

# California budget crisis deepens

Nick Davis  
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California's massive \$36.5 billion deficit is growing as time drags on with no budget agreement for the upcoming 2004 fiscal year. Governor Gray Davis's budget proposal, which is wildly unpopular among California residents, will terminate many social services statewide, cut education funding, drive many towns and some cities into insolvency and end the political careers of many State Assembly politicians.

The budget provisions have been widely publicized and have hardened opposition among working people to the governor's proposal. Davis's approval rating has sunk to 27 percent—lower than any governor in the state's history—and the state's financial crisis seems only to be deepening.

Last week, State Controller Steve Westly warned that California will have to come up with an additional \$11 billion, to be used in part to keep the state government operating after the July 1 start of fiscal year 2004. A portion of the money will also be used to make payments on a \$12.5 billion loan taken out last year against projected revenues that never materialized. Under these conditions, banks will be reluctant to lend the state money without massive penalties, which will cost the state's general fund tens of millions of dollars. Westly warned that, in addition to the penalties, Wall Street will likely attach certain stipulations on loans. These stipulations may include anything from tax hikes to spending freezes and other austerity measures similar to those imposed by the US-dominated IMF on poor countries around the world.

While the US economy as a whole added about 143,000 jobs in January, this gain was reversed in February with the loss of 308,000 jobs. During this period, California has continued to hemorrhage jobs. Revised figures put the January unemployment rate at 6.5 percent, instead of the 6.1 percent previously estimated. This is well above the 5.8 percent reported nationwide. Not only were technology jobs lost in the

recession, affecting the northern part of the state, but the state's economy was also impacted by a decline in tourism in the wake of the September 11, 2001 attacks. Southern California—long considered the state's economic powerhouse—for the moment realized a slight 1 percent gain in employment.

State officials had been hopeful that a resurgence of employment would provide needed tax revenue to help offset a growing state deficit. The California Employment Development Department, however, has reported steadily increasing unemployment over the last quarter. For November 2002, 10,500 jobs were lost, the majority coming from hi-tech manufacturing and the remaining from other non-farm positions. In December, 29,500 jobs were lost; an additional 10,500 jobs were wiped out in January. Since peak employment in the state in 2001, over 110,000 jobs have been eliminated. These figures do not account for those underemployed or the long-term unemployed. In technology centers such as Santa Clara County, also known as Silicon Valley, unemployment jumped from a pre-recession low of 1.3 percent to close to 8 percent last October. The state lost \$6.2 billion in payroll tax revenue overnight.

Unlike other states, California depends heavily on payroll taxes to fund an estimated \$100 billion in annual expenditures, due to the limitations placed on property tax revenue as a result of Proposition 13, which froze property taxes at 1 percent. The initiative passed despite opposition from school boards, the university system, firefighters and medical committees, and despite warnings that county social services would be crippled. The result was a huge windfall to big business as tax revenues dried up.

During the pre-recession period of expansion and rising employment—particularly in the hi-tech areas of suburban San Francisco—the state eliminated its deficit in part through taxes collected from incomes, stock

options and capital gains, resulting in a \$20 billion budget surplus.

A combination of factors, however—such as the looting of the state treasury by the energy companies, the stock market slide and the collapse of technology firms—has left the state with a year-end deficit of \$36.5 billion, higher than all other states combined.

Governor Davis's proposed budget seemed at the point of passage in the California Assembly when disagreements arose, depriving Davis of the Republican votes needed to pass the legislation. Republicans have attacked the Democrats, accusing them delaying action on the budget bill. State Senate leader John L. Burton said that because of the scope of the budget cuts it will require at least an additional month of study.

Widespread frustration and anger over austerity measures was reflected last June when the residents of Los Angeles, the state's most populous county, voted by a 71 percent majority to raise their own property taxes to thwart County Board of Supervisors plan to close one of two trauma centers in the county and one general hospital.



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