Financial crisis staggers California

Governor outlines draconian budget cuts

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California Governor Gray Davis, facing a massive $36 billion budget deficit, is pressing for adoption of an austerity budget for the current year in addition to the $10.2 billion in mid-year reductions which came in December. Under threat that California bond ratings will be downgraded, or that the state will be declared insolvent, the Democratic governor is engineering massive cuts in social programs and tax increases that affect the poorest and most vulnerable residents of the state.

As recently as 1999 the state was running a $20 billion surplus. The surplus came in great measure from the boom in computer and telecommunications companies that produced scores of overnight millionaires. Grossly overvalued shares in these companies provided a fictitious tax base from employee stock options and capital gains. Today's deficit is largely the outcome of the collapse of the stock market bubble and the decimation of Silicon Valley in the greater San Francisco area. When the collapse came, the state lost $6.2 billion in personal income taxes overnight.

Since big business pushed through a 1978 voter initiative, Proposition 13, which severely limited property tax increases, the state has been forced to rely on more volatile income taxes for 45 percent of its $100 billion annual state expenditure.

Other causes of the deficit included highly questionable investments of state funds, tax breaks to corporations and the rich, lavish building projects like Staples Sports Center and a new NFL football stadium in Los Angeles and the looting of the state's treasury by energy companies in a manufactured energy crisis in 2001.

The state constitution mandates that the budget must be balanced; technically no deficits are allowed. Throughout 2002, however, a number of debt instruments were issued by the state, in part to push the crisis beyond the November elections, which Davis won by a slim majority against a right-wing millionaire, Republican Bill Simon.

The governor is calling for $5.4 billion to be cut immediately from the current budget, in addition to the $10.2 billion approved in December. This would be followed by an austerity budget proposal for the coming fiscal year beginning on the first of July. The cuts will target programs which the poor and working class depend upon for medical care, education and employment. The only state programs left intact will profit California corporations and the massive prison system, which is slated to receive more funding.

California is the most populous state in the US with 35 million residents and world's fifth largest economy, surpassing Italy and France. Three decades ago, California was widely acknowledged as having the most progressive social programs in the US—its school system was better-funded than the other states, and medical benefits and social services were relatively easy to obtain. This social safety net has come under bitter attack by Democratic and Republican governors alike, particularly since the governorships of Republican Ronald Reagan and Democrat Jerry Brown in the 1970s.

If published figures can be believed, the $36.8 billion deficit is larger than the GDP of many countries and more than half the combined debt of all the other US states. Herb Wesson, speaker of the State Assembly, commented, "That's a hole so deep and so vast that even if we fired every person on the state's payroll—every park ranger, every college professor and every Highway Patrol officer—we would still be more than $6 billion short." Davis issued a threat to public employee unions, saying they had to come up with $500 million in concessions or he would make the savings himself through layoffs.

The budget proposal also calls for $8.23 billion paid by the state for social services to be shifted or, euphemistically, "realigned" to its 58 cash-strapped counties. The counties are expected to make up the shortfall by imposing a series of regressive taxes. A 1-2 percent income tax increase on the wealthy is more than offset by the billions that will be taken from working people and the poor in the form of sales tax increases, a hike in taxes on in-state phone calls and cigarettes and increased fees for state services.

In addition to the reductions, Davis is calling for legislation ranging from the automatic "sun setting" of all tax expenditures to unilateral power to make mid-year reductions and suspend laws defining program eligibility. "Sun setting" means that programs supported by tax expenditures will automatically expire unless renewed by the governor.

Davis needs the support of only two Republican legislators to muster the two-thirds vote required to pass the budget. Indeed, the Republicans have had little to say other than decrying the

1-2 percent tax increase on the rich.

