

Who Killed California?

Troy Senik

THE STORY OF CALIFORNIA has always been a great American tale of triumph over long odds. Since its entry into the Union, in the aftermath of war and the midst of gold fever, the state has seemed an improbable colossus. But again and again, California has made its way through hours of challenge—not only surviving intact, but emerging as a model for the rest of the nation.

In the 19th century, despite immense geographic, ethnic, political, and social differences, Californians managed to form a cohesive identity, resisting numerous efforts to divide the state. They overcame the “curse of natural resources” that so long afflicted other commodity-rich states (and still afflicts some, like Alaska), laying the groundwork for a thriving and diverse economy that now dwarfs those of many developed countries. In the 20th century, through one of the greatest feats of engineering in human history, they turned the semi-arid desolation of southern California into a booming megalopolis and home to the second-largest metropolitan area in America. California ranked 20th among the states in population in 1900, but by 1963 it was first, where it has remained.

And through a series of social, political, and economic experiments, California has acted as America’s foremost laboratory of innovation, trying out ideas the country as a whole would go on to adopt. In the 1960s under Governor Pat Brown, the state offered a model of modernization, building the most advanced education and transportation infrastructures in the nation. Under Brown’s successor, Ronald Reagan, it offered a model of conservative governance that would go on to transform American politics. Hollywood has made California a crucial part

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of America's cultural identity, and Silicon Valley has put it at the heart of our vision of the future. For many decades now, Americans have seen California as a harbinger of promising things to come.

Today, however, California has become a warning sign. Beset by economic disaster and political paralysis, the state is in the midst of a systemic crisis. And while the meltdown has certainly been accelerated by the recession of the past two years, its causes involve two decades of poor judgment, reckless mismanagement, and irresponsibility. How California got into this mess has a lot to teach the rest of the country; how it gets out will say a great deal about America's prospects.

A STATE IN CRISIS

It would be difficult to overstate the magnitude of California's troubles. In economic terms, the state is simply broke: issuing IOUs as payments for goods and services, begging the federal government to back state debt (a request the Obama administration denied), and watching its credit rating plummet. To address a \$42 billion shortfall in February of this year, the legislature enacted a package that included the largest state tax increases in American history, leaving California with the highest sales and personal income-tax rates in the country (though Hawaii would supplant its lead in the latter category in May). When another \$26 billion shortfall emerged by summer, lawmakers — chastened by the 2-1 rejection of further tax hikes in a May 19 special election — agreed on another package that featured more than \$16 billion in spending reductions, including deep cuts to education, health, and social services.

That's not even the worst of it. For all of the high drama that has accompanied 2009's fiscal travails (a stunning populist backlash against high taxes, widespread public-employee protests over spending cuts), California's lawmakers let the crisis go to waste — failing to use the moment to improve the state's financial outlook. As the *San Diego Union-Tribune's* John Marelius noted:

[California projects] a deficit of between \$7 billion and \$8 billion for the next budget cycle. Plus, federal stimulus money, \$5 billion of which was used to backfill education cuts this year, may not be available. And about the time the next governor takes office, \$16 billion in temporary tax increases that were included in [the] February budget deal will expire.

As if that weren't apocalyptic enough, California's short-term financial difficulties pale in comparison to its long-term obligations. In the most recent fiscal year, the California Public Employees' Retirement System and the California State Teachers' Retirement System, the state's two largest pension plans, lost a combined total of nearly \$100 billion — about a quarter of their value — in the market downturn. If legislators thought tackling a \$60 billion deficit was trying, they are sure to love the challenge of making good on California's fixed pension obligations — which Governor Arnold Schwarzenegger has estimated are \$300 billion in the red.

And fiscal troubles are just the tip of the iceberg. California's percentage of adults without at least a high-school education is the second-highest in the nation (and the fact that 72% of those without diplomas are immigrants only fuels the state's growing problem of social stratification). The Commonwealth Fund has ranked the quality of California's health care lowest of the 50 states. The state has the highest rate of criminal recidivism in the country. It has six of the ten worst cities in the country in air pollution. Los Angeles and San Francisco have some of the most congested roads in the nation, which costs the state's employers billions in lost productivity each year. The state is seriously discussing mandatory water rationing, and has in recent years experienced severe disruptions of its electricity supply. Unemployment is over 11%, and a recent survey of corporate CEOs ranked California the worst state in the country in which to do business. It is losing native-born citizens faster than any other state.

