

Obama administration rejects aid to California

State government preparing massive cuts

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The Obama administration has rejected any immediate aid to the state of California. State officials went to Washington over the weekend to request emergency loans to address California's looming budget and financial crisis.

"We're not expecting any help from the federal government," the California state treasurer's office stated after the meeting. "At this point, we're on our own." The state faces a \$24 billion budget gap, and the state controller said California faces a "complete financial meltdown" as soon as July 28.

Treasury Secretary Timothy Geithner, along with White House economists Lawrence Summers and Christina Romer, insisted that the state take measures of its own to address its fiscal crisis.

"A lot of the burden," Geithner said earlier in congressional testimony, "is going to be on them to lay out a path that gets their deficits down to the point where they're going to be able to fund themselves comfortably."

In taking this position, the administration is giving its full support to a series of crushing austerity measures proposed by Governor Arnold Schwarzenegger and the state's Democratic Party. The state government is responding to the financial crisis by destroying what little remains of the social safety net upon which millions of people depend.

The Obama administration wants California to serve as a precedent for other states, many of which are facing looming budget deficits. An article in the *Washington Post* noted, "Federal officials are worried that a bailout of California would set off a cascade of demands from other states." Similarly, cuts in

California will set off a cascade of cuts throughout the country.

While California Democrats and Republicans have yet to agree on the exact cuts that will be implemented, it is clear that few state-sponsored social programs of any kind will remain unaffected.

Spending cuts proposed by Schwarzenegger include eliminating the state welfare program, which serves 1.3 million people; shutting down the Healthy Families Program, which provides subsidized medical, dental and vision coverage to hundreds of thousands of poor children; eliminating the Cal Grant aid program for college students; cutting education spending by \$5.6 billion; forcing local governments to loan the state \$1.9 billion, even as all of these local governments face fiscal crises of their own; and closing down 220 state parks.

These cuts will come with tens of thousands of layoffs. The governor proposed reducing the state workforce by 5,000 employees last month, along with an additional 1,800 correctional officers. However, a report by the University of California Los Angeles Anderson School of Business projects that the number of state employees who will lose their jobs throughout 2010 and early 2011 will exceed 60,000. This amounts to half of 1 percent of the state's entire working population, and approximately 12 percent of the state workforce including college and university employees. It does not include pre-college public school employees, more than 50,000 of whom are set to lose their jobs by next September.

These workers, along with their counterparts in the private sector, will face the prospect of an insolvent state unemployment insurance fund. The fund is

currently running a \$17.8 billion deficit and is only able to maintain payments via an interest-free loan from Washington that must be repaid in 2011.

These cuts and layoffs will add to a rash of austerity measures passed last February in response to the then \$42 billion budget deficit. (See “California legislature passes massive austerity budget”)

The earlier measures already implemented included a \$1.3 billion cut to the state’s Supplemental Security Income to elderly and disabled residents; a \$226.7 million cut to mental health services; mandatory unpaid furlough days for state workers amounting to a 5 percent reduction in pay; and a cut of \$8.6 billion to public education, resulting in more than 50,000 teachers and school employees receiving “pink slips” last February. The majority of these teachers will not be returning to their schools next September.

The latest round of austerity measures was set to be voted on Monday, with Schwarzenegger threatening to allow the state to come to a “grinding halt” should his initially proposed measures not be passed. State Democrats, who helped the governor craft last February’s budget and also agree in principal with the current measures, nevertheless attempted to water down some of the more outrageous proposals in the hope of curbing rising social discontent.

The Democrats’ plan offsets reductions in spending cuts mainly through regressive tax increases. The Democrats’ proposal stops the state park closure by levying an additional \$15 onto the vehicle license fee. It also would stop the \$1.9 billion forced borrowing from local governments by cutting foster care programs or increasing health insurance contributions from state workers. Other measures being proposed by the Democrats include an additional tax on Internet-based sales, a \$363 million cut to mass transit funding, and a \$315 million cut to school bus programs.

All factions of the political establishment in California are agreed on one thing: the working class will be forced to pay for the economic crisis.



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