

The California dream becomes a nightmare, as defense cuts hit hard

by Brian Lantz

Since July 1, the budget crisis in California has grabbed national headlines, as the state government has turned to paying its bills in scrip—over \$3 billion worth to date. California's major banks stopped honoring that scrip in early August. On Aug. 13 events took an even more desperate turn when State Comptroller Gray Davis announced that the state would hold up Medicare (MediCal) payments—even in the form of IOUs—to doctors, hospitals, nursing homes, and other health care providers until a new state budget agreement was reached. Within a week or two, people will begin dying as a result of this triage decision. The reality is that the ninth largest economy in the world is in free fall, as the entire U.S. national economy moves another ratchet downward.

Jobs and businesses disappear

Belying rhetoric that defense cuts can “save” money and free up tax dollars for social programs, the over 100,000 layoffs in California's defense sector in the last 18 months have been the immediate apparent cause of the crisis, dislocating the already-skewed California economy. Those defense cuts, the result of federal defense cuts instituted four years ago which have now found their way “downstream,” are just the beginning, if the proposed 50% cut in national defense spending actually occurs. California is proof that such utopian schemes will not work.

Led by layoffs in defense and electronics, California lost an estimated 400,000 jobs in 1991, with four out of five being in southern California. California's “post-industrial” economy had been spinning out 400,000 new jobs annually, so that the actual number of jobs lost in 1991 was a staggering 800,000, in a state growing through immigration by more than 25,000 people per month. Along with these jobs, have gone projected payroll taxes and other state and local revenues. Official state unemployment now hovers around 9%, and the percentage of the unemployed plus the underemployed tops 25%.

With the collapse of employment, business bankruptcies increased 43% in the first half of 1992, compared to a 17% increase nationally. In California, 9,985 firms went under, accounting for a full 20% of national bankruptcies, according

to a recent Dunn & Bradstreet survey. In Los Angeles, 70% of small businesses are reported to be having lending problems, being effectively cut off from bank credit due to a bank liquidity crisis in the form of nonperforming mortgages, junk bonds, and a move into government securities.

Consumer indebtedness already precludes even a temporary “consumer-led economic recovery.” Leveraged beyond the national average, Californians and other residents of the western states use 25¢ of every after-tax dollar for debt payments. This figure does not include home equity lines of credit, a source of credit ignored in Federal Reserve calculations, but exploding at a 10-15% annual rate nationally. Conservatively, Californians are already spending one-third of their after-tax income on debt payment. Seasonally adjusted California home sales dropped by 14.5% from May to June, following upon a 10% drop since May 1991. Los Angeles home sales are down 24% from one year ago, despite the Federal Reserve's 23 consecutive reductions in the prime interest rate. It is fair to say that California's “Aquarian Age,” based on deindustrialization, computers, consultants, boutiques, and shopping malls, is finished.

Population: the Red Chinese model

Back in November 1991, California's Republican Gov. Pete Wilson, began ranting that there were “too many people” in California, and too much of the state's revenues were locked into entitlement programs. By then, for a second time in a row, the budget deficit was zooming toward the \$15 billion predicted by *EIR*. Wilson has demagogically demanded, both in his two-year budget proposal and in a statewide ballot initiative set for the November ballot, that welfare checks be slashed by 25%, MediCal be cut over \$1 billion, and another \$2 billion be cut from the education budget.

As presented fully in his ballot initiative, Proposition 165, unobscured by backroom negotiations with the legislature, Wilson would *deny benefits to children conceived after their mother goes on welfare*, an adaptation of a feature of the genocidal “one child, one family” policy of communist Red China. If a mother is not defined as *permanently* disabled by the state, her family's check will be cut by 25%. Those

applying for public assistance who recently came from another state would be declared, in effect, “useless eaters,” receiving no more than what they received back home, despite California’s higher living costs.

The cruel reality is that California public assistance now pays a mother and two children maximum total benefits amounting to \$850 a month. A one-bedroom apartment consumes two-thirds of that money in urban areas. With Wilson’s 25% cut in public assistance, many more families will have to choose between living on the street and starving. Wilson also plans on making more prisoners “pay for their keep.” In his ballot initiative, Wilson also wants the power of the line-item veto, stripping the legislature of its constitutionally delegated responsibility for the budget.