To put the effects of these trends in perspective, from 2004 to 2007 more people left California for Texas and Oklahoma than came west from those states to escape the Dust Bowl in the 1930s. California is in the midst of a man-made disaster.

How could things get so bad? The story of California's decline is a tragedy of political dysfunction, misguided ideology, interest-group politics, and willful blindness.

DERELICT DEMOCRACY

To begin with, the state's government and political system are designed to malfunction. A series of ill-conceived constraints and incentives have created weak and unaccountable public officials, even as they have set California on a course to fiscal disaster. In the state legislature, for example, a

two-thirds majority is required to pass a budget. The original law creating this requirement was passed in the 1930s, and invoked the two-thirds rule only for budgets that grew by 5% or more over the prior year. But that qualification was dropped in the 1960s, and the two-thirds majority is now an annual necessity. Because California's political districts are thoroughly uncompetitive (in 2004, 153 state or federal legislative seats were up for election, and none changed parties), members of the legislature tend to come from the parties' ideological poles. And since this static landscape also leaves each party short of a two-thirds majority, budget negotiations inevitably devolve into a Mexican standoff.

This dynamic can lead legislative fence-sitters (usually pseudo-recalcitrant Republicans) to become the state's power brokers—a ritual that often deteriorates into a theater of the absurd, and causes consequential choices to be made carelessly and under pressure. For example, Republican state senator Abel Maldonado of Santa Maria, one of the GOP's few legitimate moderates, was able to use his standing as the swing vote on February's tax increases to extract several massive concessions from fellow lawmakers—including the elimination of a planned increase in the state's gas tax, and a ballot initiative to move California to a non-partisan primary system.

Since 1978, state law has also required a two-thirds majority for any tax increase, so that both spending and taxing are very difficult undertakings for the legislature—turning each year's budget negotiations into an epic battle among combatants whose hands are tied behind their backs. But these constraints have not resulted in strict limits on the growth of government. On the contrary, state government spending has nearly doubled in just the past decade, while the state's population has increased by about 10%.

This has happened in part because an enormous portion of the state's budget (estimated between 65 and 85% each year) is determined without direct legislative input. Popularly ratified ballot initiatives have mandated that about 40% of the state's annual budget be directed toward education. The public has also authorized endless bond measures to support various public projects—amounting to \$85 billion since just 2000. And the state's lavish defined-benefit plan for public pensions will cost taxpayers \$3.3 billion in fiscal year 2009-2010 alone.

Much of this emasculation of the legislature has been the result of California's exceptional reliance on direct ballot initiatives and referenda

to make policy, especially when it comes to fiscal measures. Such forms of direct democracy have been part of California politics for nearly 100 years. They have their roots in the state's early 20th-century Progressive movement, and especially Governor Hiram Johnson, who would go on to be Theodore Roosevelt's running mate on the Bull Moose presidential ticket of 1912. In his 1911 inaugural address, while speaking of California's plebiscitary provisions, Johnson laid out the case for direct democracy in terms that sound like a slightly more erudite version of the Golden State's modern-day talk radio hosts:

I commend to you the proposition that, after all, the initiative and the referendum depend on our confidence in the people and in their ability to govern. The opponents of direct legislation and the recall, however they may phrase their opposition, in reality believe the people cannot be trusted. On the other hand, those of us who espouse these measures do so because of our deep-rooted belief in popular government, and not only in the right of the people to govern, but in their ability to govern; and this leads us logically to the belief that if the people have the right, the ability, and the intelligence to elect, they have as well the right, ability, and intelligence to reject or to recall.

But whatever the Progressives' intentions or premises, the referendum system has badly distorted California politics and policy. The two-thirds requirement for tax increases, for instance, is a result of 1978's Proposition 13 ballot initiative, which also capped the state's property taxes at 1% of assessed value and ensured that the assessed value can't increase by more than 2% per year. In the three decades since Prop. 13 passed, it has saved California taxpayers more than half a trillion dollars. But its limitations on property-tax revenues have also led the state to rely far more on income and sales taxes. And with the state's steeply progressive tax code leaving it heavily dependent on the capital gains of California's wealthiest citizens, bear markets inevitably lead to disproportionately sharp downturns in state revenue. The legislature then finds itself unable to stanch the financial bleeding through tax policy, since it is constrained by the two-thirds rule.

