California’s experience reveals the political potential of the tools of direct democracy. The use of the initiative in California dates to 1911. California comes in second only to Oregon in a count of initiatives placed on the state ballot through 2008; of the 330, California voters approved more than 200 (Initiative Use, 2009).

Several of these initiatives have had a direct impact on the state budget by imposing spending targets or limiting revenue sources. In 1933, the legislature tacked on to a constitutional amendment a requirement that the budget needs a two-thirds vote for passage (Quinn, 2009). California took its first step toward repeated budget crises caused by a continuing structural imbalance between spending and revenues.

In 1978, the California initiative labeled Proposition 13 rolled back property taxes and capped future increases. Politically, this was a California earthquake. Political leaders around the country interpreted its passage as a warning signal: beware! Massachusetts soon followed with Proposition 2½, its limit on property taxes. The tax resistance movement was born.

Proposition 13 also required that state tax increases be approved by two-thirds of the state legislature. California took the second step toward a budget crisis. Only two more things were needed: the hard partisan disagreement (in place since the 1980s) and the sharp downward turn in the economy in 2008–2009 that that took a big bite out of state revenue collections.

Ten years after the passage of Proposition 13, Proposition 98 imposed targets on spending for education in California. Spending required by initiatives amounted to three-fifths of the total budget by fiscal 2004 (Matsusaka, 2004). Some observers argue that these initiatives have limited the ability of the state government to react to fiscal pressures and to current voters.
California also permits citizens to change their minds by using another tool of direct democracy, the recall of elected leaders. Recall is a vote on whether to turn an official out of office. Many of the issues that prompted the drive to recall Governor Gray Davis in 2003 involved state spending, deregulation of electric utilities, and the state’s budget shortfall. The recall petition listed the grounds for recall: “Gross mismanagement of California finances by overspending taxpayers' money, threatening public safety by cutting funds to local governments, failing to account for the exorbitant cost of the energy fiasco, and failing in general to deal with the state's major problems until they get to the crisis stage.” With more than 55 percent voting to recall Governor Davis, the recall was successful. The tally from California’s Secretary of State: Arnold Schwarzenegger received almost 49 percent of the vote and was elected governor of California. The new governor’s first major move to address the budget crisis was to make a deal with the legislature that put two measures on the ballot for the voters in March 2004. Proposition 57 called for the issuance of $15 billion in bonds to cover the state budget deficits, which runs counter to sound fiscal practice. Proposition 58 amended the state constitution by requiring balanced budgets, a budget reserve fund, and prohibiting future borrowing to pay off deficits. Both passed with handsome majorities. With these two measures Governor Schwarzenegger put his stamp on California’s budget process and California voters showed that they were willing to borrow to solve their current budget crisis, while at the same time prohibiting this action in the future.

The picture of California’s budget in 2009 was this: the two-thirds rule for passing the budget and the two-thirds rule for raising taxes are in place, along with mandatory spending on education, a legally required balanced budget, and a prohibition on borrowing to cover deficits. Governor Schwarzenegger was pinned down by his own “good ideas” and the state’s historical
legacy from direct democracy. His letters of December 2008 (see figure 1) and January 2009 (see figure 2) describe the situation and the picture isn’t pretty.
Dear State Worker,

Our state's fiscal crisis has worsened dramatically in the past few weeks without legislative action to address our budget crisis. We face an approximately $15 billion General Fund deficit this fiscal year, and that number is estimated to grow to $42 billion over the next 18 months. Without immediate action, the state will not have enough cash to meet its obligations starting in February.

Californians can be proud of the services you provide day in and day out, and I appreciate your dedication and work. But it is imperative that state government look inside itself and be part of the solution. We simply have no other choice. The emergency steps I am announcing will require sacrifices from everyone, including those in my own office. As difficult as these measures are, I know you will maintain your high standards of public service.

Please bear in mind that the actions outlined below are just part of a larger response we’re initiating to address the state’s imminent cash and budget crisis. I have made many difficult proposals to cut government services and raise revenues to resolve our financial problems beyond those impacting state workers. I am now compelled to take the following steps beginning next year:

- **Furloughs**: Beginning February 1, 2009, and lasting through June 30, 2010, rank-and-file employees will be furloughed two days per month. For employees who are not part of a bargaining unit (i.e., exempt appointees, career executive assignment employees, supervisors and managers), we will implement an equivalent furlough or salary reduction plan effective February 1, 2009. We intend to implement these measures in a way that does not affect your retirement.

- **Layoffs**: I have instructed the Department of Personnel Administration to work with state agencies to initiate layoffs, reductions and other efficiencies to achieve General Fund savings of up to 10 percent starting February 1, 2009. This is in addition to reductions that I have already ordered for the current fiscal year. Employees in General Fund positions in the bottom 20 percent of seniority will receive “surplus” notices within the next month. Employees who receive these notices will not necessarily be laid off, and they will have hiring preference for non-General Fund positions for which they qualify.

Furloughs and the issuance of surplus notices are intended to minimize the impacts of layoffs to be phased in next year. I regret having to take these steps, but I wanted you to hear directly from me about them so you know what to expect.
December 19, 2008
Page two

The nation's economy has left many families vulnerable and worried. The last thing we wanted was to compound these worries for our own employees. Nevertheless, we have an obligation to the people we serve to make whatever sacrifices are necessary to maintain essential services and programs.

Sincerely,

Arnold Schwarzenegger
Source: State of California,

http://www.dpa.ca.gov/pv_obj_cache/pv_obj_id_B882DF5F68B0563ABB0825BD4F8FECECB
CF70700/filename/20081219-01-01.pdf.

**Figure 1. Governor’s Letter of December 2008**
To the Senate and Assembly of the Legislature of California:

In accordance with Article IV, Section 12 of the California Constitution, I submit to you the Governor’s Budget for 2009-2010.

Our state faces the most challenging budget in its history. The combined effect of our structural deficit and the dramatic decline in revenues due to the international economic crisis have produced a two-year deficit of $41.6 billion – nearly half of our projected 2009-10 revenues.

A problem of this magnitude requires immediate action. Last fall, as the economic situation deteriorated, I realized that we needed to act quickly to bring our current-year budget back into balance. That is why I called a special session on November 16, 2008. When the previous Legislature failed to act, on December 1, I called you into special session in a fiscal emergency pursuant to Proposition 98.

When you closed that session without acceptable action to address the problem, I immediately called you back on December 19, again pursuant to Proposition 98.

Now, I am presenting you with my Budget for 2009-10, which not only addresses this year’s shortfall, but provides a comprehensive and balanced set of solutions for next year as well. The shortfall is too large to be addressed only with spending cuts, or only with tax increases. We have to use every tool at our disposal.

At the same time, we cannot ask the people of our state to accept cuts in government services and increases in taxes without doing all we can to bring this economy back. That is why I believe that we have to include a sensible, targeted package of fiscal stimulus measures in any budget solution. Similarly, as we ask for sacrifice from our citizens, we must be able to assure them that state government itself is doing everything it can to cut costs and improve efficiency. Thus, my budget has a variety of measures to do both.

There are honest and sincere differences among you regarding how we should resolve this crisis. But, these differences have prevented you so far from seeing that you share a larger duty to compromise on the best possible plan for resolving our budget crisis.

The time of delay is past. The solutions I propose are difficult and unavoidably painful. Delay, however, will only make the ultimate solutions even more painful.

Now it is time to act decisively to bring our state back from the brink of financial catastrophe.

Sincerely,

Arnold Schwarzenegger

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Figure 2. Governor’s Letter of January 2009
References


Further Resources

