

# Passage of California austerity measures shows dead end of two-party system

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**9 March 2004**

Two ballot measures aimed at placing the full burden of California's ongoing fiscal crisis on the backs of working people were approved by voters in the state election held March 2. The passage of Propositions 57 and 58—The Economic Recovery Bond Act and The California Balanced Budget Act—was the product of the combined efforts of the state's Democratic and Republican parties, which orchestrated the result by insisting there was no alternative and threatening the state's working people with devastating economic consequences if the measures were not approved.

The two propositions—which will provide a legal basis for massive cuts in state spending—were passed with the help of a massive, well-engineered media campaign to stampede public opinion. However, the most important factor in getting reluctant Californians to vote for the measures was the full support given by the Democratic Party establishment.

Proposition 57 authorizes California's governor, Republican Arnold Schwarzenegger, to sell up to \$15 billion worth of bonds to bail out the state treasury. The money is earmarked to pay off \$9 billion in debt set to come due this June, to increase funding for the 2004-2005 budget by \$5 billion, and to create a "rainy day" reserve account. It was linked to a companion measure, Proposition 58, in such a way that both needed to pass for either to take effect.

Proposition 58 mandates that the state budget be balanced and prevents the government from borrowing in the future to raise money to cover state expenditures or pay off previously incurred debts.

The combined effect of Propositions 57 and 58 will be to drastically increase state indebtedness over the course of the next 14 years, while at the same time providing lawmakers with the legal authority to make unprecedented cuts in public services.

Both the Bond Act and the Balanced Budget Act passed by large margins, with 63.3 percent of voters favoring the former and 71 percent supporting the latter. The propositions garnered majority support in every county in the state with the exception of San Francisco and four counties in rural Northern California. These areas voted against the Bond Act. These numbers, however, mask the general lack of enthusiasm among working people for either of the ballot measures, which found

expression in the record low turnout at the polls—38.8 percent of registered voters.

Both of the propositions passed easily, despite reports by pollsters in January and February predicting a narrow victory for one of the measures and likely defeat for the other. As of February 10, the polls indicated at best widespread skepticism of the ballot measures, with sluggish support for Proposition 58 and majority opposition to Proposition 57. On February 20, the Public Policy Institute of California (PPIC), a nonpartisan research institution, released the results of a survey showing that the Balanced Budget Act had the support of only 52 percent of likely voters (with a 2 percent margin of error), while support for and opposition to the Bond Act were evenly split at 38 percent. The bulk of the opposition to both ballot measures was from registered Democrats.

The campaign by the Democratic and the Republican parties—bolstered by the media crusade—deliberately obscured the real implications of Propositions 57 and 58. Schwarzenegger launched an election-style campaign in support of the measures—touring the state, with speaking engagements everywhere from local shopping malls to private fundraisers. The media provided continuous coverage. The governor amassed upwards of \$5 million, almost exclusively from wealthy donors, to sponsor television ads that aired throughout the state.

However, these efforts by themselves were insufficient to guarantee the passage of the ballot measures. A February 20 PPIC press release stated: "Thus far, television ads supporting the economic recovery bond have had little effect on increasing support.... Overall, little has changed since January, when 35 percent were in favor, 44 percent opposed, and 21 percent undecided."

The Democratic Party played the decisive role in securing the passage of Propositions 57 and 58. In late February, leading Democrats from all sections of the political establishment in California—including US Senators Barbara Boxer and Dianne Feinstein, State Controller Steve Westly, and State Senate President Pro Tem John Burton—announced their support for the propositions.

Joint news conferences were held between Schwarzenegger and these figures, calling on voters to support the measures as

the only possible way to resolve the state's fiscal crisis. In addition to the television ads sponsored by the governor's campaign, a new ad appeared featuring the endorsement of Feinstein, California's most prominent Democratic Party politician.

The trade unions were also brought on board, with the state AFL-CIO endorsing both propositions and actively encouraging its membership to vote "yes." This support by the labor bureaucracy followed an announcement in January that the California Teachers Association had agreed to a \$2 billion cut in education funding requested by Schwarzenegger for the 2004-2005 fiscal year.

Republicans and Democrats jointly threatened California's working people with "Armageddon cuts" in social services unless the two measures were passed. This was combined with appeals to "fiscal responsibility" and attempts to play upon the generalized anxiety that millions of workers feel about their own growing personal indebtedness. Schwarzenegger claimed Proposition 58 was equivalent to "cutting up the state's credit card," as one would do for any "spendaholic."

Throughout the course of this campaign, the real source of California's fiscal crisis was concealed from the public. While undoubtedly there is a multibillion dollar hole in the state's treasury, this imbalance is not the result of excessive spending. Rather, it is a direct expression of the mounting crisis of the profit system in the US and the world economy. The onset of recession in the US and the collapse of the stock market bubble in 2000 resulted in a sharp drop in tax revenues in California, which had been home to the technology revolution associated with Silicon Valley.

According to a report from the Rockefeller Institute, between 2001 and 2002 total tax revenues declined in the state by more than 20 percent, with funds from personal income and corporate taxes declining the most. The collapse in California's tax base was worse than in any other state except Alaska. Since then, despite a slight increase in tax revenues during the 2002-2003 fiscal year, money coming into the state's General Fund was still more than \$10 billion below that of the 2000-2001 fiscal year. Even in the predicted "best-case" scenario, this trend is expected to continue for the 2003-2004 and 2004-2005 fiscal years.

The sharp drop in California's tax revenues coincided with the looting of the state treasury by large energy corporations such as Enron, El Paso and Duke, which used the privatization of the state's power markets to swindle \$15 billion from the state's coffers. None of this money has been returned, despite numerous legal proceedings demonstrating the criminal manipulations of the power markets by the energy companies.

Under increasing competitive pressure, big business in California and throughout the country is insisting that concessions made to the working class in the form of state-funded public services and social programs be taken back. These layers are opposed to any resolution of the state's fiscal

crisis that would cut into their profit margins in the form of higher income, corporate, or property taxes. Propositions 57 and 58 were a direct response to these demands by big business.

The Democratic Party's endorsement of the propositions demonstrates that—no less than the Republicans—it is a political representative of the large corporations and the financial elite. The Democrats' role in rescuing the two ballot measures from possible electoral defeat reveals that whatever differences they have with the Republicans are of a tactical and not a principled character. While there may be disagreements between the two parties on particular social questions, such as gay marriage and abortion rights, when it comes to defending the most essential interests of the corporate elite, they are in agreement.

In seeking a resolution to California's fiscal crisis, both the Democrats and the Republicans agree that the working class must pay the price. The living standards of working people, who are already struggling under the combined impact of an economic recession and billions in cuts in education, health care and other public services, must be sacrificed in order to protect the profit margins of big business and the wealth of California's rich.

The passage of Propositions 57 and 58 takes on increased significance when events preceding it are considered. In the summer and fall of 2003, the Democrats and Republicans were locked in a protracted political struggle over who would control the state house in Sacramento. This fight resulted in the recall of Democratic Governor Gray Davis and his replacement by Schwarzenegger, who used his Hollywood personality and a carefully crafted "outsider" persona to convince voters that he represented an alternative to the widely-hated right-wing Democrat Davis.

However, as the role of the Democratic Party in the recent election reveals, the transfer of power to the Republicans in Sacramento did not fundamentally alter the course chosen by the political establishment to resolve California's fiscal crisis. The two-party system functions in the US to exclude any serious challenge to the basic interests of big business by the working class and to ensure the subordination of social needs to the drive for profit.



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