North Valley Community & Business News

What Will Governor Brown Do?

By Jon Coupal

California is circling the drain and the news keeps getting worse.

With unemployment at 12.4 percent – 2,269,948 people without jobs – it should come as no surprise that the state is upside down in its unemployment insurance fund. The deficit is expected to reach $10.3 billion by the end of the year as the state borrows $40 million dollars a day from the federal government to provide assistance to jobless workers. California must make an interest payment $362 million to the federal government next September. It’s one more obligation that leaves less money for programs like education, laws enforcement and transportation.

Then there is the latest projection from the Legislative Analyst's Office showing the state with a budget deficit of $25.4 billion.

Just last month, when, with self congratulatory rhetoric, lawmakers concluded the budget for this year, it was obvious to all that it was a sham. I wrote at the time that only those “who had just put their life savings into Florida swampland,” would believe the rosy projections on which the budget was balanced.

The budget was based on two fallacies. First, the economy would generate substantial revenue and, second, the federal government would come to the rescue. A look at the November election results across the country makes it clear the chance of a significant federal bailout are slim and none, and slim is getting on his horse.

The new governor will inherit all this and more. Borrowing is no longer a realistic option. The state’s credit rating is so low that it makes Popeye’s friend Wimpy, who always promised to pay on Tuesday for a hamburger today, look like a qualified borrower. And how about the tricks used by the last three governors? When they got into fiscal trouble they pirated away local funds. The passage of Proposition 22 now bars these raids on local government revenue.

So what will Jerry Brown do? If our past and future governor, who has been vacationing in “politically incorrect” Arizona, has a plan, he has yet to reveal it. His former chief-of-staff, and later governor, Gray Davis speculated before the election that that Brown would go to a special ballot this spring asking voters to approve new levies. However, since they just overwhelming rejected Proposition 21, which was a comparatively modest tax increase, Brown, who is an excellent reader of tea leaves, may decline.

Veteran political observer Joel Fox, who serves as president of the Small Business Action Committee, suggested in a recent column that Brown will follow in the footsteps of the last two governors and appoint a tax commission to come up with tax reform proposals that will stabilize revenue to government.

Reports from the previous two tax commissions were ignored, but Brown may be willing to put political capital behind changes he likes. These could even include modifications to Proposition 13 that would penalize the business community. Certainly this would be endorsed by his government employee union allies, which illustrates the overall problem with tax commissions.

The commissions are invariable tasked to solve the revenue problems of government. There is no requirement that commission members consider the problems of taxpayers. For example, a common recommendation is to extend the sales tax to services. The fact that this would put a significant new accounting burden on small service businesses is ignored.

Those who propose these tax commissions and those who agree to serve on them, invariably show an abject ignorance of how wealth and the resultant tax revenue to government, is created. It is a thriving private sector that funds government. Instead of working to create a healthy business climate -- California ranks last, or near last in a number of surveys -- they look for ways to extract more from taxpayers even in bad times. To put it in terms every farmer would understand, they want to devour the seed corn.

So if Brown establishes a tax commission, he should direct its members to find ways to make California’s private sector stronger by limiting taxes and overreaching regulations. It should be instructed to come up with a plan that creates an environment in which businesses can feel secure in expanding facilities and hiring new workers, and where taxpayers no longer feel like they have to hang on to their most recent paycheck like it may be their last.

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