

California fiscal crisis threatens millions with ruin

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California Governor Arnold Schwarzenegger is giving the state until June 15 to balance its budget. The treasury of the “Golden State” is facing a massive and ongoing shortfall, and the government is responding to the crisis with a massive attack on education, health care, and whatever remains of the state’s social safety net.

Despite three years of intense budget cuts, the 2010 budget projection includes a deficit of \$26.8 billion. This is up from a budget gap of \$14.8 billion in 2009.

If California is unable to balance its budget before the middle of the month, Schwarzenegger warned that the state would be unable to secure the necessary short term bridge loans required to pay its bills.

The message from the banks and hedge funds is that there will be no loans until the Governor and the Democratic Party-controlled legislature, come up with an austerity budget, based on gutting state welfare programs, health insurance for the poor, programs for the elderly, disabled and mentally ill, parks and education.

Late last month, the Fitch bond rating agency lowered its outlook for California’s indebtedness from stable to negative. The rating is utilized by investors when deciding whether or not to make further loans to the state.

For all practical purposes, the state government is locked out of the credit market until it restructures its economy to meet Wall Street’s requirements.

The state’s fiscal meltdown is being used to fundamentally restructure class relations in the state, tearing up whatever remains of gains won by working people in an earlier era. The claim that there is no way out of the crisis—except by these means—is a lie, designed to protect the interests of the financial

aristocracy, the wealthy and big business.

The Obama administration, which is handing over trillions of dollars to bailout the banks, has denied requests for direct financial aid to California. It has also denied requests to underwrite the state’s loans. In doing so, the president has made clear that he stands in alliance with the wealthy elite in imposing drastic cuts.

Obama is insisting that California resolve the “structural” problems with its budget—a model that he hopes will be implemented throughout the country. Many states face drastic budget deficits as well.

In alliance with the state legislature and the Democratic Party, Schwarzenegger is now proposing devastating cuts that would bridge the gap between revenues and expenditures. This year’s general fund budget would be lowered by some \$8 billion, to \$92.4 billion.

On May 26, the governor singled out more than 20 programs that would either be eliminated or greatly reduced as part of the new budget plan. On June 8, he announced an immediate halt to funding for most state contracts.

Among the social programs to be eliminated outright are the state’s welfare-to-work program, CalWorks and the health insurance program for children. The imposition of these changes will transform California into the only region among industrially advanced nations that no longer protects poverty-stricken, one-mother families and their children.

At a protest of disabled Californians before the legislature’s Budget Conference Committee, Will Lightbourne, Director of the Santa Clara County Social Services Agency said, “No civilized modern state has proposed this as a budget balancing ploy until now... When the safety net is eliminated in whole or part, all of the societal relationships are broken and what were

communities become camps.”

Ending CalWorks would result in an end to vital support checks for some half million mothers and their one million children. The average check per family is the ridiculously small sum of \$651 a month, a sum that in California is insufficient to pay rent for even a modestly-priced apartment, let alone food, clothing and other vital necessities. In Lightbourne’s words, eliminating these grants for these families will result in their “immediate descent into homelessness—not poverty, because they are already in poverty, but complete destitution.”

In addition to the proposal to eliminate CalWorks, the state government plans to close more than 200 state parks, eliminate funding for HIV/AIDs counseling, reduce state grants to low income elderly, blind and disabled to the federally mandated minimum and slash in-home care for the elderly and divert funds away from mental health programs.

Almost \$6 billion will be wrenched from the public education system, including K-12 education, community colleges, and the state’s two university systems over the course of the current and subsequent budget years (See “Public education devastated by California budget cuts”).

The austerity measures being proposed, along with those already implemented, will produce a social catastrophe for the state—the effects of which have only just begun to be felt. Nearly 50,000 teachers will lose their jobs by next September, along with 5,000 state workers and tens of thousands in the private sector. Hundreds of workers in local governments will lose their jobs as well.

The Schwarzenegger administration has proposed seizing nearly \$2 billion from local governments, most of which are already under enormous financial strain.

The city of Los Angeles has recently approved layoffs for 400 of its employees, along with a mandatory unpaid furlough day twice per month. And the city of Vallejo, which once served as the state’s capital, applied for Chapter 9 bankruptcy in May 2008, making it the largest California city to do so.

Schwarzenegger defends the cuts as necessary. “If we don’t make these choices, I think that we will face catastrophic consequences because the state will simply run out of money and get insolvent, which we can’t afford to do,” said the Governor.

In other words, in order to insure the interests of bondholders, the Schwarzenegger administration is engineering the bipartisan California version of the ‘General Motors scenario.’ In the same manner that the restructuring of GM was premised on sacrificing autoworkers’ jobs and living standards and bankrupting entire communities, the restructuring of California will require a wholesale attack on living standards for state employees and an end to social programs on which millions of Californians depend.

This was made clear by Schwarzenegger on Saturday June 6. In response to questions from the *Sacramento Bee*, Schwarzenegger denounced the “unbelievable benefits” paid to public employees.

The 2010 revenue projections, which include a year over year increase of \$6 billion, hinge on a rapid economic recovery in the state. However, there is every reason to believe that the current crisis will continue, with tax receipts continuing to decline. California has the fourth largest unemployment rate at 10.2 percent, while also having the country’s largest number of unemployed workers in absolute terms. In the very likely event that the recovery does not happen this year, the budget cuts will be even more drastic.



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