

# Opinion: Calif.'s core budget problem is underspending

By Joe Mathews

We have reached the high holy days of California's budget season, as our governor and Legislature decide which programs will gain life, and which will be sacrificed. And so, per tradition, our state's ministers have begun their ritual sermons on the dangers of overspending.

They are preaching nonsense. California's real problem is underspending.



Joe Mathews

Go ahead and dismiss this as blasphemy. After so many years of budget crises and big deficits, Californians have adopted a budget theology grounded in self-flagellation, even though our recent budgets contain small surpluses. You can probably recite the catechism yourself: We're still sinners who spend too much on state services! Far more than we take in! So save us, Non-Denominational Higher Power, from our profligate selves with budget cuts or spending limits!

I am here to tell you that our overspending religion urgently needs reformation.

And that requires genuine revelation. Our state's tendency to produce big deficits is not caused by big spending. We have

had big deficits because our state budget is based on volatile formulas that expand deficits in unpredictable ways. In fact, California has long been on par with other states in expenditures per capita and in spending as a percentage of state GDP. Nevertheless, we cling to our religious fear of overspending and take the cheaper path—which often costs the state more money in the long run.

The problems of underspending are most obvious when it comes to pension obligations. California governments and employees have long spent too little money on contributions to pension funds. So, to catch up to our pension obligations, California taxpayers are having to make much bigger contributions now, which takes money away from critical services like schools and health care.

The costliness of underspending is also the story behind rising public higher education costs in California. Over generations, the state has cut back its relative contribution to the University of California and California State University systems. This underspending has been made up for in part with ever-higher tuition fees for students.

While overspending may be the stated enemy, underspending gets you into more trouble. The UC is under siege now for underspending—an audit found \$100 million-plus in secret reserves. The state parks department had a similar secret reserve scandal in 2012. Underspending in California's overcrowded prisons was so bad the federal courts forced the state to spend more and reduce the prison population.

Underspending also explains problems with our basic services. Studies have found that the state spends tens of billions less on schools than would be necessary to provide all Californians with an adequate education. And that underspending has real costs: California is not producing enough college graduates and skilled workers.

The state has made bold promises on child care and early-childhood education that it hasn't adequately funded, leaving citizens to pay for the rest. Child care costs more than college tuition here. And housing costs more than just about anything, in part because we've spent so little on housing that we have a massive shortage that has pushed up home prices to more than twice the national average.

That the state has failed for generations to spend enough to build and maintain infrastructure is obvious in the degraded condition of roads, bridges, and waterways. Most recently, the state's failure to spend adequately to create strong-enough spillways at Oroville Dam is forcing California to make hundreds of millions of dollars' worth of repairs and upgrades before the next rainy season.

Our state's leaders understand the problem with underspending, but they haven't been successful at explaining the problem, credibly, to the public. It also hasn't helped that when state officials do need to spend big, they haven't been very good at it. Examples include the new Bay Bridge, with its delays, cost overruns, and questions about the integrity of its steel rods, and the high-speed rail project, where spending and construction have been so slow that many people think the project will die.

In recent budgets, Gov. Jerry Brown and the Legislature have sought to counter the state's tendency to underspend now and pay later. They've made a great show of efforts to pay down debt. And Brown's current budget proposal would make a large advance contribution to pensions now, in order to reduce liabilities later. But that payment, unfortunately, is achieved by borrowing billions from a state special fund.

Brown has grown popular as a proselytizer of the credo that California can be managed on the cheap. That's appealing dogma for a state whose people struggle with a very high cost of living.

But the realities of our state should remind us that successfully running California on the cheap is a fantasy. And a very expensive one at that.

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