

Fiscal cliff would be costly to California

By Pamela Nonga Ngue and Michelle Murphy, California News Service

WASHINGTON – California stands to lose as much as \$4.5 billion in federal funding and more than 200,000 jobs next year if Congress fails to reach a deficit reduction agreement by Dec. 31.

The automatic cuts, part of a larger package of steep spending reductions originally intended to pressure Congress to address the national debt, are now coming into sharper focus as the “fiscal cliff” deadline approaches, and some fear they could damage the state’s economy.

Low-income Californians are especially vulnerable because they rely on federal programs for services ranging from child care and health screenings to education and family violence prevention.

“The cuts are going to be hitting just about every aspect of federal spending that might show up here in the state of California,” said Robert Kleinhenz, chief economist at the Los Angeles County Economic Development Corp.

The Defense Department would lose \$57 billion, costing California 135,000 jobs in 2013, according to a report by Stephen Fuller at George Mason University.

Southern California would be hit particularly hard by cuts in military spending. San Diego and Los Angeles counties could lose up to \$2.1 billion, according to an analysis by the Center for Security Policy.

The same study found the Bay Area counties of San Francisco,

San Mateo, Contra Costa and Alameda stand to lose up to \$522 million in defense spending.

The looming cuts are the result of a compromise reached in the summer of 2011, which raised the U.S. debt limit but forced Congress to identify \$1.5 trillion in spending reductions. If they failed to make those cuts, an automatic \$1.2 trillion in cuts equally divided between domestic programs and defense would take place.

Congress can still avoid the cuts if it reaches a deficit deal by the end of the month. Obama met with top members of Congress 10 days after his re-election on Nov. 6, but a pact has not been reached.

Many economists fear the cuts will drag the United States back into a recession. The George Mason University study projected a loss of more than 2 million jobs and a \$215 billion drop in the nation's gross domestic product.

Without department-by-department budgets, it is impossible to know exactly which programs will be cut and which will be spared. However, recent state analyses provide a glimpse into the potential consequences of the cuts.

Sen. Tom Harkin, D-Iowa, who serves on the Senate Appropriations Committee, projected that cuts in health, education and labor will total over \$546 million in California alone.

Among the consequences for California, according to Harkin:

- 12,000 children from low-income families would lose access to Head Start programs.
- 2,000 fewer women would be screened for breast and cervical cancer.
- 7,000 victims of domestic violence would not have services.

- 8,000 fewer people would be tested for HIV.
- 296,000 students would lose the benefits of Title I grants.
- 143,000 fewer job seekers would be given assistance to find employment.

The University of California warns it could lose \$335 million in research funding and \$21.5 million in Medicare revenue for its health system.

“It would have a devastating impact on the nation, including California, and including the University of California.” said Gary Falle, the university’s associate vice president for federal governmental relations.

California’s economy is on the rebound. The Legislative Analyst’s Office projects a 1.8 percent increase in California’s gross state product in 2013. However, it projects the ripple effects of federal cuts would result in a 0.6 percent contraction.

Studies point to California’s vulnerability to defense cuts. The Pew Research Center estimates that \$8 billion in California defense contracts would be lost over the next 10 years. The analysis by the Center for Security Policy projects nearly 1 in 5 California defense contracts would be lost next year alone.

All 58 California counties are at risk. Even Mariposa County, with only one defense contract – worth \$6,072 – is projected to lose \$571.

Not everyone in Washington is overly concerned about \$109 billion in cuts in light of the government’s \$3.6 trillion budget. California Rep. Tom McClintock, R-Elk Grove, said it pales in comparison to the huge increases in federal spending over the past decade.

In an interview, he noted that the cuts would amount to barely

one quarter of 1 percent of total federal spending, “which frankly underwhelms me.”

Economists warn the failure to reach a compromise could send the United States back into a recession with grave implications for California.

“That would mean job losses at the national level and the reversal of the job gains that we saw here in California over these last few months,” Kleinhenz said.

The loss of income due to job cuts would reduce consumer spending by over \$11 billion in California alone, according to the George Mason University report.

The expiration of Bush-era tax cuts is another element of the fiscal cliff negotiations between President Obama and Republicans.

Obama is pushing for a deal to maintain current tax rates for a majority of Americans, but raise rates on households with taxable income above \$250,000. That would affect as many as 750,000 California households – 6 percent – according to the 2010 census.

McClintock expressed concern over how tax increases would hurt California.

“If the taxes are allowed to go up ... it will be very negative for the state’s economy,” McClintock said.