At the same time that it has limited the state's capacity to raise taxes, direct democracy has aggravated California's fiscal incontinence. In 1988,

for instance, voters approved Proposition 98, guaranteeing that about 40% of every year's budget would be dedicated to K-12 and community-college spending, thus severely restricting the legislature's freedom of action. (The mandate could be overridden only with the ever-elusive two-thirds majority of the legislature.) By pre-ordaining appropriations, the move also undermined much of the impetus for increasing the cost-effectiveness of California schools, hastening the decline of the state's education system into one of the nation's worst, even as it drove up spending.

Two years after Prop. 98, voters compounded the problem by passing Proposition III, effectively eviscerating a requirement known as the "Gann Limit," which had imposed a spending cap on state government subject to adjustments for inflation and population growth. The proposition was a bit of a bait-and-switch, focusing primarily on a gas-tax increase that was sold as a panacea for California's notorious traffic woes. But with the changes to the Gann Limit buried deep in Prop. III's fine print, the measure passed—and meaningful fiscal restraints were removed. Spending subsequently exploded, and governors Gray Davis and Arnold Schwarzenegger each oversaw increases in the state's general fund of more than 30%.

Beyond confounding the budget, the referendum system also often falls prey to exactly the oligarchic interests its Progressive creators were trying to counter. Rather than vehicles for grassroots rage, many of the initiatives that make it to the ballot are the pet projects of a handful of wealthy donors or interest groups. In 2006, for example, Los Angeles real-estate heir and environmentalist Steve Bing single-handedly dumped nearly \$50 million into Proposition 87, an initiative to levy \$4 billion in taxes on California oil producers. That same year, actor/director Rob Reiner plowed nearly \$3 million of his own money into a measure that would have raised state income taxes to fund universal pre-school. And in 2008, Orange County tech billionaire Henry Nicholas spent nearly \$5 million bankrolling Proposition 9, a measure that expanded victims' rights under California criminal law. In the end, both Bing's and Reiner's initiatives went down to defeat, while Nicholas's passed with nearly 54% of the vote. But regardless of their outcomes, these endeavors bear witness to the fact that the referendum system is just as often a means for the powerful to circumvent the system as it is for the people to have their voices heard.

Such initiatives, referenda, and recall measures also tend to create a sense of permanent revolution in California politics. No issue is settled for long; no approach to public policy is given much of a chance to predominate; and elected officials are left less, not more, accountable as their ability to control the levers of state power is substantially reduced.

In practice, all of this has meant that California politics has given expression to the public's contradictory political impulses. Liberals have won their campaign for bigger government and runaway spending, and conservatives have usually succeeded in keeping tax hikes at bay. The Golden State's signature optimism may be to blame: How else to explain the delusion that Californians could be taxed like libertarians, but subsidized like socialists? The result, of course, has been a fiscal crisis addressed with slashed spending on public services and increased taxes in the midst of a deep recession — a recipe for yet more discord and trouble. In a grim irony, Californians are now being taxed like socialists and subsidized like libertarians.

For all of these institutional obstacles to competent governance, however, California's political leaders are hardly innocent bystanders in their state's fall from grace. For decades, even as they have been well aware of the state's fiscal woes, governors and legislators have indulged key interest groups at the expense of California's financial future.

LABOR PAINS

The most egregiously coddled of the state's favored constituencies are California's public labor unions. This is partly the result of their bloated ranks: The percentage of unionized public employees in California is 20% higher than the national average. Even more important, though, is the unions' outsized influence. Awarded collective bargaining rights with nearly every sector of government during the 1960s and '70s, the unions subsequently exploded into a political force to be reckoned with and a primary cause of California's fiscal hemophilia.

Perhaps the most vexing labor organizations are the teachers' unions. These groups were the driving force behind Proposition 98, locking in mandatory spending on public education without regard to any other fiscal considerations. But that's only where their transgressions begin. In 1992, the California Teachers' Association — by far the most powerful teachers' union in the state — blocked a ballot initiative to promote school choice in the Golden State by physically intimidating peti-

tion-signers and allegedly placing false names on the petitions. When asked about his union's opposition to the measure, the CTA president responded: "There are some proposals that are so evil that they should never even be presented to the voters." And in 2000, when testing results revealed that two-thirds of Los Angeles public schools were ranked as failures, the president of the United Teachers of Los Angeles announced that his union would accept a proposal for merit pay only on "a cold day in hell."

