to neglect these areas.

Nobody wants to harm government workers; most of them do good work. But as in private industry, wage and benefit concessions are nearly always a part of a financial resuscitation package. The question is whether the legislature has the courage to face up to this reality. They need to, but it is unlikely that more than a handful will do anything about it, because there is not the political will--or enough leadership--that we need in Sacramento.

What else can Sacramento do?

1. They should stop the blame game and recognize that this is a management problem and is solvable.
2. They need to stop raising money for their political war chests and do the right things fiscally to restore the state's war chest.
3. They can stop doing all but the most important business, put off frivolous legislation, and focus on what is important.
4. They can put ideology and party and special interests aside and not only talk the talk, but also walk the walk. And in so doing, focus less on getting credit than achieving compromise.

California's spending mess goes back too many years to place blame on the current crop of legislators, and pointing fingers doesn't do us any good. But if the current legislature does nothing about it, they will deservedly be ill-judged over time. We're only talking

about our children's future.

And that's the Business Perspective.

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