

LEGISLATIVE DECISION-MAKING
UNDER SEVERE RESOURCE CONSTRAINTS

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LEGISLATIVE DECISION-MAKING
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I. INTRODUCTION

A. TOPIC

1. TODAY, I WANT TO TALK ABOUT ONE ASPECT OF "CUTBACK MANAGEMENT": HOW LEGISLATIVE BODIES MAKE DECISIONS WHEN REVENUES ARE NOT SUFFICIENT TO MAINTAIN EXISTING SERVICES.
2. MY COMMENTS ARE DRAWN FROM CALIFORNIA'S EXPERIENCE SINCE PROPOSITION 13.
 - a. IN BRIEF, DURING THIS PERIOD, THE STATE'S GENERAL FUND WENT FROM A \$4 BILLION SURPLUS TO A \$3 BILLION DEFICIT (EXPRESSED ON A CURRENT SERVICES BASIS).
 - b. THAT IS, RESOURCES IN THE CURRENT YEAR ARE APPROXIMATELY \$3 BILLION LESS THAN THE AMOUNT NEEDED TO MAINTAIN THE LEVEL OF SERVICES PROVIDED BY THE STATE BEFORE THE RECESSION BEGAN.

B. CONCLUSION

1. LEGISLATIVE BODIES ARE NOT VERY GOOD AT RESPONDING TO A SHRINKAGE OF RESOURCES.
2. IN FACT, THEY GENERALLY DO A LOUSY JOB OF SETTING PRIORITIES WHEN EXPENDITURES HAVE TO BE CUT.
3. THIS IS A REFLECTION NOT OF THE INCOMPETENCE OF LEGISLATORS, BUT OF THE PUBLIC'S SCHIZOPHRENIC ATTITUDE TOWARD GOVERNMENT.

C. TRANSITION

1. BEFORE DEVELOPING THESE THEMES, LET ME GIVE YOU A LITTLE BACKGROUND ON THE CONTEXT IN WHICH SPENDING CUTS HAVE HAD TO BE MADE IN RECENT YEARS.
2. THIS CONTEXT HAS BOTH ECONOMIC AND SOCIAL DIMENSIONS TO IT.

II. CONTEXT IN WHICH DECISIONS ARE MADE

A. "TAXPAYERS' REVOLT"

1. THE CUTS IN EXPENDITURES THAT WERE MADE IN MOST STATE CAPITALS DURING THE LATE 1970'S AND EARLY 1980'S ARE GENERALLY ATTRIBUTED TO TWO FACTORS:
 - a. THE RECESSION, AND
 - b. THE SO-CALLED "TAXPAYERS' REVOLT".
2. IN A SENSE, THE "TAXPAYERS' REVOLT" HAS BEEN A FACTOR IN FORCING CUTBACKS AT THE STATE LEVEL.
 - a. CLEARLY, THE PUBLIC DOES HAVE AN AVERSION TO PAYING TAXES.
 - b. THIS AVERSION IS PARTICULARLY STRONG WHEN A FAMILY'S STANDARD OF LIVING IS UNDER INTENSE PRESSURE.
 - c. THIS WAS CERTAINLY THE CASE THROUGHOUT MUCH OF THE POST-PROPOSITION 13 ERA, WHEN THE TWO PRIMARY TAXES LEVIED BY THE FEDERAL GOVERNMENT WERE TAKING A LARGER AND LARGER BITE OUT OF FAMILY INCOMES. I'M REFERRING SPECIFICALLY TO:
 - (1) THOSE TAXES THAT ARE LEVIED AUTOMATICALLY, THROUGH THE TAX CODES ("BRACKET CREEP"), AND

(2) THOSE "TAXES" THAT ARE LEVIED THROUGH THE PRICE SYSTEM (INFLATION).

d. AS A RESULT, DURING THE LATE 1970'S AND EARLY 1980'S, IT BECAME HARDER AND HARDER FOR FAMILIES TO MAINTAIN THEIR STANDARD OF LIVING, MAKING THEM MORE RESISTANT THAN USUAL TO TAXATION.

B. DICHOTOMY BETWEEN SPENDING AND TAXING

1. IT IS IMPORTANT TO UNDERSTAND, HOWEVER, THAT THE "TAXPAYERS' REVOLT" WAS A SUPPLY-SIDE PHENOMENON -- IT IN NO WAY REFLECTED A DECLINE IN THE DEMANDS WHICH THE PUBLIC PLACED (AND CONTINUES TO PLACE) ON GOVERNMENT.

a. THE "THERE OUGHTA BE A LAW" MENTALITY IS EVERY BIT AS STRONG TODAY AS IT EVER WAS (DOG AND CAT SPAYING).

b. AND THE VEHICLES FOR TRANSLATING DEMANDS INTO PRESSURE ON LEGISLATIVE BODIES FOR MORE SPENDING -- INTEREST GROUPS -- ARE AS WELL-TUNED AS EVER:

(1) 360 IN SACRAMENTO;

(2) NEARLY 1,500 IN WASHINGTON.

c. EVEN THE BUSINESS COMMUNITY, THAT LIKES TO THINK OF ITSELF AS ANTI-SPENDING, IS PART OF THE THRUST FOR "MORE" (M&M).

