

ASSEMBLY BUDGET COMMITTEE

Hearing on Budgets, Investment and California's Economy

Tuesday, April 6, 2010
State Capitol Room 4202

Purpose

The purpose of this hearing is to place California's present budget difficulties in the context of its current economic conditions and prospects for future economic growth. Panelists have been requested to address issues related to: the economic impacts of budget reductions and revenue increases; balancing public and private resources; the role of public investment in economic growth; private sector priorities for public spending; and, alternative means of funding public investment.

Background

State expenditure levels and programmatic choices represent an important component in shaping California's economic health in both the short- and long-term. State budget decisions play a vital role in providing health care and other social services to individuals and communities most in need. The budget also provides support to programs and investments which are instrumental to ensuring a healthy and growing economy in the state.

States are generally constrained from spending in excess of revenues raised during the same period. Absent the ability to engage in deficit financing to energize the economy, California is faced with the difficult task of balancing budget reductions with revenue increases. While revenue increases shift money from the private sector and can reduce investment and job creation opportunities, budget reductions damage important public services like education, health care and public safety, reduce employment, and can result in reductions in federal funds.

In weighing the appropriate balance between spending reductions and revenue increases, decision-makers are faced with issues relating not only to current economic conditions, but also to California's underlying economic health and prospects for future growth. State involvement in the economy plays a vital role in how California will fare in the future. State and local government activities—such as, improving to work-force skills through education and training, enhancing the quality of public infrastructure, and ensuring basic public safety—are fundamental to a well-performing economy.

How the state and local governments raise revenues to fund current spending and long-term investment is also an important factor. The level and composition of taxes can have impacts on the well-being of the state's economy, through their effects on business location, hiring, and investment. Consideration of numerous trade-offs related to spending cuts and revenue increases is crucial in achieving an appropriate budget balance.

Guiding Questions

- What role does direct state government spending on programs play in state and regional economies in the short-term?
- In terms of economic performance, how would the impact of current budget reductions compare with revenue increases?
- What are the impacts of current spending reductions and decisions on long-term economic prospects for the state?
- What types of program spending and public investment are most important for California's future economic growth and prosperity?
- Relative to other states, what are California's comparative advantages, and how should state budget decisions account for these?
- Are there alternative funding mechanisms the state and local governments should explore in positioning the state's economy for future growth?