Bankrupt policies leave California flat broke

by H. Graham Lowry

Driven by an across-the-board economic breakdown, the California budget crisis entered its fifth week July 29, with Gov. Pete Wilson (R) and the legislature deadlocked over choices which will only worsen conditions further.

During July, the bankrupt state issued more than $1.2 billion in "registered warrants"—resorting to paying its bills in scrip for the first time since the depression of the 1930s. On top of that, the state faced paying more than 85,000 employees in IOUs, instead of issuing checks. This financial juggling act was repudiated by the state's two largest banks July 23, when Bank of America and Wells Fargo announced they would stop redeeming the IOUs for their customers by the end of the first week of August.

The banks openly admitted they resorted to the cutoff to pressure the legislature to swallow a massive austerity package, to cover a projected deficit of $10.7 billion in the $60 billion budget for the current fiscal year. Bank of America chairman Richard Rosenberg declared July 23, "In essence, the banks are funding the crisis—serving as a shock absorber for the budget process. In attempting to ease the hardships their customers must deal with in this circumstance, the banks are inadvertently making it easier for the emergency to drag on."

Pressure has also come from Wall Street. Standard & Poor's lowered California's credit rating again on July 15 to A+, the lowest rating in its history, declaring that "without action, the deficit could double in 1993, representing nearly 20% of general fund spending." The Bush administration also delivered a shock from Washington, by refusing to honor the federal share of Medi-Cal costs until the state stops issuing IOUs. As a result, the state had to pay both its own and the federal share, covering $308 million in back bills by issuing scrip July 9 to doctors, hospitals, pharmacists, and nursing homes. A suggestion that the state take cash from the Public Employees Retirement System, by selling the fund IOUs with 5% interest, was rejected by pension officials July 24.

Deadlock, or dead end?

Negotiations during the month between Governor Wilson and Democratic legislative leaders were nearly nonexistent. Wilson's demands for a $2.2 billion cut in health and welfare spending and $2.3 billion in education have been rejected by the Assembly; but the Democrats' alternative to cutting public education that deeply has been to propose slashing state aid to cities and counties by $1 billion. The collapse in municipal budgets is already so severe, that angry city officials have charged that further cutbacks would force reductions even in police and fire protection.

Further cuts in public education could be devastating. The Los Angeles Unified School District, already facing a deficit of $247 million, proposed July 24 to slash salaries at all levels, including a 14% cut for teachers and 11.5% for bus drivers, custodians, and clerical workers. Unpaid "furloughs" would reduce each employee's pay by another 6%. Teachers and union leaders have denounced the scheme, which would take effect Sept. 15, and both sides expect a contract deadlock and state intervention to mediate the dispute.

Stuck in the web of ruinous national economic policies, none of the elected officials confronted with California's crisis has offered a single positive solution. Governor Wilson went before the Urban League's national convention in San Diego July 27, to discuss supposed "reforms" to spark California's economy. "Tough times demand tough choices," he preached to one of the largest organizations dealing with the nation's immiserated black ghettoes. He proceeded to demand the members' help in pressuring the California legislature to slash workmen's compensation, and in getting teenagers to resist the temptations of drugs, crime, and early pregnancies to save the state more money!

The California legislature is already looking at one national policy so dear to President Bush and his Democratic rivals for the White House: the proposed North American Free Trade Agreement (NAFTA), which would turn Mexico into giant slave-labor camps. California's Employment Development director, Thomas Nagle, submitted testimony to the legislature July 28 that, if NAFTA is adopted, California will lose "large numbers" of jobs in its agricultural, food processing, apparel, textile, and household glass products industries. The jobs would end up in Mexico, given its "significantly lower labor costs," Nagle declared.

Proponents have argued that NAFTA will give U.S. companies better access to 85 million Mexican consumers, who then may purchase California's high-technology and electronics products. "What are workers who are getting $30 a week going to buy from this country?" asked AFL-CIO regional director David Sickler at a select committee hearing in Sacramento July 28. "They have to work 17 and a half hours to buy a dress for a daughter." Sickler noted that California has already lost thousands of jobs to Mexico, without any new ones to replace them, from increased purchases of California goods by Mexicans.

Even without further ruinous policies, government budgets are blowing out at every level. The National League of Cities issued a survey in July of 620 cities and towns, showing that 54% of them are broke. In 1984, when the survey began, only 24% of them were in the red.