



Alliance of Californians for Community Empowerment (ACCE) is a multi-racial, democratic, non-profit community organization building power in low- to moderate-income neighborhoods to stand and fight for social, economic, and racial justice.



Alliance for a Just Society convenes community and racial justice organizations nationwide on critical public policy issues, providing research and policy analysis and fostering public conversation.

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THE COST OF CUTS IN CALIFORNIA

Budget Cuts Hurt Families, Communities, and the Economy

INTRODUCTION

In 2008, the United States experienced a severe financial crisis, the result of increasingly risky practices among the country's large financial institutions and the deregulation that allowed these practices to flourish.

The resulting Great Recession unleashed widespread economic insecurity and deepened existing economic inequalities. It also caused revenue shortfalls that California lawmakers chose to close through budget cuts rather than requiring corporations and the rich to share the sacrifice.

California's investments in health, education, and other human and physical infrastructure form the basis for families' ability to participate in the economy and contribute to prosperity. These investments are especially important now, with continued high unemployment, a shattered housing market, and demand lagging for small businesses.

However, instead of raising adequate revenue, California lawmakers have asked lower-income people to sacrifice the most. This decision has resulted not only in disinvestment in health, education, and other vital services, but also harmed the state's economy on the short- and long-terms as well.

This report shows that state budget cuts implemented by California lawmakers have cost Californians jobs when jobs are needed most. It should remind our lawmakers that the cost of budget cuts is too high — and that it is time to raise revenue instead.

GROWING ECONOMIC INEQUITY AND THE GREAT RECESSION

A spike in economic inequality preceded the Great Recession. By 2007, the country's top 10 percent of earners controlled 50 percent of total income, exceeding even the concentration of income in the late 1920s.¹ Such growing inequality and stagnation reduced the cushion that could have helped families make it through the downturn.

The Great Recession caused the biggest job loss of any postwar economic downturn, with high unemployment persisting.¹ As of 2009, foreclosures were projected to cost 92 million neighboring homeowners across the country an average of \$20,300 in property value loss from 2009 to 2012, with a total national loss estimated at \$1.86 trillion.² Many families have been left with homes worth much less than the amount owed on them.

The recession has hit communities of color especially hard. From 2007 to 2009, Black and Latino borrowers, respectively, were 76 and 71 percent more likely than whites to experience foreclosure.³ Income loss for the median African American family was double that for white families — a 4.4 percent versus 1.6 percent decline in real median income.⁴

Across the country, state lawmakers have chosen cuts over raising revenue, and California lawmakers are no exception. They have opted to limit care available through Medi-Cal and nearly double premiums for some children enrolled in Healthy Families.⁵ They also have raised tuition at state universities,⁶ support for the elderly and people with disabilities,⁷ and other services.

Meanwhile, California's tax system lets the state's wealthiest residents and corporations off the hook for contributing to a prosperous economy from which all can benefit. As of 2009, the lowest 20 percent of income earners, who made an average of \$13,200 annually, paid 10.2 percent of their income in state and local taxes. The top 1 percent, meanwhile, who made an average of \$2.2 million annually, paid 7.4 percent, including a 2.3 percent federal offset not available to the bottom 40 percent of wage earners.⁸

Furthermore, corporations are contributing a smaller share to state revenue. Corporate taxes accounted for 14.6 percent of general fund revenues in 1980-81 but only an estimated 10.7 percent as of 2009-10. The portion of revenues attributable to personal income tax is up from 35.4 percent to an estimated 53.2 percent.⁹

Additionally, the state's Proposition 13 contains loopholes that allow corporations — and rich individuals — to avoid taxes on property.¹⁰

By choosing the path of divestment over equitably raising revenue, California lawmakers are compounding economic inequality in the state.

THE RIPPLE EFFECT OF BUDGET CUTS

Cuts to state budgets ripple throughout the economy. Public sector workers who lose their jobs, experience furloughs, or have their wages frozen have less discretionary income to spend at local businesses. The same is true with individuals who have their benefits cut or businesses that lose income from government contracts.

The cuts are then felt by Main Street and other businesses that suffer

from suppressed demand and consumption. With fewer customers and less revenue, these businesses refrain from hiring new workers, or they have to cut employees or their hours. In other words, the decline in public spending ripples in the private sector and harms economic activity and jobs.

METHODOLOGY

This report uses a linear regression analysis to compare expenditure and unemployment data in California. The data, which focuses on general fund spending, is taken from the National Association of State Budget Officers' annual expenditure reports and includes general fund spending. This data has been controlled for both population and inflation.

The regression analysis, using a six-month time lag, shows the impact of changes in state general fund spending on unemployment. Specifically, the variables we compare are percent changes in year-to-year, inflation-adjusted, per capita general fund spending with the percent changes in the year-to-year unemployment rate.

THE COST IN JOBS

California lawmakers have cut spending by 28 percent, or \$558, per capita between 2007 and 2010. This reduction has hurt the employment picture in California. The impact is large, with a 1 percent cut in state spending associated with 32,100 lost jobs.

Communities of color have been particularly hard-hit by the decline of the job market, as seen in the U.S. Bureau of Labor Statistics' 2010 unemployment figures. At 19.5 percent and 14.7 percent, respectively, African Americans and Latinos in California have significantly higher unemployment rates than the state average of 12.2 percent.

