Fiscal emergency declared in California

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California Republican Governor Arnold Schwarzenegger declared a fiscal emergency on Monday, December 1. He cited a $28 billion dollar shortfall in the state's treasury and the failure of lawmakers to pass an austerity budget prior to the close of the previous legislative session.

Essentially insisting that there is no time to think about the causes of the present fiscal crisis, much less carry out a public debate over what should be done about it, Schwarzenegger compared the situation in the state to that of an accident victim bleeding to death.

"We wouldn't spend hours debating over which ambulance we should use, or which hospital we would use, or which treatment the patient needs," he said. "No, we would first stop the bleeding, and that's exactly the same thing we have to do here," insisted the governor.

In a remark that has been reported in the press as an expression of Schwarzenegger's belief that the current impasse is the result of lawmakers' fears about the political fallout of passing a budget, the governor expressed, perhaps unwittingly, his own hostility to democratic procedures:

"I even proposed to [the legislators] that they should pass a law to give me all the power for one hour, I'd make all the decisions so that they don't have to be blamed for anything," said Schwarzenegger.

The rush to pass a new budget is aimed at pushing through deeply unpopular measures that will have widespread and lasting implications. The economic crisis in California and the US has already had a major impact on the livelihoods of millions of people. Far from "stopping the bleeding," the California state government aims to implement cuts that will open the wound even further.

California's budget problems have been ongoing for more than eight years. Initially rooted in tax breaks that overwhelmingly benefited the wealthy and large corporations, the collapse of the dot.com bubble in 2000, and the raiding of the state's coffers during the 2000-2001 energy crisis, the situation has dramatically worsened over the last two years due to a decline in home property values that has caused the state to experience one of the highest foreclosure rates in the country. This has been aggravated by the impact of economic downturn, which has resulted in job losses and a tightening of credit available for businesses and the state government.

Under both Schwarzenegger and his Democratic predecessor Gray Davis, Sacramento has responded to the state's budget problems with cuts in funding for social programs, public education, healthcare, and infrastructure. Just recently, the state legislature passed a budget for the 2008-2009 fiscal year that included reductions in spending of $7.1 billion. However, it appears that even these draconian cuts were not enough.

On December 3, news broke that without an immediate influx of $31.1 million in funds, the state's schools will run out of money to provide free and low-cost lunches to needy students, which in 2007 provided 6.3 million meals to hungry kids.

According to one report, unless a budget addressing the 2009-2010 shortfall is passed, California will run out of money potentially as early as February or March 2009—that is, even before the 2008-2009 budget term is over. In preparation for that eventuality, Sacramento is already making plans to lay off thousands of state employees.

The proposal backed by the Democrats and Schwarzenegger would further reduce funding for K-12 public education by $2.5 billion and for higher education by $132 million, bring social security payments down to the federal minimum, increase state-financed healthcare co-payments by $340 million and limit eligibility for new enrollees, furlough state workers for one day per month, and gut funding for a state program that provides employment assistance to impoverished parents.

The proposal also includes the imposition of new regressive taxes—that is, taxes that apply to people regardless of their income levels and/or tend to disproportionately affect the less well-off—in the form of an increase in sales taxes and vehicle license fees, as well as a proposed one-year freeze on the indexing of income tax brackets to inflation.

The failure of the state legislature to approve a fiscal plan for the 2009-2010 fiscal year is the product of opposition from Republican lawmakers, who rejected the austerity proposal backed by state Democrats and Schwarzenegger himself. Republican legislatures oppose this proposed plan in favor of even deeper cuts, changes in laws regulating working hours and environmental protection, and the granting of further tax cuts to big business in the name of promoting "economic stimulus."

Under the populist guise of supposed concern for the living standards of ordinary people, the regressive taxes advanced by the Democrats have been made the object of the Republicans anti-tax mania and derided by them as unacceptable.

The Democratic Party has effectively abandoned even the pretense of opposing massive budget cuts. They have responded to the hard-line stance of the Republicans by insisting that "economic stimulus" will not work without their austerity measures.

"Economic stimulus won't matter if we don't make the necessary cuts and raise sufficient revenue to give bond-holders the confidence that California's credit is good," said Democrat Darrell Steinberg, the Senate president pro-tem.

At issue in the rancorous budget negotiations in Sacramento is the Democrats' concern over the brazenness with which the Republicans are seeking to take advantage of the budget crisis to advance the interests of big business through further corporate tax cuts, and the political consequences of doing this under conditions of growing social discontent over the economic situation. In addition, the Democratic Party is worried about restoring the confidence of the financial sector in the California bond market, which is why it supports increasing the state's revenue stream through regressive taxes.

The day after Schwarzenegger announced the fiscal emergency, which obligates the state legislature to pass a budget within 45 days, he told a meeting of the National Governors Association, attended by President-Elect Barack Obama, that he was poised to launch a multibillion-dollar infrastructure building program, financed with bond money.

Asking that the federal government help by contributing additional funding, he insisted, however, that he would not accept any money from Washington until California had gotten its "act together" by passing an austerity budget. He further added that in order to speed up the implementation of the infrastructure program, he would seek "public-private" partnerships—in other words, he wants to subcontract much of the work to large building corporations that could then make billions of dollars worth of profits from money provided for by publicly backed debt, ultimately to be repaid by further spending cuts.

In addition, this supposedly "environmentally friendly" Republican proposed that environmental impact reviews for the infrastructure projects be reduced from many months to two weeks.

Under conditions in which by some estimates the federal government's bailout of the financial sector has already reached $8 trillion, the fact that the residents of the most populous state in the country are facing a fiscal catastrophe that is resulting in the devastation of public education, what little remains of state-sponsored healthcare, and the last vestiges of the publicly financed social safety net for want of $28 billion is an indictment of the present economic and political order.

Although the fiscal crisis currently faced by states across the country was a central theme of Tuesday's meeting of the National Governors Association, Obama failed to make any promise regarding the size of a federal rescue package for states under his administration. He is, however, a leading and vociferous backer of Washington's bailout of Wall Street, and has made it clear that he will continue this policy once in office.