2. THIS SCHIZOPHRENIA TOWARD GOVERNMENT MAKES IT EXCEEDINGLY DIFFICULT FOR ELECTED OFFICIALS TO DEAL WITH A REVENUE SHORTFALL.

3. IT IS PARTICULARLY DIFFICULT, HOWEVER, FOR LEGISLATIVE BODIES.

- a. WE COULD SPEND AN ENTIRE WEDNESDAY AFTERNOON TALKING ABOUT THIS ASPECT OF THE PROBLEM.
- b. BASICALLY, IT COMES DOWN TO THE IMPORTANCE OF MONEY IN CAMPAIGNING AND THE GREATER NEED FOR LEGISLATORS TO AVOID DISAPPOINTING THOSE GROUPS WHO PROVIDE THE MONEY.
- c. EXAMPLE: \$500,000 PER RACE IN CALIFORNIA.
 - (1) THIS REFLECTS NONCOMPETITIVE AS WELL AS COMPETITIVE DISTRICTS.
 - (2) GENERALLY, \$450,000 PER CANDIDATE FOR CONTESTED SENATE RACES.
 - (3) ALL FOR THE PRIVILEGE OF GETTING A JOB THAT PAYS \$28,000 PER YEAR!

III. HOW LEGISLATIVE BODIES RESPOND TO THE NEED TO CUT BACK

A. INITIAL RESPONSE: DELAY ACTION

- 1. WHEN FIRST CONFRONTED WITH THE PROSPECT OF A DEFICIT IN THE CURRENT SERVICES BUDGET, THE LEGISLATURE'S INITIAL RESPONSE IS TO TAKE NO ACTION AND HOPE THE PROBLEM GOES AWAY.
 - a. IN PART, THIS IS HUMAN NATURE (TERM PAPERS).
 - b. IN PART, IT REFLECTS THE MEMBERS' AVERSION TO TAKING, AS OPPOSED TO GIVING.
 - (1) THE PRICE OF DELAY -- FOREGONE OPTIONS, MORE DIFFICULT ADJUSTMENTS LATER ON -- IS PERCEIVED AS BEING LOWER THAN THE PRICE OF ACTION: DISAPPOINTING THOSE WHO SUPPORT THE PROGRAM.

(2) "I DIDN'T COME UP HERE TO TAKE MONEY AWAY FROM PEOPLE".

2. THE TRIGGER FOR ACTION IS THE REALITY -- RATHER THAN THE PROSPECT -- OF A DEFICIT.

B. SECOND RESPONSE: GIMMICKS

1. TYPES:

- a. REVENUE ACCELERATIONS
- b. ASSET SALES
- c. TRANSFERS

2. A BOTTOMLESS PIT.

C. THIRD RESPONSE: CUTS

1. FIRST ROUND OF CUTS -- TAKE IT FROM THOSE WHO NEVER HAD IT TO BEGIN WITH (NEW PROGRAMS).

a. MANIFESTATIONS

(1) FAR FEWER BUDGET AUGMENTATIONS

(2) DECLINE IN LEGISLATION LAUNCHING NEW PROGRAMS

(a) NO DECLINE IN NUMBER OF LEGISLATIVE PROPOSALS

(b) FEWER ARE ENACTED

b. EXPLANATION -- CONSTITUENCY PROBLEMS ARE EASIER TO DEAL WITH.

2. SECOND ROUND OF CUTS -- LET INFLATION DO THE DIRTY WORK.

a. MANIFESTATION: PROVIDE COST-OF-LIVING OR PRICE ADJUSTMENTS THAT ARE LESS THAN WHAT IS NEEDED TO COMPENSATE FOR INFLATION.

- b. EXPLANATION
 - (1) EASIER POLITICALLY -- MONEY ILLUSION.
 - (2) AVOIDS HAVING TO FACE THE REAL ISSUE OF WHAT SERVICES ARE TO BE ELIMINATED.
- 3. THIRD ROUND OF CUTS -- ACROSS-THE-BOARD REDUCTIONS
 - a. MANIFESTATION: IN CALIFORNIA WE HAD:
 - (1) THREE SEPARATE HIRING FREEZES;
 - (2) A 25 PERCENT ACROSS-THE-BOARD CUT IN TRAVEL;
 - (3) TWO 5 PERCENT ACROSS-THE-BOARD CUTS IN OPERATING EXPENSES, FOLLOWED BY A 2 PERCENT CUT AND A 3 PERCENT CUT.
 - b. EXPLANATION:
 - (1) RING OF FAIRNESS
 - (2) IGNORANCE IS BLISS
- 4. DIGRESSION
 - a. AT THIS POINT, YOU'RE PROBABLY WONDERING WHY THE CALIFORNIA LEGISLATURE NEEDS THE LEGISLATIVE ANALYST AND HIS STAFF OF 90 PEOPLE, SINCE MOST EVERYONE CAN MULTIPLY THROUGH BY .95.
 - b. ANALYTICAL RESOURCES ARE NICE TO HAVE AROUND WHEN THE FIRST THREE ROUNDS DON'T DO THE TRICK.
- 5. FOURTH ROUND OF CUTS -- EXPLICIT PROGRAM CUTS
 - a. (AS OPPOSED TO THE IMPLICIT CUTS IN ROUNDS TWO AND THREE).
 - b. THIS IS WHERE POLICY ANALYSIS AND PRIORITIES COME IN.