The result of the teachers' flight from responsibility has been unadulterated dysfunction. In Los Angeles schools, one out of every three students drops out before graduation. And a research team from the University of California, Riverside, recently concluded that by 2014—the year all students are required to be proficient in math and English under No Child Left Behind—nearly every elementary school in the state will fail to meet proficiency standards. Yet despite the atrocious performance of California educators, it is nearly impossible to fire an incompetent teacher (the percentage of California teachers terminated after three or more years in the classroom is just 0.03%). For example, in a May exposé on the Los Angeles Unified School District, *Los Angeles Times* reporter Jason Song revealed: "The district wanted to fire a high school teacher who kept a stash of pornography, marijuana and vials with cocaine residue at school, but a commission balked, suggesting that firing was too harsh. L.A. Unified officials were also unsuccessful in firing a male middle school teacher spotted lying on top of a female colleague in the metal shop, saying the district did not prove that the two were having sex."

But no matter how egregious their misconduct, California's public-school teachers can always skirt the consequences. With 340,000 members statewide, the California Teachers' Association is perhaps the most powerful interest group in state politics. In 2005, for instance, the organization spent nearly \$60 million to defeat ballot measures aimed at bringing more accountability to California schools. And when budget agreements get hashed out in meetings of the state's notorious "big five" (the governor and the four legislative party leaders), the CTA is treated like an unnamed sixth party to the talks. It's no wonder, then, that despite having some of America's lowest-performing schools, California's teachers are the highest paid in the nation.

A far less visible but equally nefarious force is the California Correc-

tional Peace Officers Association, the state's prison-guard union. With 33,000 members who wield extraordinary political clout, the Golden State's prison guards are also the best paid in the nation (many earn more than \$100,000 a year). Owing to their tremendous financial support for Gray Davis, the prison guards managed in 2002 to secure the then-governor's approval of a contract that gave them a whopping 37% raise and increased their already considerable retirement benefits. As a result, California's prison guards have become the state's largest personnel expense, creating a situation in which the government's cost to house each prisoner is an astounding \$45,000 per year.

And there is no way to understand California's fiscal catastrophe without first acknowledging the key role that union benefits have played. In 1999, the state legislature passed a financially reckless plan allowing the state's public-safety workers to retire with a pension equal to 90% of their salaries if they had served at least 30 years. This move led to a spate of "pension spiking," wherein public employees received dramatic pay increases in their last few years of service in order to feather their nests in retirement. With unused sick leave and vacation time also included in the benefit calculus, the state's obligations have multiplied at a dizzying rate. As a result, more than 5,000 former state employees now enjoy taxpayer-supported retirement packages of more than \$100,000 per year.

GREEN AND BLUE

Even as union pressures have brought absurd concessions and excessive spending, California's leaders have also engaged in shameless preening on environmental issues — sapping the state's economic strength, undermining growth, and drying up desperately needed sources of revenue.

The last several decades have seen the emergence of no-growth environmentalism in California — advanced by activists intent on restraining economic development, and championed by politicians eager to appear enlightened. Admittedly, this impulse has legitimate origins in the state's unique character: After all, millions have chosen to make California their home precisely because of its abundant natural beauty, and it is easy to see why they would want to preserve it. But today's environmentalism is a long way from old-fashioned conservation. The mindset that began with John Muir's efforts to turn Yosemite into a national park has devolved into a reflexive urge to impede the gears of commerce at every turn.

Perhaps no organ of California government is as emblematic of this overreach as the California Coastal Commission. Created through a 1972 ballot initiative, the commission's mandate is to regulate development of the state's coastline (defined so capaciously that it sometimes includes territory up to five miles inland). But however well intentioned coastal protection may seem in theory, in practice it has created a culture of corruption and outright bullying. For years, the CCC regularly threatened to deny permits to property owners along California's coastline unless they ceded parts of their land for government use. When one Ventura County family refused to go along with the scheme in the mid-1980s, the case eventually found its way to the Supreme Court; in a 5-4 decision, the court ruled against the CCC, with Justice Antonin Scalia declaring the commission's practices "an out-and-out plan of extortion."

