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Stimulus funds drying up as state woes rise

Carolyn Lochhead, Chronicle Washington Bureau

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(06-08) 04:00 PDT Washington -- Despite high unemployment and fiscal woes that could lead to more layoffs, the free flow of federal stimulus dollars to California may be drawing to an end. House Speaker Nancy Pelosi, under assault from Democratic budget hawks and small-government conservatives, failed to crush a rebellion last month by moderates worried about deficits. She was forced to strip from a jobs bill \$24 billion in state aid, mainly for Medicaid, and trim an extension of unemployment and health care benefits for people who have been out of work longer than six months.

California and most other states were counting on the money. California, facing a \$19 billion budget hole, would get \$1.9 billion, most of it to fund Medi-Cal.

The House vote last month to approve the bill without the health care funds "was disappointing, obviously, to us, but it should be viewed by no means as the last word," said H.D. Palmer, deputy director of the California Department of Finance.

Gov. Arnold Schwarzenegger joined 46 other governors in demanding that the Senate restore the funding when it takes up the legislation as early as today.

An additional \$23 billion in federal aid to prevent teacher layoffs across the nation, pushed by the White House and Rep. George Miller, D-Martinez, has been attached to an emergency war-spending bill that is exempt from "pay-as-you-go" budget rules. It also faces stiff opposition as worries about the growing national debt, which crossed the \$13 trillion mark last week, have begun to trump concern about jobs.

Public sector jobs

At the same time, conservative think tanks have opened an assault on what they contend are unfair job, salary and benefit protections for state and local public employees, arguing that Democratic efforts to save teacher jobs so they have money to spend is a liberal version of "trickle down," a term once applied to GOP tax cuts for the wealthy.

Christina Romer, a UC Berkeley economist who chairs the president's Council of Economic Advisers, argued that saving teachers' jobs will lead to more spending on goods and services supplied by local businesses.

Liberal economists are pushing for more state aid in the wake of a sharp drop in private-sector job growth. Although May payrolls rose by 411,000 jobs, 95 percent of those jobs were temporary federal hires for the census. Unemployment remains at 12.6 percent in California and 9.2 percent nationwide.

The argument for more stimulus money now is that the sooner the economy recovers, the sooner deficits will start to shrink. Allowing states and cities to lay off thousands of workers - and cut government contracts that go to private firms - will only slow recovery and make deficits worse.

"Already, the cuts that state and local governments have made in their budgets is dampening the economic recovery," said Michael Leachman, director of state fiscal studies at the liberal Center on Budget and Policy Priorities. "Additional cuts that states would have to make if Congress doesn't extend the aid would just do further damage."

More budget woes

States face another year and probably two of budget woes, and a combined budget gap estimated at \$300 billion. They have run through most of the \$140 billion in state aid included in the \$800 billion fiscal stimulus Congress passed last year. The added state aid Congress is considering would extend those stimulus funds by six months.

But conservatives claim it is unfair to use tax money to save the jobs of public sector workers when millions of workers have been laid off by private businesses.

A recent study on public worker compensation by Chris Edwards, director of tax policy for the libertarian Cato Institute, found that state and local workers earn substantially more in wages and benefits than private sector workers: \$67,812 for the average state or local government employee compared with \$59,909 for private sector workers in 2008.

Using federal data, Edwards calculated that California state and local government employees were the best paid in the nation in 2008, earning \$86,417, including benefits.

Generous pensions

Adam Summers, an analyst at the libertarian Reason Foundation in Los Angeles, published another study last week showing that California's state worker pensions are far more generous than in the private sector. Annual costs, Summers found, have gone from \$1 billion a year a decade ago to \$5 billion a year.

"The private sector has been forced to scale down jobs," Summers said. "Eight million jobs have been lost, but the public sector has been shielded from most of that pain."

Comparisons between the fiscal problems in Greece and California are becoming common. California is much larger - its economy is worth \$1.8 trillion for 37 million people while Greece's economy is worth \$350 billion for its 11.2 million population.

An analysis by Republicans on the House Budget Committee suggested states are the next "too big to fail" entity. Extending stimulus funding would be an implicit way to help states avoid defaults, but the analysis argued it would also "soften the resolve" of states to tackle their pension problems.

E-mail Carolyn Lochhead at clochhead@sfgate.com.

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