

# Schwarzenegger budget to slash health and education in California

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California's Republican governor, Arnold Schwarzenegger, outlined a budget proposal January 9 that constitutes a massive assault on health, education and other social service programs upon which millions of people in the state rely.

The \$99 billion budget is aimed at eliminating a \$14.3 billion gap between expected tax revenues and expenditures. It will include \$4.6 billion in cuts, \$1 billion in fund shifts from gasoline taxes (by postponing road construction projects) and an additional \$2 billion reduction in education spending. In addition, the budget mandates a \$729 million cut from higher education and a \$165 million reduction from child-care programs for school goers.

The budget also forces state employees to pay an additional five percent of their wages into their pensions, to pay off state borrowing. Nearly one-tenth of the state budget gap will be shifted to local governments, as \$1.3 billion in property taxes due to cities and counties will be siphoned off to the state.

There will also be a severe reduction in health and welfare services, in a state where six million residents have no health insurance and 60 hospitals have shut over the last decade. Administration officials admit that more than 110,000 poor Californians will lose health insurance due to the cuts, which include \$880 million from Medi-Cal and \$10 million from public health services. The state's welfare program for mothers with dependent children—Cal-Works—will lose \$790 million, while \$126 million will be slashed from in-home services, \$134 million from Supplemental Income payments and an additional \$800 million from other health services.

It is hard to exaggerate the human impact of the proposed budget. Counties, already strapped for cash, will be forced to lay off thousands of employees. The budget will reduce public assistance benefits for 481,000 poor families, including childcare services, while stiffening work requirements. Enrollment for the state universities will be capped and those that enter will face increasing costs and fewer and smaller grants. Health services for the young and poor will be capped. Programs will be curtailed at youth correctional facilities.

Under conditions in which 1.13 million people are unemployed in the state and a record number of families have been dropped from employer-provided health insurance, cities and counties will be forced to engage in yet another round of clinic and hospital closures. The non-profit Health Access organization calculated that if this budget passes, hundreds of thousands of Californians would lose all access to health care.

Tuition and fees for California university students will increase ten percent for undergraduates and about 40 percent for graduate students. Community college fees will increase by a whopping 44 percent, on top of last year's 64 percent increase. Many low-income students who

currently qualify for Cal-grants scholarships will find that they are no longer eligible. There have been published estimates that the higher tuition will cut incoming UC and Cal State freshman classes by 10 percent—7,200 young people who will be denied access to college education.

Even these figures likely understate the impact of Schwarzenegger's policies. Some budget analysts have said that even if every aspect of the governor's plan were adopted the state would still face a \$6 billion shortfall by mid-2005. Moreover, the budget assumes that economic growth will boost overall state revenue next year by \$2.9 billion.

Administration officials have already hinted that they will address next year's gap through sweeping changes in the state employees' pension system and further privatization of government functions. In his January 6 State of the State address Schwarzenegger specifically called on the state legislature to overturn restrictions on privatizing school buses and other support services, saying he wanted to "give local schools the freedom to be cost efficient."

Most importantly, the Schwarzenegger budget assumes that a \$15 billion bond issue to pay off short term notes to the banks will be approved on March 2, although polls indicate it is supported by less than 40 percent of the voters. The governor has warned that without bond money the government would run out of cash by June and be forced to implement massive layoffs of state workers, major tax increases and even more drastic budget cuts. Concealed in this plan is that the cost of servicing the debt will be borne by California residents over the next nine years in the form of additional budget cuts and layoffs.

The companion proposal with the bond-issue being voted on March 2 is a balanced-budget amendment to the state's constitution to compel any future government to automatically slash spending when revenue falls. The two budget referenda, titled Proposition 57 and Proposition 58 respectively, contain language specifying that both must pass for either to take effect. This procedure is the outcome of a backroom deal between the Republican governor and the Democratic leadership of the state legislature.

In his address Schwarzenegger sought to justify the draconian cuts by claiming his Democratic predecessor Gray Davis had carried out unchecked spending on wasteful social programs. "We have no choice but to cut spending, which is what caused the crisis in the first place," he said, adding, "We cannot give what we do not have. If we continue spending and don't make cuts, California will be bankrupt."

But California's financial crisis cannot be blamed solely on Davis, a conservative Democrat whose 2003 budget consisted of reductions in services, increased fees and other measures which helped fuel the popular anger that was exploited by Schwarzenegger and the

Republicans to oust Davis in last summer's recall election.

