

Santa Barbara County Taxpayers Association  
Senator Tom McClintock  
Los Olivos, California  
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Abraham Lincoln began his “House Divided” speech by saying, “If we could first know where we are and whither we are tending, we could best decide what to do and how to do it.

Three and a half years ago, we recalled Gray Davis for policies that had nearly bankrupted the state, and we elected a new administration pledged to live within our means and “cut up the credit cards.” And today, California’s finances are in measurably worse condition, by every conceivable fiscal standard.

During the Wilson years – hardly the high water mark for fiscal conservatism – state spending grew at an average rate of five percent each year. Davis had recklessly pushed it to an unsustainable seven percent growth rate. Today, the annual growth rate of state spending exceeds eight percent. Let me put it another way: the day we recalled Gray Davis, the budget was 78 billion. Less than four years later, it is 104 billion.

During Davis’ five years in office, the state ran big deficits, but also some big surpluses. All told, California spent a total of \$4.2 billion more than it took in. According to the Legislative Analyst’s Office, this administration is on track to have spent a cumulative \$10 billion more than it has taken by its fifth year.

When we recalled Davis, state government consumed a record-shattering \$8.80 out of every hundred dollars of your income. An all time high. Today, that figure is \$9.58 out of every hundred dollars of your earnings.

When Davis left office, our annual debt obligation was \$2 billion per year. Today, it has tripled to \$6 billion per year. Six billion dollars is more than we spend for the entire University of California, with all of its campuses and all of its gold-plated benefits and perks.

Meanwhile, the number of state employees is now growing at nearly twice the rate of population growth.

In short, nearly four years after the recall of Gray Davis, California is spending at a faster pace, running bigger deficits, consuming more from Californians’ personal income, and has seen its debt burden tripled.

The only reason you're not reading about this on the front page of every newspaper in the country is because we borrowed massively in 2004 and enjoyed unforeseen revenue windfalls in 2005 and 2006. And because of that, we began the current fiscal year with a \$10 ½ billion reserve, most of it borrowed.

But here's the problem. According to the Legislative Analyst, that surplus will have all but disappeared by this time next year, and we'll be facing a \$5 billion budget gap beginning on July 1<sup>st</sup> of next year without the funds to cover it.

That's where we are. Now, wither are we tending?

If the current course continues, the state will be insolvent in a little over a year. Meanwhile, the administration is pushing \$40 billion in additional general fund borrowing for the 2008 ballot on top of more than \$40 billion just approved last November.

Very little of that money will be used for infrastructure to serve the next generation. For example, of the \$20 billion in transportation bonds that people were told would be used for long overdue highway construction, the Governor's CalTrans Director admitted AFTER the election that at most \$8 billion would go for highway capacity.

And now, it appears only a fraction of that fraction will actually reach our highways. Attorney General Jerry Brown has filed suit against San Bernardino County and threatened suit against San Joaquin County, arguing that AB 32 – the so-called greenhouse gas bill the governor has been traveling the world to promote – prohibits the use of these funds for highway construction – unless the county can show how the highways will be built without earthmoving equipment or concrete, and unless it can show that once the highways are built people won't use them. And until that day, he suggests that all of the money may only be legally spent on mass transit, mass transit villages and – I'm not kidding here – bicycle trails and pedestrian paths.

And while we're on the subject of AB 32, the coming impact on industry, commerce, transportation, construction and energy, are nothing short of catastrophic. The measure mandates a 25 percent reduction in carbon dioxide emissions by the year 2020 and gives the California Air Resources Board unchecked power to impose any regulations or fees necessary to do so.

The state's current obligation to pay lifetime health benefits to state employees has been conservatively estimated to impose \$48 billion of additional costs to California taxpayers. And unfunded pension obligations

to the PERS and STRS systems – also on the backs of California taxpayers -  
- are now hovering around \$55 billion.

Cost overruns to maintain ongoing spending obligations also continue to escalate. Seven years ago, we operated our prisons at just above the national average of \$25,000 per prisoner. By the time of the recall, that cost had risen to \$32,000 per prisoner. And today it is \$43,000 per prisoner. (To give you a reference point, the federal prisons today average \$25,000 per prisoner and Florida averages just \$18,000). Seven and a half billion dollars of borrowing was just authorized to add 50,000 new beds to the state prisons, with the cheapest bed costing an average of \$163,000. (Michigan just completed a multi-level prison for the cost of \$56,000 per bed – one third the cost we're paying).