RECOMMENDATIONS

The answer to our economic difficulties is not more budget cuts. This disinvestment in our schools, health care, infrastructure, and public institutions is taking a toll on families and communities. It is also harming the economy and the job market.

California lawmakers should reverse this course of disinvestment and commit to building a prosperous future for all California's families, including a robust job market that supports Main Street businesses and overall community development. Lawmakers should:

- Develop a stronger, more equitable tax system that demands adequate contributions from corporations and the rich
- Increase income taxes on California's wealthiest
- Close Proposition 13's corporate property tax loophole
- Call on banks to reduce underwater mortgage debt to current market value, giving California \$20 billion in economic stimulus and creating 300,000 jobs
- Promote economic and racial equity by preserving public investments and public sector jobs



Jobs lost with
1% spending cut

32,100

Unemployment
by race

White: 11.9%

Black: 19.5%

Asian: 9.4%

Latino: 14.7%

Total: 12.2%

● **John Wilson | Bay Point**



I'm a retiree who enjoys fly-fishing, fly-tying, and gardening — and who's also trying to help his two sons in their pursuit of higher education. I give them money when I can, so they can cover their expenses, but my elder son still is moving to Oklahoma, where the tuition is lower. He's moving, even though he's going to lose a lot of credits in the transition.

I see a lot of desperation in my community. I've even seen retired people, like me, panhandling at gas stations and supermarkets.

The other day, I was panhandled by an older man, with a walker, who needed money for food until his next Social Security check came in.

I'm lucky to be in a situation where I don't have to panhandle, but my family and I use public services, too: bus service, VA benefits, police and fire protection, student loans and grants.

We should have a more progressive tax structure — I wouldn't be averse to a 70 percent tax on the top one to 5 percent. All of us should be able to participate in the American Dream of a better life for our children and basic human rights.

● **Ana Guardado | San Jose**



I teach music part-time in a private school. I used to teach art, earning \$46,000 a year, but that program was cut, and my income has gone way down, too.

The economic crisis has hit my family hard. Whereas we used to live together, we've had to split up in different parts of the state to find work. My son lost his home to foreclosure and moved away.

My uncle also lost his home, couldn't find work again, and moved to Central America. It's very sad. I used to have my family so close.

My community is very diverse, with people of all racial backgrounds, but there's one thing we share: we are all facing the loss of jobs and, on top of that, budget cuts. Our libraries, senior centers, and youth centers are all cutting back. It's sad to see the shuttering of my community, houses empty, more crime, fewer public services. We all deserve to live in a strong and healthy community.

● **Alia Phelps | Oakland**



I work part-time as a community organizer and also get some financial help from Cal-Works until I transition back to working full-time. The support I receive has been cut back though, so I can no longer see the dentist, can't afford my rent, and am struggling to find child care that fits within my very tight budget.

It's so hard to find work right now. So many jobs were lost to the recession, and all you can find at this point is seasonal work with no benefits. Bus fares are going up at the same time our financial support is being reduced. A lot of our youth are unemployed, and, with no training programs to help them develop careers, many look for any way to make some quick money.

Where are the banks in all this? They created this recession. They're the ones taking away people's homes. They're the reason the jobs dried up.

Isn't it time for them to take some responsibility and start paying some real taxes?

ENDNOTES

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- 2** Rebecca Thiess, "The Great Recession's Long Tail: Third Anniversary Under-scores Severity of Labor Market Woes," Economic Policy Institute, Briefing Paper #294, February 2, 2011, viewed at: <http://www.epi.org/publications/entry/6708/>, p. 2. [Hereinafter Thiess.]
- 3** Center For Responsible Lending, "Soaring Spillover: Accelerating Foreclosures Cost Neighbors \$502 Billion in 2009 Alone; 69.5 Million Homes Lose \$7,200 on Average, Over Next Four Years, 91.5 Million Families to Lose \$1.9 Trillion in Home Value; \$20,300 on Average," May 2009. Available at <http://www.responsiblelending.org/mortgage-lending/research-analysis/soaring-spillover-3-09.pdf>
- 4** Debbie Gruenstein Bocian, Wei Li, & Keith S. Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis," Center for Responsible Lending, June 18, 2010, p.8.
- 5** Ibid.
- 6** Erica Williams, Michael Leachman, & Nicholas Johnson, "State Budget Cuts in the New Fiscal Year Are Unnecessarily Harmful: Cuts Are Hitting Hard at Education, Health Care, and State Economies," Center on Budget & Policy Priorities, updated July 28, 2011, p. 18, viewed at: <http://www.cbpp.org/files/7-26-11sfp.pdf>.
- 7** Ibid, p. 14.
- 8** Ibid, p. 20.
- 9** "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," The Institute on Taxation and Economic Policy, 3rd Edition, 2009, p. 24. Available at: <http://www.itepnet.org/whopays3.pdf>
- 10** Raúl Macías and Jean Ross, Policy Points, California Budget Project, April 2010, p. 4. Available at http://cbp.org/pdfs/2011/110412_Who_Pays_Taxes.pdf.
- 11** Christopher Palmeri, "California Diminished by Tax Revolt of 1978 Shows How U.S. Invites Decline," Bloomberg, October 17, 2011, viewed at: <http://www.bloomberg.com/news/2011-10-17/california-diminished-by-1978-tax-revolt-shows-u-s-in-decline.html>.