

California is paying its bills in scrip

by H. Graham Lowry

The state of California's budget crisis has provided dramatic proof that the depression is here—and that no remedies are in sight under current economic policies. For the first time since the 1930s, the state has begun paying its bills with scrip, having entered the new fiscal year bankrupt and without a budget.

"This morning, California is running on empty," Republican Gov. Pete Wilson announced July 1. "Apparently a budget breakthrough is neither imminent nor on the horizon." Through July 7—still without a budget—the state issued more than 81,000 "registered warrants" (IOUs) worth nearly \$75 million. Most major banks have agreed to redeem them for their regular customers, at least through the end of July. By then, the state would have to send out 800,000 warrants, worth between \$1.4 billion and \$1.6 billion.

The scrip can be issued only for bills incurred before June 30, however, leaving all current state programs unfunded until a new budget is passed. The head of the California Bankers Association, Larry Kurlmel, said July 1, "Banks have been asked to cash instruments which are nothing more than IOUs, advancing billions of dollars to the state."

California's economy has collapsed so rapidly that its budget deficit is beyond any conventional "fix." The projected shortfall of \$10.7 billion for the new fiscal year comes on top of last year's \$14.3 billion—a two-year total of \$25 billion, which is more than 40% of the state's entire budget. Massive layoffs and plant closings in aerospace, defense, and electronics over the past several years have gutted the revenue base, especially in Southern California. Aerospace employment in Los Angeles County alone has declined from 304,000 in December 1986 to 214,000 today. The state's official unemployment rate shot up from 8.0% in April to 9.5% in June, the highest of the nation's largest states.

Mounting bank failures and collapsing real estate are knocking out the remaining revenue props. The California Association of Realtors reports that housing sales in May were down 10.4% from a year ago. In Los Angeles, they collapsed by over 24%; in Sacramento, the capital, by 26%. To add to the state's woes, Wall Street bankers have steadily tightened the credit squeeze on the state since last December, when its revenues went into a free fall. Moody's Investors Service lowered California's credit rating again in February, from Aaa to Aa1, and dropped it another notch on July 6 to

Aa, adding hundreds of millions of dollars in interest costs for California bonds.

Provoking a government crisis

By refusing to address the complete reversal needed in the nation's economic policies, California's state officials have turned the budget crisis into a political impasse, restricting the fiscal "choices" to fascist austerity measures, and suggesting that the existing constitutional government be abolished.

Governor Wilson has ruled out any tax increases to cover the projected \$10.7 billion deficit. He and his fellow Republicans in the legislature are demanding \$2.2 billion in health and welfare cuts, including slashing Aid to Families with Dependent Children by 25% over two years, and reducing aid to the elderly, blind, and disabled by 4.5%. Health and Welfare Secretary Russell Gould warned July 3 that those cuts would be *increased* if the legislature does not also cut spending for public schools and community colleges by \$2.3 billion.

The education cuts would prevent 110,000 children from attending kindergarten this fall, and would force community colleges to shut down one of every four classes and raise fees by more than 200%. Four California State University campuses have already closed admissions for next year's winter and spring terms, a decision expected to bar 15,000 would-be students from enrolling in January.

Democrats in the State Assembly refused to cut school aid by more than \$605 million, and were not anxious to embrace Wilson's murderous welfare cuts either. The result was that neither party had the votes to secure the two-thirds majority in both houses required to pass a budget before the fiscal year deadline.

Wilson denounced the Democrats' refusal to pass his education cuts as a decision "to plunge the state into chaos. . . . The choice [the Democrats] made will compel votes that are so repugnant that I seriously doubt the ability of the legislature to face it," Wilson said July 1. "Legislative inability to come to grips with these needlessly and unconscionably deeper cuts could well mean legislative paralysis. It could translate into a state government hopelessly adrift, and real and unjustifiable hardship for the people of California, and especially the poor."

State Senate Democratic leader Barry Keene told a press conference July 7, "California is sliding into chaos, and state government is very dangerously stalemated. It's time to scrap it and start anew." Keene has filed a bill to convene a constitutional convention to consider establishing "parliamentary" government, echoing the hue and cry from British-influenced quarters to do the same to the republic of the United States. His agenda includes another familiar item from Britain's menu: splitting California into two or more states. California entered the Union in 1850 as a free state, after all, and the Confederates have never forgiven that.