The controversies kept on coming. In the 1990s, a massive scandal erupted when it was revealed that bribes were often the only way to win commission approval. And in 2001, a Sacramento Superior Court judge ruled that the commission's ability to simultaneously carry out legislative, executive, and judicial functions on local land-use issues was patently unconstitutional. In his ruling, Judge Charles Kobayashi stated: "Purportedly an executive agency, the Commission is answerable to no one in the Executive ... [nor is it] directly answerable to the voters." Ironically, direct democracy had unleashed a government institution abusive of and wholly unaccountable to the people.

Beyond empowering would-be potentates, environmental fetishes have also placed an enormous burden on California's economy. A fascination with "smart growth"—typically a euphemism for privileging elite (and dense) urbanism over suburban development—has radically restricted the ability to build new housing units in the state. This has created huge and unsustainable bubbles that price the middle class out of the housing market, and inevitably lead to dramatic crashes. What's worse, the problems only compound over time: As the Cato Institute's Randall O'Toole has pointed out, median California housing prices were twice median family incomes in 1960, four times in 1980, five times in 1990, and eight times in 2006. As a result, nine of the ten housing markets hit hardest by the recent downturn were in California. Meanwhile, high-growth markets with low regulation (such as Houston) have weathered the housing crisis essentially intact.

The environmental movement's failure to acknowledge the exigen-

cies of a state with more than 36 million people has also crippled California's ability to develop infrastructure and tap vital resources. Ignoring the state's decentralized population and native car culture, greens have pined after quixotic public transportation projects like high-speed rail (which received nearly \$10 billion on last fall's ballot), while doing nothing to address the fact that more than 80% of the state's urban interstates are congested. In California's Central Valley, one of the most productive agricultural regions in the world, farmers have lost access to more than 150 billion gallons of water because of environmentalist efforts to protect a local species of bait fish — efforts that are estimated to have taken as much as 85,000 acres of farmland out of production. And in a state that is estimated to have 10.5 billion barrels of untapped oil reserves off its coast — enough to replace all of California's oil imports for 30 years — new offshore drilling leases haven't been issued in four decades.

Finally, there's California's fevered response to global warming, the perfect issue for a state that prides itself on elegant alarmism. In 2006, the Golden State passed the Global Warming Solutions Act, essentially a statewide ratification of the Kyoto Protocol. Under this regime, California will have to lower its greenhouse-gas emissions to 1990 levels by 2020. With the state expected to add 15 million net new residents in that 30-year period, California is unlikely to meet its reduction targets without massive economic regression. Estimates of the plan's eventual costs to California families have been as high as \$3,800 a year. Yet California's politicians continue to insist that the Solutions Act will be an economic boon, sparking a revolution in "green jobs." Such is the fate of Californians: to live in a state where environmentalism is a religion and economics a superstition.

THE PEOPLE'S GOVERNOR

This combination of political dereliction, fiscal recklessness, and ideologically driven mismanagement was bound to eventually force a crisis. California experienced something of a preview of the inevitable breakdown early in this decade, as the bursting of the tech bubble sent state finances into a tailspin, and left its political leadership looking powerless and inept. The result, in true California fashion, was an exercise in direct democracy: the first recall of a sitting governor in the state's history. The public removed the hapless Gray Davis and sought bold leadership that might break the logjam and address the state's systemic dysfunction.

Arnold Schwarzenegger, an actor-turned-politician with a knack for bold gestures, seemed to embody popular discontent with California politics—but has instead turned out to be the poster boy for its failings.

With the gusto that is perhaps his only consistent trait, Schwarzenegger (for whom this author briefly worked in 2006) swept into Sacramento as an outsider who would be immune to the influence of moneyed interests, pledging to “blow up the boxes” of state government. In his first few months, he capitalized on the populist wave that had secured his election, repealing a nearly \$4 billion increase in the state’s car tax and putting a halt to the issuance of driver’s licenses to illegal immigrants. He also spearheaded an overhaul of California’s workers’ compensation system (previously the nation’s most expensive), earning strong support from the state’s business community. But this reformist zeal would prove fleeting.

