The California Sink-Hole: Budget Cutting Doesn't Work!

by Harley Schlanger

Jan. 13—If one were to apply, to political leaders and economic analysts in California, the definition of insanity attributed to Albert Einstein—that insanity is "doing the same thing over and over again and expecting different results"—then the proper conclusion would be that they are all insane.

But, California is just the most extreme case of what is happening throughout the country—the disaster-in-progress—where all 50 states are headed,[1] without the reinstatement of President Franklin Roosevelt's Glass-Steagall law (abandoned in 1999), by which the Federal government could make funds available to the bankrupt states, as called for by Lyndon LaRouche and his political action committee.

The year 2011 opened in California, as had each of the three previous years, with a huge and growing budget deficit, as revenues continued to fall below forecasts. The state's economy continues to implode, with official unemployment remaining over 12%, but with real unemployment and underemployment estimated at around 25%; with housing prices continuing to fall, as the number of foreclosures skyrockets; and, with the state's leaders insisting that all that is needed is more "belt-tightening," "cutting the fat," and "fiscal discipline," while waiting for the often-predicted and long-awaited economic recovery to "kick in."

gov.ca.gov/

California Gov. Jerry Brown has vowed to continue the fascist austerity policies of his predecessor, Arnold Schwarzenegger. "These cuts will be painful," Brown admitted, in virtually the same language as the governator had used. But the cuts will only make matters worse.

As Edmund G. "Jerry" Brown was sworn in as governor last week, in a peculiar form of California recycling (he had served previously as governor, from 1975 to 1983), he promised to stick to the course taken by his immediate predecessor, Arnold Schwarzenegger, who left office with the state on the edge of bankruptcy and

1. "U.S. States, Cities Blow Out; No Recourse but Glass-Steagall," *EIR*, Jan. 14, 2011.

Creative Commons/Daquella Mañera

The combined impact of Brown's "small is beautiful" ideology, as governor (1975-83), and Schwarzenegger's orgy of budget-cutting over the past eight years, has left Californians facing huge deficits, soaring unemployment, homelessness, and economic desperation. Shown, a victim of their policies, in Los Angeles, 2006.

social disintegration, and his popularity and image both in the dumpster. Despite the complete and total failure of Schwarzenegger's murderous cuts in search of a balanced budget, Brown chose to mimic him, saying in his inaugural address, that he will solve the deficit by imposing the same draconian cuts initiated by the fascist governator.

"These cuts will be painful," Brown said, in a nearly identical formulation as Arnie's last several budget rants, "requiring sacrifice from every sector of the state, but we have no choice."

Brown's Killer Budget

Brown enters office with a projected deficit for the next 18 months (until July 2012), of more than $25 billion, although there are estimates that it may reach more than $30 billion before a budget deal is reached. He has proposed $12.5 billion in cuts, which will target the most vulnerable. These include $1.7 billion in the Medi-Cal program (the state's Medicaid), which will force desperately poor and sick people to provide co-payments for visits to the doctor, while cutting back the number of visits allowed. This cut will also reduce payments by the state to health-care providers, at a time when many medical professionals are already opting out of the Medi-Cal and Medicare programs.

Other direct budget cuts affecting health care include drastic reduction of payments for In-Home Supportive Services, which offers care for elderly and disabled residents; and cuts in grants to the low-income elderly, blind, and disabled. He has even gone beyond Schwarzenegger, in advocating the elimination of vision care to low-income children in the Healthy Families program.

Health-care providers, especially in urban areas which have seen annual cutbacks in their budgets for the last decade, are warning that their services are already strained beyond minimally acceptable levels. Emergency rooms at major hospitals have become "dangerously overcrowded dumping grounds for the sick and poor," according to one hospital administrator, while the number of neighborhood clinics in cities has been cut annually, forcing more people to seek care in the declining number of emergency care centers.

Brown proposes another $1.5 billion in savings through cuts to the welfare-to-work programs, which make funds available to provide care for the children of single-parent families, so the adults can seek employment. Cuts in these programs, which have been relatively successful in helping many young parents escape the previously ineffective welfare system, will force them to abandon their jobs to care for their children, or leave the children without supervision, at a time when after-school programs, libraries, parks, and recreation centers, are also being shut down.

Brown's budget also includes a proposal for an 8-10% wage cut for state employees not covered by collective bargaining, and cuts in college and university spending.