The governor has proposed the second biggest tax increase in California's history to pay for a portion of his "universal health care" plan – an amount the Legislative Analyst warns is at least \$3 billion short.

Similar plans in other states have consistently produced massive cost overruns, skyrocketing insurance premiums, dysfunctional markets and ultimately a deterioration in available health care. Moral of the story: European socialism won't work any better in California than it has in Europe, but that's where we're heading – and fast.

The economy is beginning to show the stress. State revenues through May are a half billion dollars short of projections.

This week, RealtyTrac reported that while monthly foreclosures have increased 2 ½ fold nationally in two years, in California, they have skyrocketed TEN FOLD.

Last year the Census Bureau reported that 287,000 more people LEFT California for other states than moved in. Our population growth is now entirely babies and foreign immigration, most of it illegal. To put it in perspective, in 2006, California suffered a greater loss of domestic population than Louisiana after Hurricane Katrina. (So there is significant statistical evidence to support the conclusion that California's public policy has done more damage to California than Hurricane Katrina did to Louisiana).

Where is the breaking point? I don't know. It could be postponed for a few years by consuming future revenues to paper over current deficits. That's the essence of the Governor's proposal to lease the state lottery to a private consortium for the next forty years. It was the essence of his Proposition 57 in 2004.

But every such gimmick further exacerbates and complicates the problem for the next generation. Like the law of gravity, the law of holes is immutable: “When you’re in one – stop digging.”

Which brings us to the central question of the evening: What to do and how to do it?

The answer of what to do should be self-evident to anyone who remembers what California once was. A generation ago the population grew at twice the rate it is today and we paid only a fraction of the taxes that we pay today – and yet we had the finest highway system in the world, the finest public school system in the country (we offered a FREE university education to every Californian who wanted one). We produced water and electricity so cheaply that many communities didn’t bother to measure the stuff. We offered abundant affordable housing at every income level.

And the only thing that has changed between those days and these is public policy. The good news is that public policy is within our power to change – that’s why we have elections – and each one offers a fleeting opportunity to fundamentally change the policies that have turned California into a less desirable place to live – for so many people – than the middle of the Nevada and Arizona deserts.

We took four wrong turns that have produced the problems we now face. First, we destroyed the constitutional constraints that maintained fiscal discipline. Second, we blurred the distinction between state and local government and usurped those decisions that ought to be made at the local level. Third, we gave unprecedented and unwarranted political power to public employee unions that they have used to plunder the state’s treasury. And finally – and most importantly -- we have begun surrendering our freedom as individuals to the state.

First, for many years several constitutional constraints had maintained California’s finances in reasonable balance – but one by one those bulwarks have been breached - and they must be repaired:

One is the authority that the Governor of California has between 1939 and 1983, to reduce state spending without having to return to the legislature to prevent an incipient deficit from developing. This power was surrendered in 1983, and today there is no mid-year check on run-away spending.

Another is the Gann Spending Limit that held the growth of state spending to inflation and population growth from 1979 to 1990. Hardly a draconian limit, it still allowed state spending to double during that decade, but it was a decade of balanced budgets, prudent reserves and no tax increases.

Another is the constitutional budget process itself. It has been a tenet of good government since the days of Magna Carta that the body that requests funding should not be the same as the body that grants it. We call this checks and balances. This is why the legislature's deliberations are supposed to be independent of the executive, and why we give the executive an independent line-item veto at the end of that process. In recent years, this time-tested safeguard has been subverted by an extra-constitutional abomination called the "Big Five," where the legislative leaders and the governor simply agree to a budget behind closed doors.

These constitutional safeguards must be repaired, restored and respected.

Secondly, during California's Golden Age there was a clear distinction between state and local government. State government concentrated its attention and its resources on those projects that benefited the entire state – local projects that exclusively benefited local communities were exclusively financed and managed by those local communities.

That distinction no longer exists, and the state government's usurpation of local revenues and prerogatives has destroyed accountability and imposed a one-size-fits-all approach to every problem – real or imagined -- that wastes enormous resources. And it has turned the state budget into a grab-bag of local pork projects, literally robbing Piedmont to pay Pomona.

