



But Don't Overplay Your Hand

As [Cara observes](#), California Democrats seem to have achieved the unachievable in Sacramento — a 2/3 majority, allowing them to raise taxes without permission of the GOP. It's not quite there, because a couple of state Senators were elected to Congress, and as soon as they take their seats, special elections will need to be held for their Senate seats. But they are safe Democratic districts: for the next session, the supermajority seems to be assured. So what should they do with it?

[Ann moots](#) the possibility of using cap-and-trade revenues for general fund purposes, in order to make state budget more solvent. There is a good deal to be said for this, but count me in need of more persuasion. Last Tuesday, the voters enacted [Proposition 30](#), which temporarily raises income taxes on the rich and the state sales tax, for just that purpose. Democrats need to demonstrate that if they are given power, they will not result in a spasm of new, broad-based taxes for general fund purposes. As Steve Lopez, the *Los Angeles Times*' centrist columnist, [has noted](#):

In the state Legislature, [Democrats](#) won supermajorities in both houses. Do you know what that means? It's like handing your teenager a credit card, a checkbook and the car keys so he can drive to an all-night orgy.

That's overstating it, but Democrats need to *show* that that's overstating it.

On the AB 32 front, it makes more sense in my view to 1) [make it clear that CARB can indeed generate revenues](#) under cap-and-trade; 2) establish the "substantial evidence" standard for connecting revenues and uses (i.e. revenue uses will be upheld if there is substantial evidence in the record that such a connection exists); and 3) leave revenues for the purposes of AB 32, i.e. reducing emissions. To be honest, carbon's pervasiveness throughout the economy means that many things rationally related to cap-and-trade are things that the Legislature would want to do anyway, e.g. high-speed rail, clean transportation infrastructure, etc.

If California Democrats are going to pursue new revenues, they should limit them to relatively narrow-based measures. That would mean two things: 1) an oil severance tax, since California is one of the few oil-producing states without one; and 2) enacting specific fees in the manner of the Polluter Accountability Act, about which [I blogged several months ago](#). They both reflect popular principles, and especially in the case of the oil severance tax,

the tax incidence involved does not fall heavily on consumers.

Much more to say on both, and I will, but the overall point is that in light of Proposition 30, Democrats need to be very cautious about where and how much they raise revenues.