Study finds governor’s budget would cost jobs, economic output

May 28 2010, By Kathleen Maclay

(PhysOrg.com) -- California Gov. Arnold Schwarzenegger’s cuts-only approach to balancing the state budget will leave deep economic scars, according to a new report by UC Berkeley labor researchers. But it adds that balancing cuts with targeted revenue increases would save nearly 250,000 jobs -- half of them in the private sector.

The study by UC Berkeley’s Center for Labor Research and Education found that the governor’s proposed budget would result in a loss of 330,000 full-time-equivalent jobs, boosting the state’s already high unemployment rate by another 1.8 percentage points.

Researchers said the cuts also would cost California families and businesses more than $36 billion in lost economic output, along with $1.9 billion in state and local taxes.

The projected job loss is greater than the total job growth projected by the Legislative Analyst’s Office for 2011. This analysis was done using full-time equivalent jobs; because many of the human services jobs are part-time, the actual number of people affected could be much greater.

The majority of jobs lost - 261,000 - would result from $5.4 billion in cuts to major health and human service programs that bring in significant federal matching funds. This job loss is 15 times greater than the number of jobs that would be lost through an equivalent increase in revenue. Close to one-quarter of the budget savings from cuts to health and human services programs would be negated due to lost state and local tax revenue, the study concluded.

Researchers found that a more balanced approach that includes $5.4 billion in targeted revenue increases from upper-income households, corporations and a new oil severance tax would do far less harm to the state's economy, sparing nearly 250,000 jobs and $18 billion in lost economic output, under the governor's plan.

Authors Ken Jacobs and Laurel Lucia of the UC Berkeley Center for Labor Research and Education and T. William Lester of UC Berkeley's Institute for Research on Labor and Employment estimated the economic impact of the governor's proposed 2010-2011 budget using IMPLAN 3.0, an industry-standard input-output modeling software package.

"When it comes to jobs and the economy, not all solutions to the state's budget shortfall are equal," said Jacobs, chair of the Labor Center. "Cuts to CalWORKs, In-Home Supportive Services and health services for low-income populations hurt the economy more than the equivalent amount of revenue increases. That's because these cuts would result in the loss of billions of dollars in federal matching funds and take dollars out of the pockets of low-income residents, who are most likely to put them back into the economy immediately."

Robert Reich, a UC Berkeley professor of public policy and former U.S. labor secretary, supported the report findings.

"It makes as much sense to cut social service programs in an economic downturn as to drill holes in a boat during a flood," Reich said. "As this important analysis makes clear, the governor's proposed cuts would not only hurt the state's most vulnerable people at a time when they most need help, the cuts would also harm the economy, hurting all Californians. In order to reduce the debt, it would be far wiser to raise taxes on corporations and the wealthy."

The UC Berkeley study was funded by the Service Employees International Union, which represents more than 700,000 California workers.

The report, "The Economic Consequences of Proposed California Budget Cuts," is available online.

Provided by University of California - Berkeley