Third, legislation in the 1970's gave dangerous and unprecedented political power to public employee unions. By extracting money from every public servant in the state and turning that coerced money into political contributions to elect and reward officials who work their will, they have been able to control both sides of the bargaining table and plunder the state's resources until we have reached a point that despite record levels of expenditures, we can't afford to build a decent road system, educate our kids or protect our families from predators.

In fact, according to a 2005 study by the non-partisan Employee Benefit Research Institute cited in an article last week in the Los Angeles Times, California government employees now receive 40-percent more in wages and 60-percent more in benefits than private sector employees doing the same work while paying the taxes to support this new Mandarin class.

Fourth and most importantly, we have lost the consensus on which our freedom as Americans was based: a universal recognition that every individual is born with certain inalienable rights that government exists to protect: the right to enter into voluntary associations with each other for our mutual betterment; the right to raise our families according to our own

values and standards; the right to enjoy the fruit of our own labor; the right to live where we please and to enjoy the peaceful and secure use of our property.

Freedom of commerce has been so severely constrained that it is now moving to bypass California in a textbook illustration of McClintock's fourth law of political physics: Commerce will move around any obstacles placed in its path. Government is rapidly moving to insinuate itself into our families; to tell us how to discipline our children; what we may eat; even what kind of light bulbs we may choose.

The fundamental right to own property is being lost by a perversion of medieval concepts like eminent domain (seizing one person's property for the financial gain of another) and escheat (Looting safe deposit boxes and retirement accounts on the fiction that after three years they have been abandoned). The Lords of the Left now seek to force every Californian to abide by government's preferences for their lives rather than their own. The latest edict is the "Preferred Growth Scenario" in which state government seeks to force families into dense urban centers and to deny those families the American dream to acquire a home with a yard for their children to play, a lawn, a garden and a little elbow room.

This marks a fundamental shift in the conceptual freedom upon which law and the legitimate role of government depends in a free society. It literally changes us from a nation *of free men and women* whose rights government exists to protect; into a nation *of government* whose edicts men and women exist to serve. And this is the deepest and most troubling development in the decline of our Republic.

So the final question of the evening is: How are we to restore constitutional limits to government; restore the separation between state and local government; restore the balance of political power between the public and the public's servants and restore our most fundamental freedoms as Americans?

I suggest a three part plan: One: Agitate. Two: Agitate. And, three: Agitate.

And by that I mean simply this: In normal times, democracies tend to drift off course. When things are going reasonably well, or even reasonably poorly, it doesn't make a lot of sense for people to divert time away from their families, their work, their hobbies to participate in public affairs. But when a crisis approaches, that's when you see the strength of a democracy, and it is an awesome thing. One by one, individual citizens sense the approach of a common danger, and they rise to the occasion.

I believe we are approaching such a tipping point. I think we caught a glimpse of that in the recall in 2003. Nationally, it is stirring over the invasion of our nation caused by the de facto surrender of our Southern Border. Here in California, that awakening is aided by a growing sense of the loss of fundamental freedom; the disintegration of our public works; the emergence of a Mandarin class of public employees and a sense that taxes and regulations are now choking off the ability of free men and women to prosper as they once did in this beautiful and bountiful state.

I believe a crisis is coming that will galvanize the public. Our job as individual citizens is to raise the alarm; raise the public's awareness – and to this end we have tools that make that work infinitely easier – the Internet and talk radio that now augment the political pamphlets and public meetings of our forbearers.

I sense that as I go around the state. People are angry; they are frustrated; and they are becoming increasingly alarmed. They might be *turned off* but they are not *tuned out* – quite the contrary, they are beginning to shift their time and attention to public affairs – not because they want to, but because they sense they have to. And that's why your work is more important now than ever before, because they are looking for a way to make their views matter.

So I thank you for the work that you are doing, and I tell you not to despair – events are moving faster every day, I do believe that we are fast approaching a great climacteric where we will – each of us – have the opportunity to make a profound difference in the direction of our state and our nation. And we must. After all, what has happened to California has happened on our generation's watch, and it is our generation's responsibility to set things right.

And I do believe when these events have run their course, we will all have the satisfaction of restoring to our children that California – that land of opportunity – that our parents gave to us.