Opinion: Will legislators create a reserve with the surplus?

By Dan Walters, Sacramento Bee

A half-decade ago, as California's economy was being hammered by a severe recession and the state budget was awash in red ink, then-Gov. Arnold Schwarzenegger and legislators created a blue-ribbon commission to study revenue "volatility" and recommend ways to offset it.

The state had experienced wild swings of revenue for years, and its politicians, including Schwarzenegger, had compounded their effects by overspending periodic windfalls, only to see serious deficits when revenues later declined.

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Creation of the "Commission on the 21st Century Economy" was an implicit admission that politicians, on their own, were incapable of curbing that irresponsible tendency.

However, the commission, headed by wealthy businessman Gerald Parsky, divided into two camps.

One, headed by Parsky, advocated changes in the tax system to reduce volatility — reducing the very high proportion of taxes paid by a few wealthy Californians whose incomes were especially volatile, and placing more load onto middle-income taxpayers.

The other, more liberal faction said that such tax changes would be unfair to the nonwealthy. It advocated, instead, mitigating the effects of volatility, if not volatility itself, by diverting windfalls into reserves that could then be tapped to avoid deficits when revenues dropped.

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