

California Governor announces millions more in cuts

Andrea Peters
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In an unprecedented use of executive power, California Governor Arnold Schwarzenegger announced on December 17 that he was bypassing the legislative process and imposing by fiat \$150 million worth of additional cuts in the state budget.

The savings will be used to stave off the immediate fiscal collapse of cities and counties throughout the state, which are reeling under the impact of a \$4 billion deficit resulting from Schwarzenegger's repeal last month of a car-tax increase that had been enacted to support local governments.

The governor will combine the \$150 million, which is to be immediately slashed from social programs and the state's public university system, with another \$2.65 billion in budget cuts that he has already requested from the legislature and an anticipated \$1.8 billion windfall in state revenues projected for June 2004.

Within weeks of assuming office in November, Schwarzenegger abandoned his campaign promise to guarantee current rates of funding for public education. California's public universities are already cutting their current budgets by approximately \$50 million, leading to reductions in administrative staff, the closing of campus recruitment programs, increased class sizes, and the possible freezing of spring admissions.

Wall Street responded to the news from Sacramento by downgrading the state's credit rating to just above junk-bond status. This immediately added an additional \$55 million to California's debt burden in short-term loans.

The decision to carry out the \$150 million bailout of the local governments followed a public outcry by mayors throughout California and the initiation of a lawsuit against the state government for withdrawing the car-tax money. Without an immediate infusion of funds, cities and counties would be compelled to begin

dismantling public safety services by laying off police, firemen and other emergency workers.

In order to transfer money from the state budget to local governments without the approval of the legislature, Schwarzenegger has invoked a little known law that was designed to permit emergency payments to programs already financed by the legislature, such as prisons and health care. The legality of Schwarzenegger's use of this law to impose budget cuts is dubious at best and likely to unleash challenges in the courts.

This most recent development is the latest in a series of measures undertaken in Sacramento that, under the aegis of both the Democratic and Republican parties, place the burden of California's multibillion-dollar budget shortfall on the backs of the working class. It demonstrates that the recent replacement of Democratic Governor Gray Davis with Republican Arnold Schwarzenegger through an anti-democratic recall sponsored by right-wing Republicans has led to an escalation of attacks on publicly funded services.

Despite Schwarzenegger's claims to be the representative of "the people" and divorced from "special interests," the needs and interests of millions of ordinary Californians find no expression in the efforts to resolve the state's budget crisis. At the same time, Schwarzenegger's circumvention of the legislature highlights the increasing willingness of his administration to resort to measures of a quasi-dictatorial character as California's fiscal and social crisis deepens.

On December 12, the state legislature approved a fiscal plan for the state that combines a massive borrowing scheme with a balanced budget mandate. The legislation, which will be placed on the March 2004 ballot for approval by the voters, will temporarily

shore up the state treasury with \$15 billion of borrowed money, while setting the stage for severe cutbacks in social programs and publicly funded services in the years to follow.

Due to the economic contraction that has occurred in California since the bursting of the dot-com bubble, tax revenues are not expected to keep pace with current state spending levels. Thus, although the balanced budget mandate does not directly authorize a cut in expenditures, this will be its ultimate effect.

Should spending begin to outstrip revenues, the legislation authorizes the governor to call a special session of the State Assembly in which representatives must approve further cuts to bring the budget back into balance. With the exception of bonds aimed at financing specific projects, the legislature is barred from future borrowing. The measure also creates an emergency reserve account equal to either 3 percent of the general fund or at least \$8 billion.

The budget agreement came after a week of intense negotiations between the Schwarzenegger administration and leading representatives from the Democratic Party. On December 5, the state Senate had voted down an earlier proposal by Schwarzenegger that sought to couple the \$15 billion bond measure with a spending cap, which would have reduced state expenditures for the current year alone by 20 percent.

While accepting the necessity for some form of spending cap, the Democrats were unwilling to agree to a cap of the size proposed by Schwarzenegger for fear of a political backlash from the population. Sections of the Republican Party also opposed Schwarzenegger's proposal, with the more right-wing layers of the party hostile to any form of borrowing and stiffly resistant to the Democrats' demands for a less stringent spending cap.

The defeat of Schwarzenegger's initial proposal and the failure to work out a compromise agreement unleashed a political crisis in the state. It raised the prospect of the state either becoming insolvent or defaulting on an \$11 billion loan payment due in July 2004, with both options likely to exacerbate the political crisis and unleash further social tensions. As the implications of the impasse became increasingly clear, the Democratic Party and sections of the Republican Party began exhaustive efforts to restart budget talks, ultimately leading to the agreement

outlined above.

The fiscal plan does not provide a permanent resolution to California's budget crisis and will ultimately saddle the state with even more debt, while providing both the Republican and Democratic parties with a cover for the implementation of further cuts.

Over the course of the recent recall election that resulted in Schwarzenegger winning office, the *World Socialist Web Site* and the candidate of the Socialist Equality Party, John Christopher Burton, opposed the recall and warned that the ultimate target of the right-wing effort to unseat then-Governor Davis was the working class. Through anti-democratic methods, the Republican Party sought to create a situation in which it could implement an even more reactionary social and economic program than that pursued by the Davis administration.

At the same time, the WWS and Burton insisted that the Democratic Party could not be relied upon to combat this attack. Regardless of whether Governor Davis remained in office or was replaced by Schwarzenegger, the policies pursued would be opposed to the needs of the working class.

Recent events have fully vindicated this analysis. What both Schwarzenegger's recently announced budget cuts and the approved fiscal plan reveal is that the two major parties are working to resolve the fiscal crisis in the state in the interests of their corporate backers.

California's working people do not want public safety and emergency services to be funded at the expense of public education. They do not want programs that provide health care for the working poor, uninsured children and services for the severely disabled to be cut to the bone. And they do not want their living standards sacrificed and the social infrastructure of the state destroyed to protect the profit margins of big business and the wealth of the rich. But these essential social needs find no expression in the policies of the Democrats or the Republicans.



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