Momentum builds for austerity budget in California

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7 March 2011

California Governor Jerry Brown, a Democrat, has set a March 10 deadline to reach agreement on a budget to resolve the state's $26 billion budget deficit. The two-chamber budget conference committee approved the governor's proposed measures, setting up floor votes in the House and Senate this week. The budget will inevitably involve a massive attack on the state's poor and working class.

While the next fiscal year doesn't begin until July 1, the March 10 deadline for passage of a bill is dictated by Brown's plan to place a measure on the June ballot to authorize the extension of more than $12 billion in regressive tax increases.

State Controller John Chiang recently warned that should a budget not be passed this week, the state may be unable to meet its short-term financial obligations. "Should the legislature and governor fail to forge a timely budget agreement," he said, "the state will face another debilitating cash crisis for a fourth consecutive year and expose California's taxpayers and economic recovery to the risk of IOUs, delayed payments and further credit rating downgrades."

The controller continued, "Because the state cannot delay action until the moment it runs out of cash, my office may be obligated to deploy invasive cash-conservation options far in advance of July 2011."

If the tax extensions become law, the remainder of the budget deficit will be closed by spending reductions as outlined in the governor's initial proposal. These include billions in cuts to state-provided health care, welfare and mental health and disability programs, along with $1.4 billion in cuts to public universities.

The original cuts proposed by the governor were modified by the budget conference committee, making them only slightly less onerous. The governor's proposed limit to the number of doctor visits per year for Medi-Cal recipients, for example, was changed from a "hard" to a "soft" cap of seven, with additional visits subject to physician certification. Medi-Cal is the state health care program for the poor.

Cuts in grants made by the state's CalWorks welfare program were reduced to 8 percent from an original 13 percent.

While both political parties agree on the spending cuts, Republicans in the House and Senate have expressed opposition to the tax extensions, calling into question a timely passage of the state budget. Under state law, budgets that include tax increases must be passed by a two-thirds majority in both houses. Assuming unanimous Democratic support, that means at least two Republicans from each chamber will have to vote in favor of the governor's plan.

Brown has expressed optimism that he will have sufficient Republican support for the plan. When asked to name which Republicans would support the plan, the governor said, "I'm not going to blow their cover."

It is likely that any Republican vote in favor of tax increases will be accompanied by further austerity measures. Pension "reform" will likely be a centerpiece of additional cuts.

Republicans in the House and Senate have latched onto a report by the Little Hoover Commission, a state oversight agency charged with searching for government "inefficiencies." The report recommends the freezing of pension benefits for state workers at current levels, the elimination of so-called "pension holidays" in which employee retirement contributions are allowed to lapse during good economic times, the complete prohibition of any retroactive pension increases, and the ending of collective bargaining on state worker pensions.

Most significant are the recommendations to make sweeping changes in existing pension plans. Past pension “reform” efforts centered on the imposition of cuts for future employees only.

According to Stuart Drown, executive director of the Little Hoover Commission, public pensions “have become a vehicle for wealth accumulation. Benefits at this point are too generous.”

Average pensions for retired California public school teachers are less than $40,000 per year, while the average retired public employee receiving payments from the California Public Employees’ Retirement System receives less than $27,000 per year. Even when coupled with Social Security payments, retired public workers in California cannot expect to maintain even a modestly comfortable standard of living in their final years, with many retired workers seeking part time-work to supplement their retirement funds.

The Little Hoover report also recommends that new employees enroll in a 401(k) or 401(k) “hybrid” plan instead of the current defined-benefit pension plan.

The first wave of US retirees who have drawn from their 401(k) plans can expect to receive an average of only $9,073 per year, according to a report released by the Center for Retirement Research at Boston College last month