The Democratic controlled legislature is acting little differently, and their last package proposed to cut \$30 a month from the public assistance received by a mother with two children. The Democratic leadership is calling for the slashing of state funding to cities and counties rather than cutting the education budget. The effect is the same. Wilson and the legislature have already agreed to murderous cuts in Medi-Cal. Not coincidentally, an initiative supporting euthanasia will appear on the California November ballot, giving doctors the right to kill their patients!

The problem for Wilson and the legislature is that these cuts don’t work, even on their terms. First, cuts in welfare and forced labor can’t even save the billion dollars or so that Wilson and the legislature are hoping. With skyrocketing unemployment, welfare rolls are growing rapidly as unemployment compensation runs out. Further, as is well known from recent studies of pilot “workfare” programs in California, many mothers served by the Aid to Families with Dependent Children (AFDC) program simply don’t have any job skills. Nor are there jobs waiting for prisoners—unless the state implements Southern-style chain gang forced labor. Some 8,000 of the state’s 98,000 adult prisoners already work in prison industries. Under the recently passed Proposition 139, prison labor can now be contracted out to private industry, and 10,000 California prisoners have been waiting on work lists. But of 59 state and county programs around the country that contract inmates out to private industry, the state of Minnesota’s is the largest, employing only 122 inmates in 1991. “Slave labor” programs will not balance the California budget.

Requirements of an expanding population

The crisis in California is not caused by too many people; it is the long-term collapse of the productive base of the economy and underinvestment in basic infrastructure—the roads, railroads, waterways, sanitation systems, and power grid, as well as educational and health care systems—which allows people to be productive. By early in the 21st century, California will become the United States’ first “Third World state,” i.e., a majority of its citizens will be non-white. Forty

percent of Los Angeles County’s citizens are Hispanic; 40% of San Francisco’s population is Asian. With a growth rate two and a half times that of the United States as a whole, the population of California is its greatest resource.

Investments required include:

Education. The development of the next generation requires that the public school system build at least one new grade school *per day* to keep up with this growing population. It then requires tremendous investments in infrastructure to make the educated population healthy and productive. Current levels of funding, even before the recent rounds of budget cuts, had already guaranteed teacher layoffs and school district bankruptcies.

Urban infrastructure. The condition of Los Angeles after the recent riots is indicative of what faces the state as a whole. According to the blue ribbon “Rebuild L.A.” commission, \$6 billion and 75-94,000 jobs are needed to revitalize Los Angeles’ poor neighborhoods. Where are these jobs going to come from? Los Angeles County lost 208,000 jobs in 1991 alone; 25% of the county’s population of 2.5 million live in “neglected areas.” Major public works projects are required.

Transportation. A year ago, a state study group outlined a \$7.1 billion perspective for building a statewide commuter railway system, including a high-speed system along the Los Angeles-Fresno-San Francisco corridor. Seriously flawed, in that it did not even consider the critical need to rebuild the state’s rail system for freight transport, the study did proceed from recognition of the inadequacy of the state’s road and highway system. A year later, talk in Sacramento now foolishly centers on privately financed toll roads that ensure investors a minimum 20% profit.

Water and power. Similar shortsightedness has caused the state’s growing water crisis and failing energy grid. Shortfalls projected for the beginning of the 1980s, based on the refusal of the Jimmy Carter administration, and Jerry Brown’s administration in California, to fund adequate water and power projects, were postponed by simply shutting down chunks of the state’s industry and agriculture. Patchwork water management actions, including “conservation,” free market sale of agricultural water to the highest bidder, and drought-imposed rationing, will not cover an expected urban increase of water consumption by a minimum of 30%. In San Diego County, water to farms now costs upwards of \$540 an acre-foot. Without the development of new sources of clean water, the choice for Californians will be whether to eat or to drink.

The irony is that by objective standards, California is seriously underpopulated. Italy, by comparison, with two-thirds of the land area and a similar climate, supports twice as many people. Comparing California to Italy may seem ridiculous, but unless we look beyond the “magic of the marketplace” and “post-industrial” rhetoric, California, along with the rest of the United States, may soon find itself envying Italy’s political stability.