

New austerity budget in California

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California Governor Arnold Schwarzenegger and Democratic legislative leaders said they had reached an agreement Friday evening to end the state's budget stalemate by slashing social spending. A vote on the new budget will be held on Thursday.

California is currently entering into its fourth month without a budget, making this the longest stalemate in the state's history. California currently faces a projected deficit of \$19 billion, equivalent to 22 percent of the state's \$84.5 billion budget last year.

State lawmakers refused to provide any details of the agreement that was reached after hours of closed-door meetings in the governor's office, stating that information on the deal would not come out until Wednesday. Their aim is to force through a quick vote to prevent any public discussion on what will no doubt be further devastating cuts in social programs.

The two main components of the budget, however, are clear: further cuts to social programs (on top of several years of record cuts) and an attack on pensions for state workers. Politicians of both parties agreed to reject any measures that increase taxes on the wealthy or corporations.

Anonymous sources report that the deal will involve \$7.5 billion in cuts. Both Republicans and Democrats have agreed not to introduce any broad new taxes. The remainder of the budget deficit is said to consist mainly of accounting manipulations and rosy predictions of future economic growth and aid from the federal government. This means that further cuts in social programs will come with the next round of negotiations.

Republican lawmakers had been aiming to cut around \$12 billion from the budget, including eliminating the state's main welfare program and day care for 140,000 children in low-income families. As part of the agreement, Republicans also allowed a corporate tax break to be suspended for two years, but this was in

exchange for a permanent tax break that will primarily benefit corporate giants like Comcast and Microsoft.

In enforcing this attack on California workers, state lawmakers are relying on the support of the trade unions. In particular, the budget deal assumes that the Service Employees International Union (SEIU) and other unions will get their members to accept rollbacks of public employee benefits that were granted 11 years ago.

The 90,500 member SEIU Local 1000 represents nine of the fifteen bargaining units that currently do not have a contract. Schwarzenegger and state lawmakers are counting on SEIU pushing through these pension cuts, with the other bargaining units following suit.

Schwarzenegger's press secretary Aaron McLearn said that the governor "came to an agreement on pension reform with the Legislature. [Schwarzenegger has] said since January that he won't sign a budget that doesn't include comprehensive pension reform. That remains the case."

The budget has been negotiated under increasing pressure from bond markets, with state officials warning of dire circumstances if a budget is not passed this week. The state controller, John Chiang, has said that without a budget he would have to start handing out IOUs again, for the third time since the Great Depression.

California is the largest issuer of bonds in the US municipal debt market. During last year's budget standoff, IOUs were issued in order to maintain cash reserves to pay investors in the debt market. However, investors are beginning to become concerned about the bonds, and California may face yet another cut to its already low credit rating.

Since the state has not passed a budget before the end of the first fiscal quarter, US Bank can suspend the state's CalCard and Voyager credit cards—used for buying supplies, routine purchases, and gasoline for the

state's fleet—for nonpayment.

More critically, without a state budget, the state cannot seek \$10 billion in tax revenue anticipation notes, and then pursue the \$7 billion in general obligation bonds. The latter are necessary to fund the construction of highways, schools, courthouses, and flood levees for this fall.

“You can look at the calendar and see that's getting tight,” Joe Deanda, spokesman for Treasurer Bill Lockyer, said last week. “If nothing happens by next week, it's really going to make it difficult for our office to access the market. We really risk shutting down all the infrastructure projects and the public works projects and all the hundreds of thousands of jobs that are associated with that.”

The budget stalemate has further exacerbated the funding crisis for education and other public services. The state owes community colleges \$840 million, K-12 schools are scrambling for funds, and state employees continue to face furloughs.

Although Californians continue to face record levels of unemployment and social services are needed more than ever, the Republicans and Democrats of the state legislature and Governor Schwarzenegger speak with a single voice on the need to cut spending.

Regardless of the outcome of the upcoming November elections, the political establishment in California, and nationwide, is moving to the right. The trade unions are rallying behind the gubernatorial campaign of current Attorney General Jerry Brown, a Democrat. Brown has repeatedly insisted on his budget cutting credentials. In addition to promising to “do things that that labor doesn't like,” Brown has asserted, “If you're looking for frugality, I'm your man.”

Meg Whitman, the Republican candidate, has pledged that one of her first acts would be to lay off at least 20,000 state workers. As if to underscore the lack of difference between the two candidates, the headline of the *Sacramento Bee* the day after the first debate read, “What would they cut?”

Behind these state politicians stands the Obama administration, which has repeatedly rejected federal aid to the states, and in particular to California. After bailing out the banks with trillions of dollars, the universal call throughout the country, and indeed internationally, is for austerity. California is leading the way.



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