IV. LESSONS REGARDING CUTTING PROGRAMS AT THE STATE LEVEL

A. FIRST LESSON -- THERE ARE NO EASY MARKS WHEN IT COMES TO CUTTING EXPENDITURES.

1. THOSE WITH LITTLE EXPERIENCE IN THE BUDGET PROCESS TEND TO ASSUME THAT THERE ARE ALL OF THESE PAINLESS CUTS THAT COULD BE MADE IF ONLY STAFF WOULD TAKE THE TIME TO FIND THEM.

a. NEW PRESIDENTS HAVE THE SAME PERCEPTION.

b. "THE MONEY THAT GOVERNMENT SPENDS BUT NOBODY RECEIVES."

2. THIS PERCEPTION IS DEAD WRONG -- THERE'S A POWERFUL, WELL-ORGANIZED CONSTITUENCY FOR EVERY NICKEL IN THE BUDGET.

B. SECOND LESSON -- MOST OF THE MONEY IS IN AREAS WHERE EMOTIONS RUN HIGH

1. STATE OF CALIFORNIA

a. THE STATE HAS ONLY FOUR LINES OF BUSINESS:

(1) IT EDUCATES CHILDREN AND YOUNG ADULTS;

(2) IT PROVIDES HEALTH SERVICES;

(3) IT PROVIDES WELFARE ASSISTANCE; AND

(4) IT LOCKS UP BAD GUYS.

b. THESE FOUR FUNCTIONS -- PLUS INTEREST ON INDEBTEDNESS -- ACCOUNT FOR 92 CENTS OUT OF EVERY \$1 SPENT FROM THE GENERAL FUND.

c. HEALTH, EDUCATION, AND WELFARE ACCOUNT FOR 87 CENTS OUT OF EVERY DOLLAR.

d. (MARK'S COMMENTS ON PEOPLE PROGRAMS)

2. FEDERAL GOVERNMENT -- SITUATION IS MUCH THE SAME.

- a. ALSO, FOUR LINES OF BUSINESS: H E W, PLUS DEFENSE, WHICH ACCOUNT FOR 95 CENTS OUT OF EVERY DOLLAR.
 - b. LOOKING JUST AT NON-DEFENSE SPENDING, H E W ACCOUNT FOR 93 CENTS OUT OF EVERY DOLLAR.
3. CONCLUSION -- IT'S PRETTY HARD TO TALK ABOUT CUTS IN GOVERNMENT PROGRAMS WITHOUT MENTIONING THE BIG THREE PEOPLE PROGRAMS.
- C. THIRD LESSON -- IT PAYS TO BE SMALL
1. IN MAKING PROGRAM CUTS, MOST OF THE ATTENTION IS GENERALLY FOCUSED ON THE LARGEST STATE PROGRAMS.
 - a. GENERAL FEELING THAT SMALL PROGRAMS AREN'T WORTH THE TROUBLE.
 - b. THE FACT THAT ALL THOSE BIG NUMBERS IN THE BUDGET ARE MADE UP OF A LOT OF LITTLE NUMBERS IS NOT APPRECIATED.
 2. THIS LEADS TO CERTAIN ANOMALIES:
 - a. HEIR FINDERS,
 - b. MEDICAL SCHOOL, AND
 - c. MEDI-CAL.
- D. FOURTH LESSON -- IT PAYS TO HAVE A DEDICATED FUNDING SOURCE
1. SPECIAL FUND FINANCING; AND
 2. LACK OF EVEN-HANDEDNESS IN WIELDING THE KNIFE.

V. CONCLUSION

- A. LEGISLATIVE DECISION-MAKING WHEN RESOURCES ARE GROWING
1. FAR MORE EFFECTIVE IN SETTING PRIORITIES.

2. UTILIZE PROGRAM AND POLICY ANALYSIS.

B. WHO'S TO BLAME FOR THE LEGISLATURE'S FAILINGS ON THE DOWNSIDE?

1. PUBLIC SCHIZOPHRENIA, AND

2. THE HIGH COST OF CAMPAIGNING.

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