As part of Brown's clever management policies, he has proposed to shift certain costs from the state, to county and city budgets, at a time when most local governments are also headed toward bankruptcy. It is not just smaller cities which are struggling, such as the 120,000 population town of Vallejo, which filed for Chapter 9 bankruptcy in 2008, due to insolvency; or Chowchilla, in the San Joaquin Valley, which defaulted on a municipal revenue bond in January 2011. Los Angeles faces a $350 million budget shortfall, and the mayor is threatening such measures as closing down 22 of the 153 fire stations in the city, daily, on a rotating basis, to avoid having to file for bankruptcy. Oakland laid off more than 80 police officers last year, in a city already plagued with a high crime rate and skyrocketing youth unemployment, and rumors persist that San Diego may soon file papers for bankruptcy protection.

A Decade of Budget Cuts

The idea that the state will benefit from passing its costs to bankrupt county and city governments is typical of the insanity which has reigned in Sacramento for the last decade.

State officials, from the governor, to the Controller and the Treasurer, to members of the state legislature, have hidden behind sophistry, typified by Brown, when he said there is "no choice" but to make painful cuts. That is because, they argue, California, by law, must have a balanced budget, as its ability to borrow is limited to approved bond offerings, and the state cannot print money.

Therefore, their hands are tied, they say, with their only options being to cut spending, or raise taxes. On occasion, they will put a bond offering on the ballot, as Arnie did, in 2004, when he was first elected, and asked the voters to approve $15 billion in borrowing, to cover operating expenses, in return for a promise from him that he would "tame the beast" of government spending. When he left office, Schwarzenegger bequeathed a total of $88.3 billion in bonded debt, leaving California with lowest credit rating of any state in the nation.

Since June 2008, California has faced a cumulative total of $100 billion in budget shortfalls, which, under Schwarzenegger, was dealt with by $45 billion in budget cuts, $12.5 billion in increased taxes, and a series of actions which deferred payments to future budgets. With all these cuts, tax and fee increases, and attempts at sleight-of-hand management, the deficit today is still at $25 billion and growing.

Obviously, budget cutting has solved nothing, as there is something crucial, which is left out of every discussion of the decade-long crisis. What no one, except for Lyndon LaRouche and his organization will discuss, is that a budget is not a matter of accounting, of manipulating monetary aggregates, but is dependent on a underlying reality, that is, a physical economy.

From Golden State to Post-Industrial Breakdown

The essential problem with California goes back more than a decade, in fact, to more than four decades ago, and, to address it, one must go beyond the borders of the state. California experienced a major "boom" from World War II, through the 1960s, as an integrated, technology-oriented agro-industrial economy. What allowed for the real take-off of industry and agriculture was significant expenditures of state and Federal funds, for major infrastructure projects, beginning with the New Deal of President Franklin Roosevelt, and continuing through the administration of the present governor's father, Pat Brown, who served from 1959 to 1967.

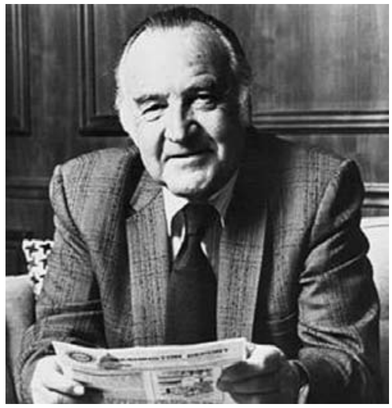
As a result of these policies, combined with major improvements in education undertaken by the senior Brown, California attracted major industries, and smaller, entrepreneurial high-tech firms. As much of the rest of the United States fell prey to the "post-industrial" policies, which began in the mid-to-late-1960s, with devastating effects in the once-industrialized areas around the Great Lakes—today's so-called Rust Belt—California's manufacturing base continued to expand, through the early 1980s, and the state's economy continued to grow, as did its population.

Despite the efforts of its former Gov. Ronald Reagan, to keep the state's manufacturing economy growing, through major defense spending in California, during his two terms as President, the national impetus toward the anti-science and technology regime of a "post-industrial society" in the form of anti-FDR/anti-government policies of "deregulation" and free trade—the core of what is called "globalization"—the state's physical production went into decline by the mid-1980s.

Adding to this collapse, was the effect of enforcement of anti-science, anti-technology policies in the state, under the guise of "environmentalism," which became the hallmark of Gerry Brown's first two terms as governor. An advocate of the "small is beautiful" economic philosophy of British utopian fascist E.F. Schumacher, Brown initiated the dismantling of California's nuclear industry, and introduced anti-industrial regulatory policies which choked any further development in the state.

