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The Political Economy of Decline in California

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Is California a “failing state”? When political scientists refer to states they generally do not mean, for instance, Maryland, Hawaii, or Alaska, but rather the state as the collection of political institutions that govern and administer a given geographic territory—institutions such as the bureaucracy, the judiciary, the police, and the legislature. To assess whether these “state institutions” are in decline, our academic field investigates whether such institutions can provide public services and solve collective problems, and whether their performance is improving, stable, or worsening over time.

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Typically, scholars of state weakness, decline, and failure almost exclusively study countries in Asia, Africa, and Latin America, and it is counterintuitive to group California together with developing countries, given that our state is a global leader in technology, cultural production, agriculture, and tourism. However, we believe that California is beginning to show features of political and administrative incoherence usually found in developing countries.

True, public administration in California is fairly resilient in the face of the current crisis, and it continues to fulfill basic functions despite the seemingly permanent fiscal chaos in Sacramento: the highways are patrolled, judges render verdicts, children go to school, public health and public order are maintained, and the state university systems still graduate tens of thousands of students each year. Yet, while our state institutions are not failing in the strict-

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est sense, these institutions are undoubtedly in decline and are in danger of severe, irreparable, long-term damage.

State Decline in California

A simple glance at the newspaper reveals that in virtually every major public sector state capacity and service delivery are rapidly diminishing. This trend puts paid to the analogy with developing-world public administration. The federal courts have seized parts of California's prison system because of human rights violations. Our public universities have abandoned the core tenets of the long-standing Master Plan with far too little public discussion, and they are well down the road to being indistinguishable from private universities in their funding sources and exclusivity. Public infrastructure is in abysmal and declining condition. State parks have been shuttered. Public servants are commonly furloughed, and state and local authorities are considering selling off government buildings and other properties.

Given the current crisis, it is hard to imagine that even 20 years ago the public administration in California could deliver services relatively efficiently and at a relatively high capacity. Today virtually every sector of governance built up over decades of careful investment and planning across the 20th century—from the UC system to the prison system—is in danger of unraveling.

Revenue Management as State Capacity

Why does California find itself in this predicament? Political science can help explain some causes of this deterioration, which go far beyond the need for simple belt tightening in a time of economic crisis. In large part, the answer comes from the manner in which our state collects, adjusts, and manages its revenues. Put simply, extracting economic resources from the population—usually through taxation, and especially from elites—is the core competency of modern, successful states.

Few findings enjoy such consensus. Raising revenue through taxation is so crucial to state capacity that it forms the basis of large swathes of political science, sociology, and public policy literatures. From both the right and left of the political spectrum every major scholar of state institutional development—Max Weber, Joseph Schumpeter, Friedrich Hayek, Samuel Huntington, Charles Tilly, and, most recently, Francis Fukuyama—puts the ability of states to raise and manage revenues at the foundation of their institutional success or failure. States that cannot fund themselves effectively through taxation lapse into institutional decline; states that utilize other sources of revenue such as tariffs or oil and mineral wealth generally fall prey to their own unique pathologies such as economic inefficiency or the “resource curse.”

Collecting revenue through taxation, especially from elites, is the single most important task of successful modern states, and political scientists consider it one of the best indicators of the health and effectiveness of the wider set of institutions that govern society. Citizens can argue over whether the state should be generous or stingy with its spending, but every government needs the capacity to adjust revenues in a flexible fashion on a year-to-year basis, given economic boom or bust. This flexibility is an obvious cornerstone of any rational budgeting process: it is much easier to tweak tax rates or revenue sources than to tweak the bureaucracies that they fund—at least without damaging the decades-long cumulative work that it takes to build successful political institutions in the first place.