California's fiscal crisis has been in the making for nearly a quarter of a century, going back to 1978 with the passage of Proposition 13, a ballot initiative supported by right-wing Republicans that severely limited the levying of property taxes. The main beneficiaries of the measure were not struggling homeowners but big corporations and the wealthy, and the measure led to a huge attack on social spending through the slashing of state revenues.

The collapse of the dot.com bubble in 2000, followed by the statewide and nationwide recession of 2001, drove the state into deficit as revenues from income and capital gains taxes plummeted. This was exacerbated by the energy crisis in California and the systematic plundering of the state by the giant energy traders, above all Enron, which cost the state government \$10 billion. Finally the tax cuts of the Bush administration led to a massive reduction in federal aid to the states, under conditions where California was only one out of 38 states facing bankruptcy.

Schwarzenegger and the California Republicans explicitly reject raising taxes on the wealthy to address the budget shortfall. While the budget imposes some \$239 million in new fees on hundreds of thousands of students, handicapped people and other ordinary Californians, the governor specifically rejected any tax increases on those making \$250,000 a year and more, saying he "despises" tax increases. (Not surprisingly, a statewide poll conducted by the Public Policy Institute of California earlier this week showed 71 percent of Californians would support a tax hike on the rich instead of budget reductions).

In a strategy similar to the way that Bush's tax cuts have been used to deliberately bankrupt the federal government and lay the groundwork for massive cuts in longstanding social programs, the California Republicans are using the state's fiscal crisis to permanently reduce the size of government, under the euphemism of "structural reform."

A number of Republicans, including Tom McClintock, who ran against Schwarzenegger during the recall election, criticized the balanced-budget initiative as insufficient and are pressing for an even more drastic cap on spending. Earlier this week, they announced plans for a petition drive to put the constitutional spending cap to a referendum vote in November. The proposed cap would essentially shrink the size of the state government by restricting spending from growing faster than population and inflation. Even if state lawmakers raised taxes sometime in the future, they wouldn't be able to spend the money on new government programs or increased investment in infrastructure.

Some Democrats, such as State Senate leader John Burton and State Treasurer Phil Angelides, who is expected to run for governor in 2006, criticized the governor's proposal for placing the entire burden of the deficit on the backs of the poorest Californians and failing to raise taxes on the wealthy. In addition to their concern that the new budget will intensify social tensions in the state, Burton and Angelides worry that if there is no tax increase, Wall Street lenders will further downgrade California's bonds. Standard and Poor's recently downgraded California's debt to BBB, the lowest of any state and only one step removed from "junk bond" status.

In general, however, the Democrats who control the state legislature, which must approve the budget by a two-thirds majority by June 30, have vowed to collaborate with Schwarzenegger to reduce the budget. State Democrats, including Controller Steve Westly, a former top aide to Gray Davis, were pivotal in crafting the budget proposal and most

are backing the \$15 billion bond issue and the budget-balancing amendment. Moreover, the Davis administration's budget-cutting paved the way for Schwarzenegger policy.

The labor bureaucracy has also provided political cover and collaboration for Schwarzenegger. The new budget calls for a \$2 billion rollback in spending for K-12 education, violating Proposition 98, a constitutional amendment that mandates that 40 percent of the state's general fund go to elementary and secondary education. The 40 percent figure would have required an increase in K-12 funding of \$3.5 billion, but Schwarzenegger obtained the support of the state teachers' unions to add only \$1.5 billion—an amount entirely inadequate to cover the cost of increased enrollment and the hiring and training of more teachers, as well as rising health care benefit costs. The California Teachers Association bureaucracy announced last week its agreement with the governor's proposal, claiming that it was the only way to stave off even greater cuts. Several other unions are also negotiating concessions with the governor.

During last summer's recall campaign Schwarzenegger concealed from the public the type of measures he would take if he reached the governor's mansion. Instead he promised to eliminate the deficit by auditing the government and finding waste. While giving no specifics about his program he suggested he would not cut education or basic services for the poor. The news media also concealed this reality and gave its full support to the recall election and Schwarzenegger's candidacy, which it generally hailed.

The Socialist Equality Party opposed the recall campaign as an attempt by the Republican Party to subvert democratic processes and impose a right-wing agenda rejected by the voters less than a year before. The SEP ran its own candidate in the recall campaign, John Christopher Burton, to present a socialist alternative for working people. The SEP campaign warned that whether Davis or Schwarzenegger prevailed, the working class would face drastic attacks on jobs, living standards and public services. This warning is now being confirmed in the actions of both big business parties.



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