Despite his Austrian heritage, Schwarzenegger is fond of portraying himself as a quintessential Californian—and to the extent that he is an immigrant with a post-modern Horatio Alger biography, he is right. But it is the way in which he embodies the spirit of the Golden State that has made Schwarzenegger the wrong leader for this moment in California’s history.

California is a state of fads and trends—often starting them, and just as often following them long after the rest of the nation has moved on. And it is this California that Schwarzenegger has embodied. His sensitivity to the public pulse made him seem the perfect man for the moment in the 2003 uprising; he appeared impeccably attuned to the popular zeitgeist, firing up crowds to the tune of “We’re Not Gonna Take It” and even demolishing a car with a wrecking ball at one campaign rally to emphasize his opposition to Davis’s car-tax increase.

For his first two years in office, Schwarzenegger lived up to the hype he had generated on the campaign trail. But in the fall of 2005, he met his Waterloo. Dubbing it a “year of reform,” Schwarzenegger called for a special election focused on four ballot initiatives that he claimed were necessary to clean up state government: Proposition 74, lengthening the period necessary for teachers to get tenure and making it easier to fire underperforming educators; Proposition 75, requiring public-employee unions to receive explicit consent from members before using their dues for political purposes; Proposition 76, imposing limits on state spending; and Proposition 77, creating an independent panel to redraw the

state's electoral districts. Each measure was laudable and would have profoundly reshaped the state's future. And each was handed a resounding defeat.

Being a man of the moment turns out to have its disadvantages when the moment turns on you. For an executive who had styled himself "The People's Governor," the psychic trauma of being decisively rejected at the ballot box proved overwhelming. Had Schwarzenegger taken a deep breath, he might have noted that his failure had been primarily tactical in nature. However worthy his reform agenda may have been, creating a political atmosphere that united all of California's powerful special-interest groups—especially the state's public-sector unions—was a recipe for disaster. But Schwarzenegger made matters worse by hyperventilating in the wake of his embarrassing defeat. The man who had once slammed his opponents as "girlie men" took to the stage of the Beverly Hilton on election night and declared, "The people of California are sick and tired of all the fighting." It was about as bizarre as political transformations get. Almost exactly two years to the day after his inauguration, the governor of America's largest state was presiding over the public execution of his own mandate.

Desperate to remain relevant, and eyeing a 2006 re-election campaign, Schwarzenegger proceeded to undergo one of the most dramatic political makeovers in American history. The hard-charging reformist morphed into an enlightened "post-partisan," emphasizing accommodation over confrontation. He brought in a veteran Democratic operative, Susan Kennedy, as his chief of staff. And he began marshaling his political capital in the service of nationally fashionable issues like greenhouse-gas reductions, universal health care, and embryonic-stem-cell research. Regardless of one's stance on these issues, it began to feel suspiciously like Schwarzenegger was concerned more with buttering up the national media and the Beverly Hills cocktail circuit than actually forging an agenda to pull California back from the abyss. Eventually this would lead to a near-complete break with California's Republican base (whose stamp of approval Schwarzenegger never had to obtain, because the recall election did not involve party primaries), culminating in the governor's endorsement of the huge February 2009 tax increases.

Now, in the waning days of his administration, Schwarzenegger seems to be flirting with reviving his reformist image. After the package of ballot initiatives he supported in May's special election (which included

an extension of the recently-enacted tax hikes) was overwhelmingly defeated, he forced the legislature to make up the remaining \$26 billion deficit without further tax increases. He has started targeting waste and fraud, ordering the state to sell off 15% of its auto fleet, much of which has been used for the personal needs of state employees. And he has begun efforts to reform California's bloated welfare system (the Golden State has 12% of the nation's population, but 30% of the country's welfare recipients) by capping eligibility and enforcing federal work requirements.

But to Californians overwhelmed by the collapse of state finances and the prospect of sharp cuts in services, it all seems like too little, too late. Schwarzenegger's fundamental flaw is that his governing style has rarely consisted of anything more than acting as a lagging indicator of public opinion; in a state already beset by the consequences of direct democracy, the "Governator" has simply proven too weak. Given the overwhelming good will that met him when he took office, it is difficult to avoid the conclusion that the nation's most famous governor squandered a once-in-a-lifetime opportunity. When he leaves office in early 2010, his list of accomplishments will place him somewhere near the historical median of California's governors. And, in a fitting commentary on the state he has led, Schwarzenegger will be most famous for having been famous. California still faces the same challenges it did when he took office — only now, the passage of time and the recent recession have made them all more acute.