Yet the government of California is not able to generate consistent and stable revenues, or even adjust this revenue in the face of changing economic conditions; in particular, the state finds it exceptionally difficult to extract resources from elites such as corporations, millionaires, and landowners. It is, thus, unable to perform the core function of successful modern governance. While California can issue debt to finance its short-term deficits, borrowing is only a second-best solution to true fiscal solvency, especially given the political difficulty of running large surpluses to pay down debts rather using surpluses to increase services or decrease taxes. As a result, we are now witnessing the

beginning of a sharp decline in California's capacity to provide public services.

Institutional Constraints in Sacramento

California's revenues whipsaw through the business cycle due in part to an overreliance on highly volatile revenue from income taxes, sales taxes, and fees rather than relatively stable revenue from property taxes, but more importantly, due to a world-historical legislative logjam in Sacramento related to taxation.

The legislative logjam exists largely because of the combination of two dynamics: first, a counter-majoritarian requirement that raising taxes requires a two-thirds vote in the legislature; and second, new interest group politics that enforce a doctrinaire antitax discipline on the small-but-just-large-enough Republican minority in the legislature.

Until it was repealed last year, California had operated under a supermajority requirement to pass a budget since 1933. With the passage of Proposition 13 in 1978, voters enacted an additional supermajority requirement to raise taxes, which remains in force. The original budgetary supermajority rule existed with little problem for roughly 60 years, and Proposition 13's supermajority was commonly surmounted in the 1980s and early 1990s.

Republican and Democratic legislators alike responded to California voters' preferences for high-quality services

paid for with high taxes on corporations and the wealthy, including higher taxes on landowners than currently exist. As long as the two political parties could find negotiating space, the supermajority requirements did not preclude high quality administration, paid for in full.

This high quality administration brought significant improvements in our state's human development. During the 20th century, our state became the technological capital of the world, the center of the greatest public education systems in human history, and a home where most people enjoyed a relatively high standard of living. The California Golden Age was not a fluke of nature caused by our sandy beaches and excellent skiing; prudent, high-quality public administration funded by taxation was responsible in large part for these circumstances. We were both born in California under this social contract, an arrangement that is under siege today.

The New Age of Ideological and Party Discipline

Democrats have controlled the legislature almost continually since 1970. And starting in the 1990s, Democrats have enjoyed ever-larger majorities, reflecting the growing dominance of Democratic Party registration and left-leaning policy preferences in California. These majorities would prefer to tax corporations and the extremely wealthy

in order to maintain what they perceive as an equitable provision of public services.

Yet, while these large legislative majorities have had the responsibility and the democratic mandate to maintain the high-quality government services they promised during election campaigns, they have not had the authority to pay for these services unless they could draw some minority party members to their side, or win an almost unobtainable two-thirds of the seats in the legislature. This arrangement essentially granted a veto to a well-organized minority faction in the legislature, which was not a problem so long as there was bargaining space for the two parties to compromise. But starting in the late 1990s, the dwindling number of Republicans in the legislature figured out this leverage, and they have used it to hold hostage virtually any tax increase, despite being unable to convince a majority of voters in the state to endorse their small-government agenda and elect more Republicans to the legislature.

What precipitated this change in Republican legislative behavior? Republicans, even early in the "Tax Revolt" era, had previously considered taxes to be a normal public policy tool. Today taxes are anathema. Republicans have shifted their legislative voting patterns because deviating from the party-line has become political suicide; most importantly, these legislators are reacting to a new ideological and interest group driven party discipline in Sacramento. Relative to their left-leaning counterparts, right-leaning,

antitax interest groups are better organized, better funded, more ideologically driven, and less pragmatic. With fewer legislators to pressure, right-leaning groups also have better focus.

As a result, Republican legislators face nearly insurmountable incentives to vote against any tax increases (even tweaks!), because right-leaning interest groups can very credibly threaten “defecting” legislators by running primary challengers against them or by withholding campaign donations or endorsements. Among the most effective such pressure groups are the Howard Jarvis Taxpayers Association and Americans for Tax Reform, led by Grover Norquist.

