California braces for new round of budget cuts

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The 2009-2010 California budget appears to have been based on unwarranted optimism over the prospects of an early economic recovery, according to several state officials now pressing for additional cuts in social spending. Even as the devastating effects of the first round of budget slashing is being felt around the state, there are growing political chorus suggesting a second bout of cuts will be necessary, as economic data indicate there is no recovery in California's foreseeable future.

In late July, after a highly publicized stalemate, the Democrat-controlled California state legislature and Republican Governor Arnold Schwarzenegger agreed on a state budget that closed a $26 billion deficit by slashing $15.6 billion in state expenditures. Schwarzenegger signed the budget on July 28, but not before using his administrative authority to tack on an additional $489 million in cuts to social programs for the most vulnerable members of the state's population.

Working class students at all levels of education have been hit particularly hard by the budget cuts. Schwarzenegger cut $8.1 billion in public funds for education, including $6 billion from K-12 and the rest from the state's community colleges and public universities.

The University of California (UC) system consists of ten campuses, has a student body of roughly 222,000, and boasts of prestigious institutions such as UC Berkeley. The California State University (CSU) system is the largest four-year university system in the country, with 23 campuses and 450,000 students. Both the UC and the CSU systems have responded to the massive loss of funds by hiking student fees, cutting expenditures and decreasing enrollment.

The UC system raised fees for the coming academic year by 9 percent over the previous year, and decreased incoming freshman enrollment by 6 percent.

The CSU system raised fees by 32 percent, and announced plans to cut enrollment by 40,000 students over the next two years. Many students at CSU campuses work, receive modest subsidies from their working class parents, or finance their education through some combination of the two. For thousands of working class students statewide, a 32 percent tuition hike will be an insurmountable obstacle forcing many to forego their education altogether.

Officials from both the UC and CSU systems have recently indicated that the cuts and fee hikes enacted thus far offer, at best, a transitory solution to their respective budgetary crises. UC President Mark Yudof announced the UC campuses will lose $600 million in stimulus money next year while spokesman Claudia Keith said the CSUs will lose $640 million from the same source. Both systems say they are only currently solvent due to federal stimulus funds. Remove the funds, and the universities are back in the red, with no choice but to enact more ruthless cost-cutting measures. In the words of Yudof, "It is a question of being a great university or a crummy university."

In addition to working class students, public employees have suffered from budget cuts.

The California Public Employees' Retirement System (CalPERS), the nation's largest pension fund, reported a 23.4 percent drop in asset value last year. Under-funded pensions threaten to bankrupt many municipalities, eliciting a threat from Governor Schwarzenegger that he will pursue "pension reform."

Once again the word "reform" is being used as a euphemism for cutting benefits and, in this case, stripping retirees of their hard won pensions. One plan being proposed by the California Foundation for Fiscal Responsibility would require state workers to work, on average, six additional years in order to qualify for benefits.

The Schwarzenegger administration announced last Tuesday its intention to lay-off 5,000 state employees in the coming weeks. The bulk of the layoffs will come from the Department of Corrections, which runs the state's massive prison system. The prisons are already under-funded, overcrowded and highly volatile. On August 8 the Chino Institute for Men in Southern California erupted in riot (see: Prison riot in California: Budget crisis to make inhumane conditions worse).

Last February, Schwarzenegger sought to save the state $1.3 billion dollars by imposing involuntary furloughs on 238,000 state workers for two days a month—in effect, cutting their wages by 10 percent per month. Schwarzenegger, at the time, cynically presented workers with an ultimatum: submit to a pay decrease or a portion of workers will bear the whole burden of the fiscal crisis through the loss of their jobs. Despite several months of furloughs, workers were stung this week with the announcement of 5,000 layoffs.

Schwarzenegger, moreover, has made no guarantee that this will be the last round of layoffs for state employees. In fact Schwarzenegger's deputy chief of staff, Vickie Bradshaw, specifically made it clear that "[t]his may not be the only layoff." Bradshaw is deliberately understating the case. As the real economy of California continues to tumble, it is all but certain, including to the governor and his staff, that this will not "be the only layoff."

The unemployment rate in California climbed from 11.6 in June to 11.9 percent in July, the highest level for California since before World War Two. The state has lost 760,000 jobs so far this year.

The Mortgage Bankers' Association (MBA) reported Thursday that 15 percent of California mortgages are either delinquent or in foreclosure. This is the highest such total since the MBA began keeping records. California is above the national average, which is 13.16 percent, also the highest on record.

As E. Scott Reckard and Ronald D. White of the *Los Angeles Times* noted, walking away from "underwater" mortgages—where the debtor owes more than the house is worth—began with speculators walking away from soured investment. It then spread to sub-prime mortgages for high-risk borrowers, and "is now hitting unemployed homeowners with good credit scores, clean financial histories and conventional home loans.... One in three new foreclosures from April to June was from a prime, fixed-rate loan, up from 1 in 15 a year earlier."

Most economists predict job losses will continue to mount well into 2010, as the job market usually does not stabilize until between six and nine months after the end of a recession. Even if the recession has already ended in California—a claim that bears little resemblance to reality—that would mean unemployment could easily rise until the third quarter of next year. According to Jay Brinkman, MBA's chief economist, "We would expect delinquencies and foreclosures to peak sometime after [job losses], probably at the end of next year."

That does not bode well for the prospects of recovery in California, or for American capitalism more generally. Fully one third of new mortgage delinquencies in California in the second quarter came from low-risk homeowners with prime mortgages, a clear indication that the high levels of unemployment are contributing to the rise in mortgage defaults. As unemployment continues to mount the economy faces a further downward spiral that, according to Moody's chief economist Mark Zandi, threatens to derail the entire recovery. The unemployment feeds into the further collapse of the mortgage industry, creating more bad debt on the bank's balance sheets.

It is not unfair to say that Obama's plan for the crisis has been premised entirely on the notion that the toxic assets will eventually regain some of their lost value. This assumption has not been borne out by real economic activity.

While President Barack Obama handed trillions of dollars in public funds to Wall Street, his administration has rejected any bailout of California and other states bankruptcy by the economic crisis. On the contrary, the administration has used the fiscal crisis to push through a right-wing agenda of fiscal austerity long desired by the very same financial aristocracy that received the funds, and whose reckless racketeering led to the financial collapse. The "California model" is being used as a precedent to prop up the capitalist economy on the backs of the working class through decreased wages and a no-holds-barred attack on long standing social benefits, such as education, health care and housing.