

# California requests \$8 billion in federal aid

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California currently faces a projected budget shortfall of more than \$20 billion dollars through fiscal year 2010-2011. At the end of December, Governor Arnold Schwarzenegger issued an appeal to the federal government for more than \$8 billion in aid. He also announced proposals for cuts in public transportation programs and renewed oil drilling off the California coast.

The state has suffered multi-billion dollar shortfalls since 2001, with the last two fiscal years being particularly bad due to the economic crisis and the bursting of the housing bubble. Massive cuts have been implemented in public education and social programs over the course of 2008 and 2009, provoking widespread discontent across the state.

Unless his request for federal aid is met, Schwarzenegger has promised severe reductions in spending on various other state programs. The state's CalWORKS welfare program, along with in-home support services for the disabled and elderly, would be significantly curtailed, if not eliminated entirely. Additionally, the governor has warned that the current three-day-per-month unpaid furlough for state workers would be extended past its scheduled summer 2010 expiration date. Layoffs of state employees are also being considered as a possible remedy.

The governor has not yet received a final response from the federal government to his request. The office of congressional House Speaker and California representative Nancy Pelosi, however, issued a statement that indicated that California could not bet on help from Washington because of, among other things, the broader implications this would have for the federal government's fiscal relationship with states across the country.

"Our goal is to ensure that all states are treated fairly," Pelosi stated. Washington is anxious that any

special effort to rescue California would unleash a tidal wave of similar demands from the dozens of other near-bankrupt state governments in the US. The Obama administration is opposed to offering the states any financial relief, a position that it made clear over the course of 2009.

California's last attempt to secure federal aid to help resolve its budgetary shortfall was unsuccessful. Turning down a bailout request in June 2009, US Treasury Secretary Timothy Geithner stated, "A lot of the burden is going to be on them [California] to lay out a path that gets their deficits down to the point where they're going to be able to fund themselves comfortably."

The crisis facing California and other state governments is being used by Washington to impose a regime of fiscal austerity at the state level, resulting in the gutting of financing for public education and social programs. While the Obama administration has made trillions of dollars available to Wall Street banks in the form of direct infusions of cash and the guaranteeing of loans, it has insisted that no money is available to help California's nearly 40 million residents or the rest of the working population in the country.

Even if California were to receive \$8 billion from Washington, which is unlikely, the measures proposed by Schwarzenegger to resolve the state's budget problems will have devastating consequences.

One solution that the governor has put forth consists of essentially raiding funds set aside for public transportation. In order to circumvent a law requiring that a portion of the sales tax on gasoline go towards financing transit programs, Schwarzenegger is proposing to replace this sales tax with an excise tax, which would starve public transportation of funds. The excise tax money would then be redirected elsewhere.

If enacted, this would make the state's already inadequate public transportation system worse. If,

however, this measure is not implemented, cuts will have to be made in other parts of the budget. Either way, ordinary people will pay the price.

This will be under conditions in which the state's working class is currently experiencing the ongoing impact of approximately \$30 billion worth of cuts to public education and the social safety net in 2009 alone.

California's projected shortfall for fiscal year 2010-2011 includes a current deficit of over \$1 billion and arrives on the heels of a total deficit of nearly \$70 billion in 2009.

Last year, the state government attempted to resolve the massive deficit through a series of budget agreements passed in January, February, and July 2009, all of which cut state financing.

The austerity measures implemented last summer by Schwarzenegger and the Democrat-controlled state legislature included \$80 million in cuts to programs for abused and neglected children, \$50 million from the state's healthy families health insurance program, \$50 million in services for children under the age of three with developmental disabilities, \$2 billion from local governments, \$1.3 billion in state-provided health insurance to low income residents, \$1.3 billion in state worker pay through mandatory unpaid furlough days, and \$8 billion from public education.

This followed on the heels of cuts implemented during the winter 2009, which saw \$8.6 billion taken away from public education, \$1.3 billion cut from the state's Supplemental Security Income/Supplementary Payments Program (which provides assistance to low-income seniors and children with disabilities), and \$149 million taken from the Cash Assistance Program for disabled immigrants.

This came on top of approximately \$15 billion in spending reductions instituted in 2008.

Any claim that the state's fiscal woes are caused by "out of control spending" on social programs, as is often made by austerity advocates, is completely absurd and a contemptuous lie.

A recent report issued by the California Budget Project, a Sacramento-based non-profit, has sought to document the effect of the state's meltdown on low and middle-income residents.

The report, entitled "In the Midst of the Great Recession: The State of Working California 2009,"

notes that job losses between July 2007 and July 2009 erased and surpassed the previous four years of job gains.

The state lost 952,800 jobs during the 2007-2009 period while only 846,000 jobs were added between July 2003 and July 2007, during the height of the housing boom. The jobs lost during the 2007-2009 period also accounted for the largest drop, 6.3 percent, for any single economic downturn since records have been kept.

Unemployment insurance claims jumped by 81.9 percent between July 2007 and 2009, while only half of the state's unemployed actually received benefits during the first quarter of 2009. Although the state's official unemployment rate of 12.3 percent is the third highest in the nation, California ranks 37<sup>th</sup> in the nation in terms of the percentage of unemployed receiving benefits.

In January 2009, the state's unemployment fund became insolvent due to increased demand for benefits. It began borrowing money from the federal government, which it must repay in 2011. At current projections, the state will have to borrow an additional \$17.8 billion from the federal government by the end of 2010 to meet its obligations.

The report notes that it will take several years to reach pre-recession employment levels, particularly because the number of young Californians entering the job market for the first time underwent a sharp increase since the recession began.

Millions of Californians express little or no hope in the state government. Approval ratings for Schwarzenegger are at 24 percent, while that of the state legislature is even lower at 17 percent.



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