By the 1990s, California's wealth-producing, high-paying manufacturing jobs were being replaced by jobs in such "industries" as leisure and hospitality, real

USDA/Gary Kramer



Edmund G. "Pat" Brown Institute of Public Affairs

Under Jerry Brown's father, Edmund G. "Pat" Brown, an FDR Democrat, who served as governor 1959-67, the California agro-industrial economy, expanded rapidly, bringing in major industries, smaller enterpreneural firms, and advanced agriculture. Shown, an irrigated lettuce crop in the Central Valley.

estate, insurance, financial services, and computers. Instead of generating consistent revenue, as an expanding industrial-agricultural-based economy does, through improvements in productivity through scientific and technological innovation, these post-industrial sectors "make money" largely as a consequence of financial bubbles.

A Bubble Does Not Produce Wealth

Contrary to the illiterate babbling of former Federal Reserve chairman Alan Greenspan, a financial bubble creates neither wealth nor prosperity. Under Greenspan's tenure, which began with the Crash of 1987, and ended in 2006, as the real estate bubble began to deflate, the U.S. economy went through an accelerated course of post-industrial lunacy. Though "income" purportedly rose at times, the money which circulated was increasingly devalued, as the physical production of the nation—which is the only basis for sustained prosperity, in the form of improved standards of living for a growing number of people—collapsed.

Eventually, and lawfully, the collapse of the physical economy produced the popping of the successive bubbles, precisely as LaRouche had repeatedly forecast they would pop.

Greenspan's fanatical belief in the "free market," which is shared by Schwarzenegger's political and financial godfather, Chicago School fascist George Shultz, was exceeded only by his hatred for the "American System" of physical economy, which was created by our nation's first Treasury Secretary, Alexander Hamilton. Greenspan's obsession with money-based statistical analysis—e.g., replacing measurement of productivity in physical terms, with monetary values—allowed for momentary illusions that his monetary policies had created "prosperity," as with the beginnings of the derivatives bubble, which fed the stock market growth in the mid-1990s; or at the end of the Clinton years, with the "Y2K" bubble, and the related "dot-com" bubble, which popped in March 2000; and again, with the real estate/housing bubble of the last decade, made possible by the repeal of the Glass Steagall law in 1999, which blew out by July 2007.

The tragedy of the nation is not that Sir Alan was a fraud, a liar, who slavishing served the imperial monetary interests of the British Inter-Alpha Group, throughout his time as Fed chair. The tragedy is that the American people went along with this fraud, embracing the belief that money is wealth, hoping that they could get a piece of the action. That our once-powerful manufacturing economy was dismantled in plain sight, and turned into a giant casino, in which a smaller and smaller number of speculators controlled the action, somehow

Jerry Brown, during his first two terms as governor, 1975-83, pushed the "environmentalist" agenda, under which California's nuclear industry was dismantled. Here, an aerial view of the Diablo Canyon nuclear plant, in San Luis Obispo on the Pacific coast, one of two remaining in the state.

escaped our collective notice, as most Americans were too busy chasing their own dreams of getting in on the action.

It is due to this kind of mass corruption, and its related lack of knowledge of how a real economy creates value, that Californians have been induced to play the "cut spending-raise taxes" game of the last decade, to the point that lives are being sacrificed to sustain the worthless assets of the financial bubble.

California's Lost Decade

As California's industrial base was contracting in the 1990s, the state was hit with another aspect of Chicago School idiocy, electricity deregulation, which was used by the Bush League crooks at Enron to loot the state, with the complete and total support of Greenspan, and both Democratic and Republican legislators in California. The Enron deregulation fiasco ultimately cost the state more than $70 billion. Even worse, it became the pretext to remove Democratic Gov. Gray Davis, through a voter recall, and bring into the governor's office a former steroid-popping body-builder, with Hollywood credentials as a bad actor, and with the direct support of the Inter-Alpha Group's Lord Jacob Rothschild, under the immediate supervision of fascist George Shultz.

Schwarzenegger, who later would produce one whopping budget deficit after another, attacked Davis for a deficit which reached what, compared to today's numbers, was a paltry $10.2 billion, mostly as a result of the destruction wrought by Enron, and by deregulation. Once in office, Arnie railed against "too much spending," government "waste," threatened to "blow up the boxes" of government agencies, while attacking nurses, teachers, prison guards, and other state employees as "special interests." Unlike the "girlie men"—his derisive label for Democratic legislators who refused to take lives by accepting the massive spending cuts he was pushing—he would show he was man enough to "starve the beast," i.e., state government, and bring it under control.

