

# California governor pushes unprecedented budget cuts

## State begins issuing “IOUs”

Rafael Azul, Dan Conway  
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With the backing of the Obama administration and the most powerful sections of the corporate elite, California governor Arnold Schwarzenegger is taking a hard line on unprecedented cuts to the state’s social safety net.

California missed a midnight deadline last Tuesday to pass a budget for the 2009-2010 fiscal year, further aggravating the state’s social and economic crisis.

Democratic legislators attempted on several occasions throughout the week to approve most of the measures requested by Governor Schwarzenegger in response to the state’s \$27 billion budget deficit. However, the governor and Republican legislators rebuffed any compromise that involves increases in taxes and fees, and are also refusing to accept any stopgap measures.

As the crisis in the state intensifies, it is clear that the dominant sections of the ruling class—on a state and national level—see it as a rare chance to press for long-desired attacks on the working class. The Obama administration has repeatedly refused any aid to the state, signaling its support for slashing social spending.

The governor is demanding billions of dollars in cuts to key social programs, including 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.

In addition, some \$5.3 billion are to be taken from K-12 education and community colleges over the next year, on top of \$11.6 billion in cuts enacted this February. When the budget failed to pass on Tuesday, the deficit increased for technical reasons. The governor promptly responded by demanding billions more in education spending cuts, bringing the total to over \$22 billion.

The governor has also suspended Proposition 98, a

measure in the state’s constitution that provides a minimum level of funding to educational institutions. This would cut a further \$3 billion dollars from public schools.

Beyond these draconian measures, other policy changes are being demanded as well. According to the *New York Times*, these include “the fingerprinting of recipients of certain state services for the poor and infirm, tighter checks on the job status of those who receive welfare benefits and changes to the state pension program.” These measures are not expected to have any immediate impact on the budget crisis, but they will pave the way for continued cuts in social programs in the years to come.

In a manner that is as reckless as it is ruthless, the threat of a complete economic meltdown is being used to restructure class relations. The *Times* quoted University of California, Berkeley, Professor Bruce Cain: “The governor is playing brinkmanship in the middle of the most serious economic crisis since the ‘30s with possible consequences for the nation’s recovery as a whole.”

Behind Schwarzenegger are powerful social forces. The governor is known for shifting with the political winds. He is taking a hard line now because he knows he has the backing of the banks and the state’s wealthy elite.

The major banks are also stepping up the pressure in a more direct way. On Monday, a group of the country’s largest banks—including Bank of America, Citigroup, Wells Fargo, and JP Morgan Chase—said that they would not accept state “IOUs” beyond July 10. The coordinated action of the financial oligarchy will severely constrain the main measure taken by the state to allow for continued operations without a budget.

The state government began issuing \$3 billion in IOUs (formally known as registered warrants) instead of cash payments on Friday. The initial printing is valued at \$53.3

million, with more to follow. This is only the second time since the Great Depression that California has issued warrants.

The warrants are 90-day bonds, redeemable in October. They will pay for services for special needs children, state prison caterers, tax refunds, low-income senior citizens, student aid programs, welfare recipients, contractors and other creditors. While past court decisions have forbidden the government from paying state workers with warrants, the state will use them for other payments, such as travel reimbursements.

In effect, this is a forced loan to the state from working families, small businesses, and the poor. The state's debt service for past borrowing from Wall Street banks and other financial institutions, however, will continue to be made in cash.

The move by the banks to stop accepting warrants also opens the way for speculators to profit from them. Already, vulture investors are seeking to purchase IOUs from small businesses and individuals in need of immediate cash. If banks stop accepting the warrants, recipients may be forced to sell them at a substantial discount, allowing speculators to cash in by redeeming the warrants (including interest) in October.

Further pressure from Wall Street came in the form of a credit rating downgrade from Fitch Ratings on Monday. The agency lowered California's credit from A- to BBB, its lowest since 2004.

While Democrats and Republicans are currently deadlocked on the budget, they are completely united in making the working class suffer. Indeed, it is the cowardice and complicity of the Democratic Party-controlled state legislature that gives Schwarzenegger the confidence that he will eventually have his demands passed.

As the budget deadline approached, the California legislature failed to get the two-thirds vote needed to pass the Democratic Party proposal to address the deficit. The Democrats in Sacramento had advanced proposals that largely gave the governor what he wanted. At the same time, the Democratic plan lowered some taxes and raised others in order to shift spending into the general fund away from other parts of the budget, to temper some of Schwarzenegger's more draconian demands.

Claiming that their tax increases would be "revenue neutral"—balanced by tax cuts elsewhere—the Democratic legislators proposed \$2.2 billion in tax increases. These included a 9.9 percent levy on oil extracted in California, a \$1.50 per pack cigarette tax and a \$15 registration fee

for vehicles. Had they passed, most of these tax increases would have imposed an additional burden on working and middle class families.

The impact of the budget cuts will be incalculable. In response to the education bloodletting alone, more than 50,000 teachers across the state will be laid off, university workers will face salary cuts between 4 and 8 percent, and California students will face massive tuition increases and a concurrent loss of financial aid.

The destruction of teaching and other public jobs is expected to have a multiplier effect. A UC Berkeley study issued in June 2008 called *Economic consequences of California Budget Proposals* predicted that the multiplier effect of the cuts then being discussed would result in the loss of 607,000 non-government jobs. These would be lost as the newly unemployed and those whose wages and hours have been cut themselves cut back spending.

Such an increase in joblessness would drive unemployment to over 3 million out of a work force of 16 million—an unemployment rate of 18.75 percent, up from the current 11.5 percent.

For its part, the Obama administration sees the wholesale attack on the California working class as a model for the country as a whole.

A few weeks ago, some legislators asked the federal government for emergency funding. At the time, Treasury Secretary Timothy Geithner, and White House economists Lawrence Summers and Christina Romer, rejected the request. They chided the state for failing to get its house in order and demanded instead that California accept the bitter medicine of austerity. According to the *Washington Post*, the White House feared that a bailout for California would lead to "a cascade of demands from other states."



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