Term limits, uncompetitive redistricting, and a rightward shift in preferences among Republican voters contribute to a system in which independent-minded Republican legislators are unwilling to strike a bargain with Democrats on taxes. Yet we believe the single biggest explanation of Republican legislators’ voting behavior on tax policy is the effect of the antitax interest groups. Events during the height of the recent budget negotiations strongly suggest that interest group pressure, rather than voter preferences or uncompetitive districts, drive Republican behavior in the California Legislature. On June 10, the newly created California Citizens’ Redistricting Commission released its first draft maps. These maps radically realigned virtually every legislative and congressional district, and the media

and analysts breathlessly declared the maps a political “tsunami” (*San Jose Mercury News*), a political “earthquake” (*Politico*), or another such dramatic event. Eric McGhee at the Public Policy Institute of California determined that the realignment was so complete that 25 out of 120 state legislators would share a district with another incumbent legislator, and that perhaps as many as seven additional Assembly seats and four additional Senate seats were now competitive. At the time of the budget negotiations, a consensus emerged that in the 2012 general election, Democrats had a very good chance of picking up a couple of seats in each chamber and reaching the two-thirds majority necessary to raise tax rates and call a constitutional convention. These “tectonic” shifts could not have escaped notice of the Republican legislators, and they happened just as pressure to agree to Governor Brown’s budget plan was highest. Yet budget negotiations broke down only a few days later.

Even though the redistricting tsunami and the subsequent breakdown of budget negotiations happened nearly simultaneously, we believe that if voter preferences were driving legislative behavior during the budget negotiations then two things could have happened. First, Republicans in newly competitive seats could have switched their support to the governor’s budget to appeal to the preferences of the median voter in their new districts, with Brown making some minor concessions. Second, the Republican cau-

cus as a whole could have shifted the bargaining terms to react to their newly precarious political position. Neither event took place, which suggests that the pressure of anti-tax interest groups—which was intense and constant both before and after the release of the redistricting maps—trumped legislators’ perceptions about voter behavior in their districts. Future, more detailed, multi-methods research should be able to answer these questions more comprehensively.¹ On the other hand, with less intense pressure coming from their own interest groups, Democrats have repeatedly proposed significant spending cuts over several budget cycles. In other words, the incentives are misaligned for a grand bargain that cuts some spending and raises some taxes and, indeed, are aligned asymmetrically between the two parties: Republican legislators are less willing to bend than their Democratic counterparts. Governor Brown proposed a grand bargain, as Governor Schwarzenegger did before him, but unless the incentives facing Republican legislators, the supermajority requirement for taxes, or both, change significantly, our political leaders will be unable to slip the iron fetters on the budget process.

These political arrangements act as a ratchet effect on government finances in California regardless of economic circumstances: tax rates go downward easily, but upward only with herculean effort. Yet, instead of dramatically lowering public expenditures as was intended (starving

the beast), the ratchet effect has led to the type of hand-waving, smoke-and-mirrors budgetary gimmicks that have characterized budget negotiations in Sacramento for at least a decade and have put California’s credit rating in the tank. (Ironically, the same political factions that wish the government to operate like a business have prevented California from raising taxes in the same fashion that any business might raise its prices.)

The budget enacted on June 30 is a vast improvement over the hand-waving budgets of the Schwarzenegger era, but its success relied heavily on luck and the passage last year of Proposition 25. Higher than anticipated tax revenues and the new simple majority requirement for budgets that do not include tax increases allowed the Democratic legislature and Governor Brown to enact a budget without Republican interference. But the budget deal punted again on raising taxes on the wealthiest Californians and corporations.