Yet, the more he cut, the bigger the deficit. Why?

This question brings us back to physical economy.

A bubble economy can, in the short term, produce an increase in revenues. However, it is a huge mistake to treat that short-term increase as "prosperity." What happened, repeatedly, during the last ten years, is that California's leaders repeatedly accepted revenue growth from financial bubbles as a sign of sustained economic growth, and failed to account for the inevitable popping of those bubbles, with the subsequent collapse of revenues.

At the same time, the real costs to the state were growing. The state budget must cover improvements in health care, social programs, education, infrastructure, etc., for a growing population. As these costs increase, the state needs increased revenue to pay for them. The only guarantee that the revenues will grow, to cover those increased costs, is if there is annual growth in the physical production side of an economy.

That revenues collected by California twice jumped significantly, during the last 12 years, masked this underlying problem, as the revenue gains were treated as a sign of economic health. From 1998-99, revenue collected by the state increased from $58.6 billion, to $71.4 billion in 2000-01, largely as a result of increased income tax, due to the dot-com bubble, which was centered in California. The next big jump in revenue was between 2004 and 2005, when $82.2 billion was collected, to its peak in 2007-08, at $102.5 billion—this time due to the housing bubble.

In neither case were the gains sustainable, but this was especially true after the housing bubble popped. Following the peak year of 2007-08, revenues fell by nearly $20 billion, to $82.7 billion, and have climbed very slowly since then.

This is the cause of the chronic deficits: The revenues collapsed, while costs to the government, some of which were mandated by the voters in referenda, others due to population growth and inflation, continued to climb. When revenue peaked in 2007-08, at $102.5 billion, expenditures also peaked at $102.9 billion. Since then, with the cuts imposed by Schwarzenegger and the legislature, the budget is back at 2004-05 levels, and still running a shortfall.

Today, the deficits keep growing, and the proposed cuts will take a toll in human lives, if not stopped.

gov.ca.gov

It is time for California to break out of the deadly game imposed by Schwarzenegger (shown here during one of his frequent budget-cutting rants) and his Inter-Alpha controllers, and return to the policies that made it the "Golden State."

California Must Lead

With the adoption, nationally, under Richard Nixon, of a post-industrial, globalized model for the U.S., our nation became dependent increasingly on cheap labor and cheap raw materials from abroad, through especially outsourcing. As for the U.S. economy, the lost jobs in manufacturing, agriculture, and infrastructure were supposed to be replaced by employment in service and "technology" sectors.

The net result has been a downward spiraling collapse of real wealth production, to the point that, today, our banking system depends on trillions of dollars in bailouts from the Federal Reserve and the Treasury, creating unsustainable levels of debt for government, corporations, and families, while living standards plunge. With the tax base of local and state governments collapsing, virtually every government is facing bankruptcy.

At the same time, the collapse of living standards places more pressure on governments to provide basic and necessary services. For the Federal government, the choice is either the FDR model, in which the banks are put under regulation, to provide for the people, or the Hitler model adopted by Obama, where the people are sacrificed for the well-being of the speculative crooks who run the banks.

States, such as California, will become burial grounds for the poor, the sick, the elderly, if this economic insanity is not reversed. The United States is, constitutionally, a federal republic, with a credit policy designed by Hamilton, which commits the Congress to utter credit for physical production, to create sustainable growth, based on improvements in production per capita and per square kilometer, based on increases in energy-flux density and machine-tool production.

For this to occur, reversing the deadly cycle of bubbles, followed by demands that budgets be balanced, after the bubbles pop, through genocidal austerity cuts, there are three simple steps legislatures of all states must demand:

1. Restore federal Glass-Steagall banking regulations;

2. Federal credit to the states, to prevent murderous cuts, and sustain health care and other essential social welfare programs;

3. Massive funding for job-creating and wealth-producing infrastructure policies, beginning with the North American Water and Power Alliance (NAWAPA).

For legislators in California, it is time to break out of the controlled, deadly game imposed by Schwarzenegger and the Shultzian fascist school. The California legislature must demand that the U.S. Congress immediately adopt that three-step program, beginning with Glass-Steagall, as we have come to the end of the bubble economy; it must lead the way for Americans, once again, to reject the British imperial "small is beautiful" outlook, in favor of the kind of *BIG* thinking which is our birthright as a nation.