

## How California Became France

Unable to afford a welfare state and unable to reform it.

/Sacramento, Calif./

As California goes, says an old cliché, so goes the nation. Oh my.

These days, the Golden State leads the nation on economic and fiscal dysfunction, from the empty homes spread across the Central Valley to the highest state budget shortfall in the nation's history. Meanwhile, its political class pioneers denial in the face of catastrophe.

The spark for the immediate political crisis was a familiar Californian discovery, a fiscal hole of \$41 billion. Gov. Arnold Schwarzenegger declared an "emergency" in November and took legislative leaders behind closed doors to hammer out a compromise. The budget adopted in a marathon session this week splits the baby, closing the deficit with spending cuts (hated by the left) and tax hikes (ditto the right), all the while largely failing to tackle the state's built-in structural defects.

Some parts of the deal, such as borrowing from future lottery receipts, may yet collapse at the ballot in May, and California could soon be back in line to mark another first -- state bankruptcy. In anticipation, Standard & Poor's this month downgraded its bond rating a notch below Louisiana's.

Even discounting for the impact of global recession, the most populous state's ills are unique and self-inflicted -- and avoidable. In the last three decades, California expanded the public sector and regulation to Europe-like dimensions. Schools, state employees, health care, even dog kennels, benefited from largesse in flush times. Government workers got 16 official holidays, everyone else six. The state dabbled with universal health care and adopted strict environmental standards. In short, California went where our new president and Nancy Pelosi of San Francisco want America to go.

The Opinion Journal Widget

<[http://www.widgetbox.com/widget/opinion-journal?newBlidget=true&\\_\\_fsk=1491914529](http://www.widgetbox.com/widget/opinion-journal?newBlidget=true&__fsk=1491914529)>

Download Opinion Journal's widget and link to the most important editorials and op-eds of the day from your blog or Web page.

<[http://www.widgetbox.com/widget/opinion-journal?newBlidget=true&\\_\\_fsk=1491914529](http://www.widgetbox.com/widget/opinion-journal?newBlidget=true&__fsk=1491914529)>

Now there's much to recommend the Old World. California brings to mind my last home, France -- God's country blessed with fertile soil for wines, sun-blached beaches, and a well-educated populace. Amusingly, both states are led by bling-bling immigrants married to glamorous women and elected to shake up the status quo. In both departments, the governor got a head start on Nicolas Sarkozy in Paris.

The parallels are also disquieting. The French have long experienced the unintended consequences of a large public sector. Ask them about it. As the number of people who get money from government grows, so does the power of constituencies dedicated to keep this honey dripping. Even when voters recognize the model carries drawbacks, such as subpar growth, high taxes, an uncompetitive business climate and above-average unemployment, their elected leaders find it near impossible to tweak the system. This has been the story of France for decades, and lately of

California.

Six years ago, Mr. Schwarzenegger arrived in Sacramento to "cut up the credit card" and give the girlie men at the State Capitol a testosterone shot. California languished then in a fiscal crisis whose causes were pretty much the same as today. The hapless Gray Davis had been recalled, and the Austrian-born actor made a promising start to break the pattern.

In 2005, banking on his popularity, the governor pushed an ambitious ballot initiative to impose a hard state spending cap, limit the unions' political buying power, tighten requirements for teacher tenure, and overhaul a gerrymandered state political map. Arnold lost.

After that setback, Mr. Schwarzenegger shifted his attention to green jobs and energy, winning fans in Europe and among Democrats. "He's recognized that California's a pretty moderate place," says Darrell Steinberg, the Democratic president pro tem of the Senate. "You've got to govern from the middle."

People closer to the governor offer a different take. "Once he got beat, he reverted back to, 'I want to be liked,'" says a former Schwarzenegger aide. "It's classic narcissism." (The governor declined requests for an interview, but I did walk away with three custom-made Daniel Marshall cigars from his office.)

In the Arnold era, the overall cost base has stayed the same as in the Davis era. That isn't entirely his fault. California's constitution locks in higher spending in good years, paving the way for huge deficits in the down. A dependence on a highly progressive tax code leaves it particularly vulnerable to boom and bust cycles. Democrats run the legislature. Across the street from the Capitol, the offices of unions and lobbyists are arguably the real locus of power in Sacramento.

In this budget debacle, Mr. Schwarzenegger found himself back where his remarkable political journey began in 2003. Only now with him in the Davis role. The pill is bitterer still since the budget he signed yesterday will raise the vehicle tax -- the same Davis tax increase he campaigned against and terminated in his first act in office.

Neither side won with this deal, to which the one good alternative would be a time machine to take Sacramento's political class back five years and do it right then. In the event, Republicans split, and signed off on \$14.5 billion in new taxes and a less than airtight spending cap. State personnel reductions are minimal, as well, further infuriating their base. The Democrats swallowed \$15 billion in spending cuts, which unions vow to fight.

California is in a French-like bind: unable to afford a welfare-type state, and unable to overhaul it. "The people say they want all these programs, then there's nothing they want to pay for," says Hector De La Torre, a Democratic assemblyman. "The schizophrenia in the legislature reflects the peoples'."

This week's deal likely won't keep the state in balance beyond 18 months, perhaps even fewer. "This budget will take us through 2010," says Karen Bass, the Assembly speaker, a Democrat from Los Angeles. "I don't know if it will hold."

Some Democrats and Republicans privately say the best option may be failure. The rough scenario is fiscal insolvency, followed perhaps by federal receivership. No precedent or legal avenue exists for a state to reorganize its affairs under a form of Chapter 11 protection, but that striking suggestion sounds better by the day.

The expectations for Mr. Schwarzenegger's two remaining years in office are low, leaving many of his supporters to ponder the might-have-been. "No one has the political incentives to cut government," says a Republican strategist. "It takes tremendous political capital, which Arnold had. It's a tragedy to have this rare moment when you can try to change and waste it."

For the nation, California is the what-might-be.

\*Mr. Kaminski is a member of the Journal's editorial board.\*

Printed in The Wall Street Journal, page A9

Copyright ©2009 Dow Jones & Company, Inc. All Rights Reserved