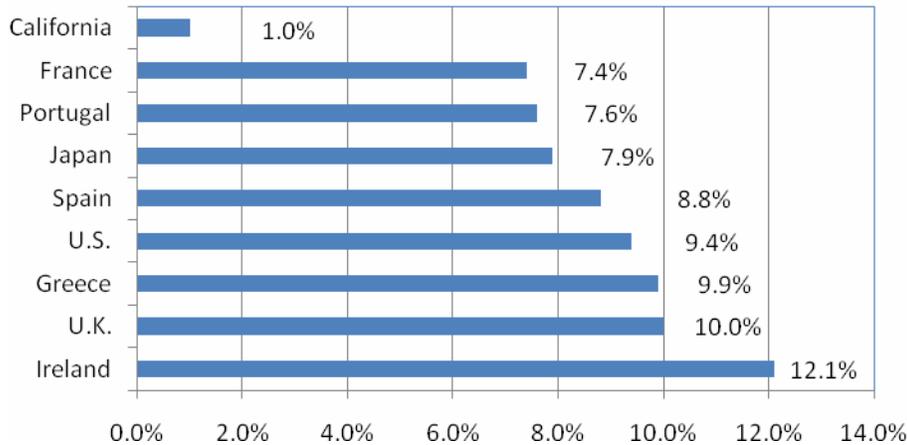


Budget Myth 1-- California is like Greece

California faces an \$18 billion state budget shortfall in a state with a \$1,850 billion economy measured by gross state product. California's budget shortfall is approximately 1% of the size of the state economy.

In comparison the Greek budget shortfall is 9.9% of their economy measured by GDP and the U.S. budget deficit currently is 9.4% of GDP. France, Portugal, Japan, Spain, the U.K. and Ireland all face budget deficits that are far larger than California's as a share of the economy.

State Budget Deficit as % of GDP



California's perennial budget shortfall is certainly difficult to solve given the politically partisan debate that has led to gridlock and mostly to putting off real solutions into the future. Moreover, additional solutions must come at a time when the level of state general fund spending has been reduced from \$103 billion in 2007-08 to \$83 billion for proposed 2010-11 budget.

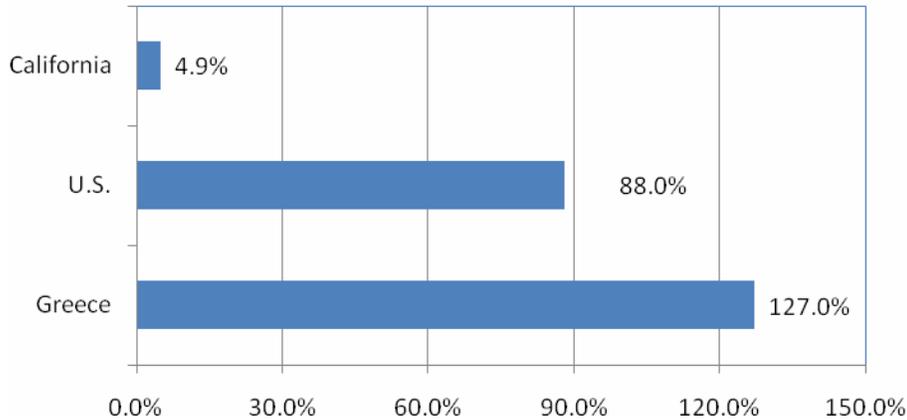
But difficult is not the same as large.

It remains true that California's deficit can be solved by reallocating a penny out of each dollar in our economy—the 1% solution CCSCE has written about for years. A framework and specific steps for moving toward real solutions are discussed in an *Issues in the News* memo on the CCSCE website.

Nor is it true that California has a large number of state employees relative to other states (see Budget Myth 2 *Numbers in the News*) or a large level of debt compared to Greece or the United States.

The state has approximately \$90 billion in outstanding general obligation bonds or just under 5% of the state's GDP compared to a debt ratio of 127% for Greece according to De La Rosa and Co., a California municipal investment banking firm. U.S. national debt is 88% of current GDP.

Debt as Percent of GDP



It is also true that the state and local jurisdictions have large unfunded contractual agreements for pension and health benefits for retirees.

But the idea that California has large deficit and debt challenges needs to be reframed as a political challenge. Our challenges are large relative to our inability to find compromises to solve them, but not large relative to the size of the California economy.

California is not Greece, or for that matter the United States, when it comes to long-term deficit and debt challenges.