

California: Schwarzenegger slashes wages and social programs, fires state workers

Rafael Azul
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California Governor Arnold Schwarzenegger signed an executive order July 31 ordering the layoff of 22,000 part-time employees and cuts in the wages of most of the state's 200,000 employees. In addition, the state order implements measures that would affect health and welfare programs for millions of Californians. This broadside against the California working class evokes measures taken in the Great Depression against wages and jobs.

The governor justified his order as a way of pressuring the state legislature into approving a budget. Schwarzenegger declared that California is running out of funds and that borrowing more money by selling bonds to Wall Street investors would come at very high interest rates unless a budget is in place. Without a budget, the state cannot issue bonds; instead it would have to borrow directly from a consortium of banks at usurious interest rates that would raise the cost of short borrowing by more than \$100 million.

California is in the throes of a recession; state tax revenues are down due to high levels of unemployment and the collapse of the housing market. Years of deficit spending have augmented the state's debt, resulting in the 49th worst debt rating out of the 50 US states. Given the budget crisis, Moody's and Standard & Poor's, agencies that assess risk, are poised to lower the state's bond rating.

In accordance with the governor's order, nearly 200,000 employees will have their pay cut from present levels to \$6.55 per hour, the federal minimum wage. Part-time jobs are to be eliminated immediately, together with a ban on overtime work and a hiring freeze. Immediately upon the signing of the executive order, 10,300 part-timers were let go. The effect of the wage cuts would be felt on September 1, when workers receive their paychecks for August. None of the sacked

workers has any assurance that they will be rehired when the budget issue is resolved. State employees' wages—now averaging \$50,000 a year—would drop to \$13,600.

The governor's order goes well beyond the wage cuts and firings and includes payment cuts to vendors and contractors for "goods and services chargeable to Fiscal Year 2008-09." These include state grants to university students, state transfers to universities and community colleges, and payments to institutions such as Adult Protective Services, foster care and adoption services, cash assistance for immigrants and tax relief for low-income seniors and the disabled. It is estimated the state would save \$1 billion each month if all the governor's measures were implemented.

Under the impact of the housing crisis—in which record numbers of Californians have had their homes seized and auctioned off—clinics, programs for the elderly, the disabled, and many others run the risk of being shut down or severely constrained by the governor's decision.

Schwarzenegger's action, however, explicitly guarantees interest payments to Wall Street bondholders. The order mandates: "The State Treasurer shall take all actions necessary to maintain the State's ability to pay its bond obligations, including payment of principal and interest with funds in the State Treasury, and shall take all actions that are necessary to protect the State's funds and investments."

The state controller, John Chiang, a Democrat, objected to the wage cuts, saying that the authority to cut wages belonged to his office and that he would not obey the governor's order. He indicated no disagreement, however, on the decision to terminate the part-timers. Schwarzenegger based his decision on a 2003 ruling by the California Supreme Court that

requires that most state employees be paid only the federal minimum wage if a budget is not approved by the state legislature before the July 1 deadline. Chiang insisted that the state had enough money to pay its bills until this October.

The state legislature has been at a budget impasse since Schwarzenegger introduced a budget proposal last January. The budget included draconian cuts to state education and health services to make up for a projected deficit of \$15.2 billion, over 15 percent of California's \$101 billion general fund.

The budget deadlock is along party lines. Democrats have proposed tax increases of \$8-11 billion, while the Republicans have demanded cuts to education and other social programs. While the Democrats control both houses of the legislature they do not have the votes to meet the two-thirds requirement to approve the budget. Republicans in the state assembly oppose tax increases and are demanding that the budget be balanced through massive cuts.

Schwarzenegger's order comes in the wake of the disclosure by California's Economic Development Department that the state unemployment rate rose to 6.9 percent in June, higher than at any time since 1996. In all, over 1.3 million people are looking for work, an historic high. In the economically depressed Sacramento area, where over 100,000 state employees reside, the wage cut is expected to extract \$15 million day in an area of the state already hard hit by home foreclosures.

Governor Schwarzenegger had announced his intention to issue the executive order for over a week. But apart from a few isolated demonstrations in San Francisco and Sacramento, the response from unions representing state employees has been virtually silent. Rather than mobilize any real opposition to the measures, the SEIU and other state employee unions have sued Schwarzenegger in court over aspects of the order, and worked to foster illusions that State Controller Chiang and the Democrats will mount an opposition to the draconian cuts.



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