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NEWS ANALYSIS

## **Pinch of Reality Threatens the California Dream**

By [JENNIFER STEINHAUER](#)

LOS ANGELES — Even in the 1930s, [Woody Guthrie](#) warned America in a Dust Bowl song that the California dream could not be had on the cheap. Yet relative to other places, the state has historically been a pretty good bargain, with a low-cost, enviable higher education system, subsidized energy and an abundance of services for those down on their luck.

But three decades of staggering population growth combined with three high-impact recessions, budgeting by ballot box, federal mandates, an unusual tax structure and the rising cost of social services have finally produced disastrous results, and the ramifications are reaching across every aspect of life in this state.

The California dream is, for now, delayed, as demonstrated by the budget state lawmakers and the governor agreed upon late Monday. At no point in modern history has the state dealt with its fiscal issues by retreating so deeply in its services, beginning this spring with a round of multibillion-dollar budget cuts and continuing with, in total, some \$30 billion in cuts over two fiscal years to schools, colleges, health care, welfare, corrections, recreation and more.

The rest of the nation, which has historically looked to California as a model for fierce economic independence and freewheeling innovation, may now see that the state looks like every place else — just with better beaches.

“We are now the state that can’t,” said [Stephen Levy](#), the director of the [Center for Continuing Study of the California Economy](#), a private research organization in Palo Alto. “It can’t agree on its water problem. It can’t balance its budget, it can’t decide what to do with prisoners, and it’s still fussing about its immigrants. And this is not the end of our economic problems. This is the beginning.”

California, of course, has weathered economic ups and downs for decades and rebounded in ways that left the rest of the nation eating its dust. The downturn in the defense industry in the 1990s, followed by plummeting housing prices, was met with a huge technology boom. When that fell apart, the state roared back with a real estate boom.

But in the past, the state contended with its problems through a mix of taxes and cuts. Earlier this year, Gov. [Arnold Schwarzenegger](#) and his fellow Republicans agreed to increases in sales and vehicle-licensing taxes, but this time, they refused to approve any tax increase, and the Democrats had too few votes to force one.

And the protracted national recession has delivered a big hit on the state’s greatest source of revenue, income taxes on rich people. Further, the state’s structural deficit has become exceedingly pronounced after years of

accounting tricks and borrowing.

The result is that Californians will find state offices closed three days a month. The poor will go without health care in a state that practically invented the health care safety net and as some financially embattled states seek to expand coverage for children.

Classroom sizes are about to explode, and state universities are furloughing professors, cutting class offerings and reassessing, in the case of the [University of California](#), whether the system can remain one of excellence for residents. All of this did not creep up overnight.

Expansive growth in the first half of the 20th century led to rising housing prices and infrastructure growth, which came with higher taxes to pay for it all.

Those increases created an antitax rebellion that begot Proposition 13 in the 1970s, a voter-led initiative that artificially depressed property taxes and shifted school financing burdens to the state. It also led to the onset of a culture of ballot initiatives that have hamstrung state budgeters by earmarking money for programs with one vote and taking away the ability to pay for them with others.

The state's population — over 38 million today from 23.6 million in 1980 — has also meant a growing need for costly services for the poor, especially when revenues are declining. (In the 1930s, when Mr. Guthrie was warning that people needed [do-re-mi](#) to live here, no one was on [Medicaid](#).)

While the state's property taxes are below average, its personal income tax rate and levies on capital gains are among the highest; so unlike states that pass the tax burden around, California can become disastrously imbalanced.

“Volatility is a challenge for budgeting,” said Jed Kolko, the associate director of the [Public Policy Institute of California](#), a nonpartisan research organization in San Francisco.

Now, local governments, schools, the state university system and state agencies find themselves unable to provide the services residents have been used to receiving.

“Compared to the post-World War II era, an in-migrant to California now faces higher cost housing, lower quality K-12 schools, and more expensive higher education,” said Daniel J. B. Mitchell, a professor emeritus at the School of Public Affairs at the University of California, Los Angeles.

“He or she also faces job opportunities that more or less mirror what is available on average elsewhere in the U.S.,” Professor Mitchell said.

The fallout is already evident. Summer school was canceled in many districts. In Eureka, near the Oregon border, the Old Town Dental Center is about to close. Its patient base is 90 percent Medicaid, and the state's program will no longer pay for anything beyond tooth extractions.

“There are a lot of people that are just not showing up,” said Nicole Eleck, the receptionist there. “Half our patients are saying, ‘If something bothers me, I will wait until it needs to get pulled.’ ”

Herrmann Spetzler, the chief executive of [Open Door Community Health Centers](#), which operates 10 clinics

in rural northern California, said clinics that are the only providers for miles around might close.

“If you sit in our waiting room, you will see the faces of everyone who lives in our region,” he said. “There is the local judge, the policeman, the mom with kids and the homeless person. In my health centers, we’ve had \$5 million in cut since July, and we don’t know what the future will bring.”

What comes next is anybody’s guess, but it may be that California’s standing as paradise is meeting an organic end.

“In the end, we do not know for sure whether the California public really wants the California dream anymore,” said Bruce E. Cain, a professor of political science at the [University of California, Berkeley](#). “The population is too diverse to have a common vision of what it wants to provide to everyone. Some people want the old dream, some want the gated privatized version, and some would like to secede and get away from it all.”

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