There are many similarities between the proposed cuts and those imposed by international banks on debtor nations like Argentina and Indonesia. In many cases it is the same Wall Street banks pressing California to slash public spending. Last December Wall Street bond rating agency Standard and Poor lowered California’s debt rating from A+ to A, the lowest credit rating on any state except Louisiana, and the lowest since the mid-1990s. The S&P rating covers more than $40 billion in state-issued bonds and signifies a decline in the state’s ability to repay its lenders.

The rating, only two steps above “speculative grade,” makes it more expensive for the state to borrow in the next few months, to bridge this historic deficit. According to S & P credit analyst David Hitchcock, “The problems are enormous.” The credit rating will force the state to pay higher interest costs. State Treasurer Phil Angelides plans to visit Wall Street this month to plead with the banks to forestall a further downgrading of California’s debt rating.

The “realignment” policy in the Davis budget revives a tactic used by his predecessor, Republican Pete Wilson. It has a twofold purpose. First, it relieves the state from responsibility for maintaining social services and, second, it reduces the amount of income on the state’s books.. This would allow the governor to cut funds for education, effectively circumventing the Proposition 98 mandate to spend 40 percent of General Fund money on public education. It is widely known that giving money to cash-indebted counties and cities means that money may not go to support social programs at all. Under Wilson the realignments were temporary. However, if Davis’s budget passes in its present form they will be permanent.

Los Angeles, for example, the most populous county with a third of the state’s residents, is currently running a $210 million debt in medical care alone. LA’s $16.85 billion budget is precariously funded, depending on contributions from federal and state sources for a combined total of 46 percent in revenues. Chief Administrative Officer David Jassen warned that in the worst-case scenario, 18,000 jobs—over a fifth of the county workforce—could be eliminated.

City leaders throughout the state are warning that the Davis budget will force them to slash their budgets by more than half. For instance, newly incorporated Laguna Woods in south Orange County will be forced to eliminate all recreational and social service programs. Poorer cities with no tax base will be forced to the wall if the state refuses to honor the agreement. In an example cited by the *Los Angeles Times*, a Fresno county citrus farming town, Orange Cove, stands to lose $498,834 over the next 18 months—40 percent of its operating budget. The town of 8,000 cannot raise rates for water and trash to boost revenues because many residents are behind in their payments. “If they [the legislature] do this, we’re over with,” said Mayor Victor Lopez. “We’re not going to survive, bottom line.”

The largest program to be realigned would include Medi-Cal long-term care, In-Home supportive services and childcare. Overall, the counties would assume 15 percent of total Medi-Cal costs. Medi-Cal is the state’s version of Medicaid supported by the state’s General Fund, matched dollar for dollar by the federal government. The counties would also assume responsibility for formerly state-funded mental health, drug and alcohol, Social Services and other programs.

Last month the Bush administration leaked proposals for a new round of attacks on Medicaid and Medicare that provides care for the elderly. Under the Davis budget, funding cuts coming from Washington will be borne by the counties, which will have little recourse to seek aid from the state.

The budget includes cutbacks affecting the vast majority of the state’s population. These include: Medi-Cal, Healthy Families Program, state-funded cancer research, AIDS assistance, Mental Health and Department of Developmental Services. Also affected are the welfare program CALWORKS, public housing, employee compensation, childcare, K-12 education, community colleges and higher education, including the University of California and California State University. Local government, transportation, technology, environmental protection and other programs are also slated to be cut.

Reductions in Medi-Cal will have immediate and devastating consequences for the most vulnerable segments of the population. Davis proposes to redefine “poverty” as 61 percent of the income figure the federal government uses to define the poverty level for families. Those with incomes higher than 61 percent of the official poverty line will become ineligible for long-term health care. It is estimated that this will affect 540,000 individuals, who will lose Medi-Cal coverage after July 1 of this year.

With reduced access to medical care, the number of sick people with untreated contagious diseases like tuberculosis and AIDS could rise to pandemic proportions. Those losing their benefits and who report to a hospital emergency room will be classified as ineligible and sent to the nearest county facility, where they will have to wait hours without care in emergency rooms packed with the sick and injured.