

My Economics

By Arnold Schwarzenegger

I have often said that the two people who have most profoundly impacted my thinking on economics are Milton Friedman and Adam Smith. At Christmas I sometimes annoy some of my more liberal Hollywood friends by sending them a gift of Mr. Friedman's classic economic primer, "Free to Choose." What I learned from Messrs. Friedman and Smith is a lesson that every political leader should never forget: that when the heavy fist of government becomes too overbearing and intrusive, it stifles the unlimited wealth creation process of a free people operating under a free enterprise system.

And that is the essence of the economic and fiscal crisis that confronts the state of California today. Over the past five years our state budget has grown nearly three times the pace of inflation. Our debt burden has risen by more than the other 49 states combined. The matrix of onerous regulations we impose on property owners and businesses has made the cost of doing business in California almost twice as high as in neighboring states. Our tax rates have become among the highest in the nation.

And perhaps worst of all our governor, Gray Davis, has created a counterproductive culture in Sacramento where businesses and entrepreneurs that dare make a profit are treated as if they are enemies of the state. Mr. Davis says he wants jobs, but he has done everything possible to chase away job creators. Thanks to the economic policies of this administration, for the first time in California history more native-born Americans are leaving this state than are moving here. No one would confuse the destructive economic policies of Gov. Davis and Lt. Gov. Bustamante with the pro-growth ideas of Milton Friedman or Adam Smith.

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It was not always like this in the Golden State. When I moved to California, as a penniless immigrant from Austria with a pretty rough time of it speaking English, this state was the promised land for anyone who wanted to work hard to get ahead in life. My own dreams fortunately came true in this great state. I became Mr. Universe; I became a successful businessman. And even though some people say I still speak with a slight accent, I have reached the top of the acting profession. (I shouldn't advertise that too loudly or Gov. Davis will probably try to raise my taxes again.)

For immigrants like me, California is the modern-day symbol of the American melting pot in action. The combination of the rich diversity of immigrant talent from around the world and California's home grown brain-power converted our economy into the high technology, the international trade, and, of course, the entertainment capital of the world. We now have a \$1-trillion GDP. Our economy in the 1980s and 1990s, the pre-Davis era, grew about 20% faster than the economies of the other 49 states. We were the nation's trendsetters. It used to be said, until recently, that as goes California, so goes the nation. If that were true today, we would all be going to the poor house.

Can California regain its glory days? Will those same boundless opportunities that greeted me in California be there for my wife Maria and our four children? I am confident that they will—that California will regain its

status as a high-octane growth economy that is the envy of the nation and the world.

I believe this is true even though today California finds itself combating our worst financial and economic crisis since the Great Depression. It is true even though Gov. Davis has steered our state from a \$12-billion surplus into a \$38-billion budget-ditch. We have borrowed so much in recent years that our bond rating has been downgraded three times in the last three years and is now judged only a little bit higher than junk-bond status.

So how can I be optimistic about California given all of these bleak developments in our state? Because our economic problems are not a failure of our people—they result from a resounding breakdown of our political leadership in Sacramento.

It is self-evident to most taxpaying Californians that Gray Davis is not up to the task at hand. Gov. Davis is too beholden to moneyed special interest groups to pull us out of this ditch. The Cato Institute recently gave Mr. Davis a grade of "F" for his fiscal mismanagement and ranked him the second worst governor in America. The folks at the Small Business Survival Committee recently declared that thanks to Mr. Davis's anti-business rules, regulations, taxes, and litigation policies, California now ranks second to last among the 50 states in its receptivity to small businesses. Every day that Gov. Davis stays in office, we slip \$29 million further into debt.

Meanwhile, Lt. Gov. Bustamante, Gov. Davis's aspiring successor, is promising Californians: "Gray Davis—the Sequel." He recently admitted that he wants to revive the state economy by raising several more billion dollars of taxes on California's high-income individuals and businesses. This endless litany of taxing schemes by Messrs. Davis and Bustamante reminds me of the androids that I fight in the "Terminator" movies, which I keep shooting dead, but keep coming back to life. If Mr. Bustamante's tax policies are implemented, we may soon be asking the last business person to leave California to please turn off the lights.

My plan to rescue the economy in California is based on the opposite set of values: I want to slash the cost of doing business in California; I want to unburden businesses from regulations that strangle economic growth; I want to bring taxes down to levels competitive with our neighboring states. Within three years, I want business groups to trumpet the fact that California is once again one of the best places in the country to do business.

To accomplish this, I believe that four sets of policies are vital and urgent.

- First, on taxes, I believe that not only should we not raise tax rates on anyone in California, but we have to reduce taxes that make our state uncompetitive. I married a Kennedy and I have always believed that President John F. Kennedy was absolutely right when he said in 1962 that "when taxes are too high, there will never be enough jobs or enough revenues to balance the budget." Our California tax system, as Arthur Laffer recently told me, seems designed to make rich people in California poorer, not to make poor people richer. By restructuring our tax system, I am convinced we can create more businesses and jobs, and that is the best way to re-balance our budget.

- Second, the California state budget should not grow faster than the California family budget. We need to put teeth into a spending limit law through a constitutional amendment that caps state budget growth. I have asked the Howard Jarvis Taxpayers Association to lead a task force to bring good spending limit ideas to me. If we had a strong spending limit in the 1990s, the state would have a budget surplus today. California does not have a taxing problem, it has a spending problem. I will also create savings from outmoded and inefficient government agencies. It's time to live by the basic rule of good business behavior that you can't spend money that you don't have.

- Next, the workers' compensation system needs an overhaul. When I have asked business people around the state what is restraining their ability to expand here, they cite high taxes and unbearable workers' compensation costs. Businesses in California pay workers' compensation costs that are more than double other states'.

- Fourth, I am a fanatic about school reform. To attract world-class, 21st-century businesses, we need a world-class education system. I will maintain the state's testing program and bring school authority and spending closer to students, parents and local taxpayers and take it away from Sacramento bureaucrats. If schools are systematically underperforming, we will expand choice options for parents with charter schools and enforce public school choice provisions in the federal No Child Left Behind Act.

Our state will prosper again when we commit ourselves in California to "Free to Choose" economics. This means removing, one by one, the innumerable impediments to growth—excessive taxes, regulations, and deficit-spending. If we do this we will bring California back as the untarnished Golden State.

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David Gohmert