Rejection of California budget sets stage for even larger spending cuts

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The California legislature failed to get the two-thirds vote needed to pass a Democratic Party proposal to address the state's $24 billion budget deficit. Democrats will now enter closed-door negotiations with Governor Arnold Schwarzenegger on a compromise that will include even more massive cuts in social services.

Discussions between the two parties have been ongoing for the last several weeks, much of it in secret and with no public input. Both sides have already agreed that draconian cuts in basic social programs are necessary.

To offset some cuts, however, Democrats had proposed a variety of mainly regressive tax increases, which require the support of a two-thirds majority in the legislature. This proposal failed as expected on Wednesday, largely along party lines. The Democrats control both houses of the state legislature, but do not have a two-thirds majority.

A proposal advanced by Schwarzenegger calls for $16 billion in budget cuts. These include eliminating the state welfare program; shutting down Healthy Families, the health insurance program for 930,000 children; closing 220 state parks; and ending Cal-Grants, which provides aid to poorer students to attend college. Schwarzenegger is also proposing a 5 percent pay cut for state workers, in addition to a 10 percent pay cut already announced.

Public education will be singled out for a large share of the budget cuts. About $5.3 billion would be taken from K-12 education and community colleges over next year, on top of the billions in cuts that have already been enacted.

The so-called "alternative" proposed by the Democrats was a slightly less severe program of $11 billion in budget cuts. The Democrats propose cutting $4.5 billion from K-12 education, $2.8 billion from higher education, and $2.6 billion from health and human services.

Democrats also proposed $2.2 billion in tax increases, including a 9.9 percent levy on oil extracted in California, a $1.50 per pack cigarette tax and a $15 registration fee for vehicles. In an accounting move designed to save $1 billion, Democrats have proposed pushing state workers' paychecks back one day from June 30 to July 1, the start of the next fiscal year.

Senate President Pro Tem Darrell Steinberg, a Democrat from Sacramento, told the *Pasadena Star News*, "We present a budget where everybody feels some pain; every part of the safety net takes a cut."

In fact, both Democrats and Republicans are determined to make the working class pay for the crisis. No matter what compromise is now reached, either through a combination of borrowing from local governments, accounting maneuvering, tax levies, or selling off state assets, a massive attack on the social infrastructure of California is underway.

The Democratic Party accepts the argument that the only way to fix California's budget deficit is to strangle what remains of public education and the social safety net. Senator Gloria Romero, a Democrat, told The *Los Angeles Times*, "When someone tells us 'No new cuts,' I say, 'Look, don't tell me that.'...There is the sense that we must do what we must do to keep California solvent."

Indeed, the proposed tax increases were largely for show. Even before the vote, Democrats acknowledged that they would not pass. Last week Schwarzenegger responded to a question about what kind of fight he expected over the tax increases by responding, "Well, what is being said and what is being done, as you know, are sometimes two different things."

The *Mercury News* commented: "Schwarzenegger was suggesting that Democrats were posturing on their $2.1 billion in tax proposals, putting on what he calls Kabuki theater for their constituents before he expected them to relent to the reality that Republicans will never agree to taxes as part of the solutions lawmakers must find to close the $24.3 billion deficit."

The budget crisis takes place against the backdrop of the economic collapse of California, the most populous state in the US and, if measured as an independent country, the eight largest economy in the world.

According to government officials, the state will be insolvent by July 28, which has prompted Governor Arnold Schwarzenegger to threaten to bring the government to a "grinding halt" and stop borrowing to cover the state's expenses.

The state comptroller, John Chiang, has warned that without a new budget the state will begin issuing "IOUs" in place of cash to social service agencies, private contractors and state vendors. The state's cash crunch, Chiang said, is unlike anything "seen since the Great Depression."

Recent figures point to a continued deterioration of the state economy. Unemployment in California soared to 11.5 percent for May, the highest level since World War II. The April unemployment figure was 11.1 percent, compared to 6.8 percent in May 2008. A more complete measure of unemployment, including those forced to work only part time, shows that more than one in five Californians is unemployed or underemployed.

California, accounted for one out of every five jobs lost last month. Out of a population of 37 million people, 2.1 million Californians are officially unemployed, 885,000 more than last year.

The state has been hit particularly hard by the collapse of housing prices, which have wreaked havoc on the real estate market, construction, and other financial related industries. With several major ports on the Pacific Ocean, California is also heavily dependent on world trade, which is falling rapidly.

California saw a decline of 33.8 percent of personal income tax receipts in May. The decline in revenue will mean a new round of austerity measures to balance the state budget, since the state collects half of its revenue from personal income taxes.

The state is under intense pressure from Wall Street to impose concessions. Moody's Investor Service has threatened California's general obligation debt with a "multi-notch" downgrading if the state legislature failed to produce a balanced budget before going bankrupt. The state is currently at an A2 credit rating, which are just five notches above speculative status.

A downgrade will mean that the state will face sharply higher interest rates for borrowing, if it is able to gain credit at all.

The Obama administration has responded to the economic meltdown of California by repeatedly refusing federal assistance. Instead, the administration, speaking on behalf of the most powerful sections of the financial elite, is making California an example for other states to follow as they enact austerity budgets.

By abandoning the richest and most populous state to its own devices, the Obama administration has directly contributed to the crisis now unfolding. Trillions are handed out to private banks, but when it comes to the world's eight largest economy on the verge of bankruptcy, no money is available.

As California collapses, executives at Goldman Sachs and other banks are anticipating record bonuses, returning to business as usual. No faction of the political establishment so much as suggests that those who are responsible for the economic crisis—the wealthy corporate and financial elite—should be made to pay for it.

On the contrary, the budget crisis in California is being used a template to enact cuts to social services all across the country. The ruling class is determined to seize on the economic crisis to restructure class relations in the United States.