California budget compromise takes from the poor, gives to the rich

Rafael Azul
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As state leaders negotiate over cuts in California's state programs in order to resolve an anticipated budget shortfall of as much as $17 billion out of a $144 billion state government budget, it is increasingly clear that whatever compromise is arrived at between Republican Governor Arnold Schwarzenegger and the Democrat-controlled State Assembly, the living standards of working families will be sacrificed in the interest of the very wealthy and the banks.

Health, educational and public recreational services will be reduced. Regressive taxes that disproportionately impact the poor and working class will be raised. Other likely measures involve forced borrowing from cities and counties, and tax giveaways to subprime lenders.

In his 2008 state-of-the-state speech on January 8, Schwarzenegger proposed substantial cuts on education, health, emergency services, and veteran services to make up the bulk of the deficit, then expected to come in at $14 billion. The Governor also demanded the power to impose budget cuts in the middle of a fiscal year, a budget cap and a 'rainy day fund.' A portion of tax receipts would be set aside during boom years in anticipation of recessionary years.

The Governor's speech last January officially opened up the debate on the budget. California Democrats control 60 percent of the legislature and Republicans control 40 percent. California law requires a two-thirds majority to pass the budget. This means that the final budget cannot be approved without the votes of both Democrats and Republicans.

California Republican Assembly and Senate members have pledged to oppose any tax increase. However, it is expected that a slim majority would be crafted by Governor Schwarzenegger, consisting of six or seven Republicans and their Democratic Party counterparts that would be willing to impose a one percent increase in the State sales tax. This increase has been projected to reduce the deficit by $5.6 billion. The rest of the deficit would be made up by the State borrowing from cities and counties, and from the banks, using future State lottery receipts as collateral, together with major cuts in social spending.

On July 30, Schwarzenegger signed an executive order that, if enforced, would reduce the wages of 140,000 State employees to the federal minimum wage, $6.55 per hour. The order also calls for the firing of more than 20,000 part time state workers—10,300 were fired on the very day that the order was signed.

Both measures would cut State spending by about $800 million per month. The order was opposed by State Comptroller John Chiang, whose office issues state payroll checks. Last Tuesday, the Governor sued Chiang in State Court to force him to comply. Chiang has pointed out that the antiquated computer system used for the State payroll cannot be reprogrammed in time, resulting in a delay as long as 10 months before such an order could be implemented. Most State employees will not know what their wage will be until their paychecks are distributed on August 29.

Money has run out on a $2 billion reserve fund earmarked for community colleges and health clinics. Those institutions will have no state funds until a budget is approved.

In addition, last month the State cut Medicaid reimbursements by ten percent to clinics and pharmacies, effectively condemning many of these businesses to bankruptcy. The state also intends to cut 400,000 from Medicaid by lowering the eligibility income from 107 percent of the poverty level to 61 percent. According to Ned Wigglesworth from the California Medical Association in Sacramento, this means that a person earning the State minimum wage, a yearly income of $14,500 would not be eligible to obtain health care.

A study released by Health Access California suggests that the Medi-Cal benefit cuts will extend to more than 1 million residents—bringing the total number of uninsured Californians to 6.5 million. This represents the largest cut in health care in state history, and among the largest rollbacks nationally.

This cut will not only impact those directly being cut, but will also resonate throughout the health care system. According to a *Sacramento Bee* report August 15, a separate study estimates that the huge growth in those without insurance would increase the cost of medical care for insured California families by more than $290 per year. Research consultant Peter Harbage, who prepared the study, explained that when a hospital treats rising numbers of uninsured patients on an emergency bases, “the hospital, like any other business, is going to try to recoup its cost by charging other people more.”

In comments over the budget proposal in January, Schwarzenegger cynically claimed that the state could not continue to burden the few “rich people,” as if they were overtaxed. The state has a reputation of having one of the most progressive income taxes in the nation—a term used to describe a type of tax that proportionally takes more money from the wealthy than from the poor. In reality, when one factors in California’s 7.25 percent state sales tax, the bulk of the tax burden falls on the poor and on working families.

This was confirmed in a study conducted in 2007 by the nonprofit California Budget Product that estimated that the poorest 20 percent of Californians, those with an average income of $11,100, pay 11.7 percent of their incomes in state and local taxes. The study found the middle 20 percent pay 9.5 percent. Those in the wealthiest 1 percent, meanwhile, pay only 7.1 percent, despite the supposedly progressive nature of the income tax. The disparity is even more acute when federal income and payroll taxes are factored in.

Part of the source of this disparity is that sales taxes only affect consumption and do not tax savings. Low-income people consume almost all their income trying to make it from day to day, and most poor households have no savings. The extremely high cost of living in California, driven in large part by the hyperinflation of housing and rent costs during the housing boom, coupled with a high proportion of low-wage service jobs, only sharpens this crisis.

In contrast, wealthy individuals are taxed neither on their often enormous savings, nor on the many luxury items, such as yachts, that are explicitly exempt from California sales tax.

The current budget proposal both reflects and reinforces this gross social inequality in California. An alternative way of raising $5.6 billion is to raise the state income tax by a mere 0.7 percent on yearly incomes exceeding $321,000 and by 1.7 percent for those incomes in excess of $642,000, merely reinstates income taxes that had been lowered in the late nineties. One could solve the budget deficit by taxing Californians $1.00 for every $100 they spend. Alternatively, one could tax higher income Californians through the income tax by taxing couples 70 cents for every $100 they earn in excess of $321,000 and another $1.00 for every $100 they earn in excess of $642,000. A Public Policy Institute of California poll found that nearly two-thirds of Californians favor the second choice. In contrast, less than 40 percent approve of a sales tax.

The proposed sales tax increase will exacerbate an ongoing trend. In California, the top one percent of the population has an income that averages 50 times the income of the middle twenty percent. Since 1995, its income has increased by 108 percent, compared to 9 percent for the middle group. The top one percent continued to gain despite real losses for all the other income groups.

Governor Schwarzenegger favors the sales tax increase, despite its unpopularity. It has been described as a sledgehammer approach targeted against those with the least ability to pay. Coupled with a reduction in state services, the new budget threatens to impose a massive reduction in the living standards of the working class, particularly its poorest layers, while further enriching the living standards of wealthy Californians.

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