CALIFORNIA'S CHOICE

As Californians contemplate next year's gubernatorial race, it is increasingly clear that the state is at a crossroads. One path before it, essentially an extension of the status quo, would mean continued decline in the fashion of states like New Jersey or Michigan. The other path would be to pursue a bold reformist agenda, along the lines of what Rudy Giuliani accomplished during his time as mayor of New York City. Without a sharp turn toward freer markets, a smaller public sector, and more responsive and responsible government, California may not be able to save itself from catastrophe. But whether that charge will be led — and by whom — remains an open question.

The good news is that the chaos of the moment has generated a boom in public-policy entrepreneurship. So far, however, it appears that most

of the ideas gaining traction would compound, rather than alleviate, California's problems. Calls for a constitutional convention are growing, but most would-be framers seem intent only on eliminating the two-thirds requirement for budget passage and tax increases — which, without additional reforms, would just further enable the state's profligate ways.

Electoral reform is also in the air. Governor Schwarzenegger finally realized his dream of independent panels to oversee redistricting with the passage of Proposition II last year, and Abel Maldonado's non-partisan primary proposal will be on the 2010 ballot. But it is far from certain that these efforts, aimed to boost California moderates, will be a net benefit to the state. Though the media and sympathetic politicians like to suggest that only sensible centrism can pull the state out of its doldrums, it is California's centrists who have been most culpable in creating an environment in which the state never says no to a spending increase or yes to a tax hike. By portraying every hard choice as a false choice, they only further the state's political culture of delusion. One of the lessons of California's troubles is that letting the center govern is no panacea.

But another lesson of the state's hard times is that *someone* has to govern. To right its course, California will need to both limit the excess of its legislature and empower it to make crucial governing decisions — especially about taxing and spending. The state's overfed interest groups must be brought down to size, but its over-reliance on direct democracy also needs to be tempered. Leading California out of the mire will require a leader inclined to pro-growth economics and reformist politics, who will take on not only the state's fiscal mismanagement but also its governing sclerosis. Such a leader must also have the popular touch required to convince California voters — whose approval at the ballot box will be needed to make any meaningful changes to the state's problematic governing institutions — to finally accept the difficult responsibilities of self-government.

Whether the disquiet of the moment is profound enough to rouse Californians into seeking such a leader remains to be seen. It is also unclear if there is any such leader to be found. While the current stable of Republican candidates for the 2010 gubernatorial election — led by Silicon Valley billionaires Meg Whitman and Steve Poizner — are all bright, accomplished, and talented, whether any of them is up to the

enormous political challenge of taming the nation's most dysfunctional state government is still a matter of conjecture.

What is increasingly clear, however, is that the Golden State's troubles offer a warning to the rest of the country. If America continues its long tradition of following trends begun in California, it will be brought to grief. And the state's recent history bears directly on some ongoing national political debates.

There is little in President Obama's legislative agenda that hasn't already been tried in California. Need a model of runaway spending with no regard for growing debt? Look to California, whose bonds currently hover just above junk status. Want to insist on restrictive carbon-emission controls? Note the example of California's 2006 greenhouse-gas law, which is expected to reduce the state's economic output by 10% and destroy 1.1 million jobs. Want to put the government in charge of health care? Look at California's repeated legislative pushes for a single-payer system of health-insurance coverage, each of which ended in failure.

We will learn over the next decade whether California can manage to avoid disaster one more time. But even if the state's years of living large finally catch up with it, there is still an escape hatch: Sensible Californians can continue to flee to places like Arizona, Nevada, Colorado, Oregon, and Texas, where the respite from hostile government more than compensates for the social opprobrium that tends to meet California expatriates. But if the nation as a whole repeats California's mistakes, the consequences will be much more severe; an America beset by rigid bureaucracies, economic decline, and enervated spirit will not be able to preserve liberty at home or protect it abroad. Before we head down that path, we should look west to see how these ideas have fared — and absorb the lessons of how the Golden State lost its luster.