A Grim Future

The risks of continued gridlock are stark: far fewer weeks of K-12 education per year, decrepit roads, poor families and the unemployed abandoned to their fate, higher education focusing not on the best students but on the most profitable ones, and declining standards of living for all Californians. Yet, changing the state constitution to

lower the supermajority requirement for tax increases requires the same legislative supermajority, and the antitax discipline enforced on Republican officeholders shows little sign of abating. If anything, California has exported its longstanding antitax ideology, almost off-the-shelf, to the rest of the country. Similar budgetary gridlock is a growing concern in Congress, where external actors such as the Club for Growth, Americans for Tax Reform, Americans for Prosperity, Fox News and its commentators, Rush Limbaugh, and various corporate-funded Tea Party groups impose an increasingly strict discipline on Republican congressmen and women, short-circuiting any attempts at brokering legislative deals with Democratic colleagues, such as during the recent debt-limit negotiations. But instead of a supermajority requirement for tax increases, Congress is struggling with its own institutional hurdles in the form of divided government and the Senate filibuster.

So for the foreseeable future, our state institutions will likely be left in a condition of arrested development and decline—similar to struggling developing countries—despite large majorities of the public and the legislature supporting high-quality public service provision. (The public also likes low taxes in general; but clearly supports higher taxes on the extremely rich and even themselves, if such taxes are linked with maintained or improved public services.)

Since the collapse of the efforts of the California Constitutional Reform Commission (1995), most attempts to precipitate thoroughgoing constitutional reform have failed. A recent bright spot has been the ongoing work of the California Forward coalition. Previous editions of this journal offered many reforms worthy of consideration, and a few key reforms have recently passed. The Citizens' Redistricting Commission (Proposition 11) seems promising even if it failed to change legislative behavior in the most recent budget negotiations; perhaps after future elections legislators will be less responsive to interest groups and more responsive to the electoral center. Simple majority budgeting (Proposition 25) has already led to the first on-time budget since 2006 (only the second in a decade), even if the final budget agreement still relied on a huge dollop of luck.

However, the most politically unpopular but necessary reforms remain in limbo: adjusting Proposition 13's property tax rules, removing the supermajority requirement for tax increases, reforming the popular initiative process to reduce or eliminate budgeting through the ballot box, and loosening term limits to undercut the power of interest groups. Furthermore, other promising, more far-reaching reforms—such as introducing some amount of proportional representation, switching to a unicameral legislature with more representatives, or eliminating unnecessary or

duplicative local government authorities—are likely too wonky or “foreign” to appeal to California voters. Asking voters to approve unpopular or obscure and unfamiliar reforms in a piecemeal fashion through the initiative process seems destined for failure. Far more promising is bundling these bitter pills with other, more popular reforms—such as further decentralization or realignment, or a rainy day fund—as part of a broader constitutional ratification campaign in which both political parties and leading Californians have endorsed the whole charter, even if they object to certain parts of it. Piecemeal reform risks allowing necessary members of the reform coalition—most importantly, the two political parties—to defect on individual initiatives and campaigns. While a convention strategy is not without risks of dysfunction and deadlock, these risks can be mitigated with careful planning and preparation. A convention strategy also has a chance of internalizing tradeoffs and encouraging buy-in among the deeply divided and mutually suspicious stakeholders across California, in a way that the alternative expert commission strategy does not.

A constitutional convention sounds more dramatic than it really is: since 1945, various U.S. states have enacted 15 new constitutions, usually through conventions. While our constitution has been amended hundreds of times since statehood, California has not had a constitutional convention since 1879, and has not had root-and-branch revision

since 1976. California is due for such far-reaching constitutional reforms.

Our diagnoses of the problems and our prescriptions for change are not novel—California has been in a budget crisis for a long time. But it is not too late to arrest our state’s institutional decay; it will require sustained, intense political pressure on both Republican and Democratic legislators to call a constitutional convention. That pressure can only come from Governor Brown, major interest groups, and the public at large.

Notes

¹ An alternative explanation is that internal discipline kept the Republican caucus intact. However, we believe that intra-caucus discipline is being enforced by the external interest groups noted above; and that, for all intents and purposes, intra-caucus discipline is identical to interest group discipline in the California legislature. With severe term limits, incumbency loses its power to insulate legislators from interest group pressure, and power shifts from elected officials to lobbyists, consultants, and interest groups.