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The Nation's Recession Caused California's Budget Crisis

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I offer some ideas below for reaching a short-term solution to the state budget for 2009–2010. But for any civil budget discussion to take place, it would be helpful for all parties to acknowledge a few key facts.

Key Facts

The current budget challenge is 100% the result of the deepening national recession. Our current budget challenges are shared by many states and local governments

throughout the nation. While California failed for many years to resolve our structural budget deficit and has no plan to close the gap for the future, we did our part for 2009–2010 back in February with more than \$10 billion in spending cuts and more than \$10 billion in temporary tax increases.

When the 2009–2010 budget is adopted Californians will be spending the smallest share of our income on General Fund spending since the early 1990s and, perhaps, since the early 1970s. The 2009–2010 spending level does not even keep pace with caseload and inflation growth over the past 10 years. California ranks 2nd lowest among states in state employees relative to population and 4th lowest when local government employees are included.

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Solutions

I encourage public sector employees, including those in local government and school districts, to take a temporary salary cut to save the jobs of their fellow public sector employees and to maintain public services as best we can. I do this with great respect for public sector employees and with the hope that President Obama's goal of higher pay for excellent teachers can be reached. But, if the choice is between greater layoffs and a temporary pay cut, I think the model of shared sacrifice for the greater good adopted by the UAW is the way to go in California.

I can live with a temporary cutback in K-12 education and health and social service budgets to the minimums required by law, but no further. And I think that the reforms in parole and sentencing for nonviolent drug offenders that have been discussed for many years can help with the budget. In addition I would allow school districts to spend all categorical funding as they think best.

But these steps are unlikely to balance the budget by themselves and certainly do not address the state's budget challenges after 2010.

There is a compelling case for additional *short-term* federal assistance. But it is a case for all states, not just California. We should join with governors and mayors in other states to remind the federal government of three key facts.

First, states are tearing down their safety net programs at precisely the time when demand is growing rapidly. Congress understood this when it increased unemployment benefits and food stamps and offered to help unemployed workers with their health insurance. But the federal government did this by deficit spending, an option that is not allowed for states. It is time for a second stimulus package for all states. The national recession has deepened since the first stimulus aid for states was adopted, a fact recognized in economic forecast revisions by the CBO and Federal Reserve Bank.

Second, many states are now facing cuts in K-12 education and cuts in access to higher education at the very time that the president has said that increasing and reforming our investments in education and skill building is a national imperative for economic competitiveness.

And third, these public programs provide valuable public services to local communities and the nation. The rationale that the public good requires maintaining continuity in the financial sector, for AIG, and in the auto industry surely applies to preventing unwanted cuts in education and the safety net.

I applaud Tom Campbell for suggesting that another modest temporary tax increase is preferable to borrowing, gimmicks, and even more drastic cuts to public services. I agree.

I hope that any budget agreement is given time for public discussion before it is adopted. I know time is short but a repeat of a late-night deal with last-minute changes is hardly the way to restore public confidence in elected leaders.

Addressing long-term budget balance will pose very difficult challenges. One suggestion I have is for the governor to extend the term of the Commission on the 21st Century Economy and refocus their effort on longer-term revenue and budget challenges. A lot has changed since the commission goals were established. They are a great group of people and their ideas on the long term budget would be welcome.