No budget solution in sight for California

by H. Graham Lowry

Time is running out for the tottering remains of the U.S. economy—a fact vividly dramatized by the utter collapse of the budget for the state of California, the largest in the nation. On May 20, less than two months after projecting a deficit of nearly $6 billion, the state announced that the shortfall had risen to $10.7 billion.

"I don't know how to solve this," said Assembly Ways and Means Committee Chairman John Vasconcellos, adding, "It's not solvable. We're bankrupt." Gov. Pete Wilson, who has ruled out further tax hikes, declared May 21, "This is a time of unprecedented cutting, and it will be unpleasant and painful." He said that California will be officially broke by July 1, the beginning of the new fiscal year, unless the legislature passes a new budget by the June 15 deadline. But Wilson offered no new suggestions for meeting the ballooning deficit.

With this latest projected shortfall, the last two California budget deficits total a staggering $25 billion. The state officially has counted 22 consecutive months of "recession," and 541,500 jobs lost since 1990. Plant closings and major cutbacks in its once-booming aerospace, defense, and electronics industries have further collapsed its revenue base, as have needless and scientifically incompetent restrictions against its agricultural and timber production. California construction fell nearly 22% in 1991; and even with a 5% upturn the industry wishfully projects for this year, it expects to see another 36,200 construction jobs disappear.

In Los Angeles County alone, where tourism generally produces about $7 billion in annual revenues, the dropoff in the wake of the riots is projected at more than $1 billion. Job losses in the tourist business are expected to top 30,000, according to a study for the Los Angeles Convention and Visitors Bureau. Direct riot damage to businesses is estimated to have already eliminated about 9,000 jobs, property damage has been put at $785 million, and losses from looting were an additional $700 million.

Budget cuts may top 30%

The fiscal 1993 budget which Republican Governor Wilson presented in January called for $2.5 billion in spending cuts—nowhere near the level required to close the deficit now projected. Wilson's demands, which included a 25% reduction in welfare benefits over two years and a 5% pay cut for state workers, were considered draconian then, and the Democratic-controlled state legislature has refused to accept them. Now the state's Department of Finance projects across-the-board cutbacks by a minimum of 14.7% and up to 32.5% in welfare, health care, higher education, and other programs not protected by existing law, depending on how much further the legislature slashes public school spending.

"If you want to have no future work force because you have lots of uneducated kids, that's the way to do it. Bankrupt the school districts of California," Vasoncellos said. "Most school districts are laying off people now, and closing down classes and colleges now, at the governor's January level. If you go below that, you've got devastation. You've got an uneducated populace." The Senate Majority Leader, Democrat Barry Keane, said after a meeting with Wilson May 20, "The mood is somber, serious, less hopeful than it has been in the past that things could be accomplished without a great deal of pain."

Deficit-reduction mania

Nearly three-quarters of the nation's state governments are writhing under varying degrees of fiscal collapse, and enacting what they know to be harmful measures which they call "solutions" to their budget crises. The fate of California alone should be ample proof that no amount of budget cuts and tax increases will solve anything. While they lobby the federal government to increase its financial assistance to cities and states, most state legislatures also stand poised to *eliminate* any such prospects, by ratifying a constitutional amendment to impose a balanced federal budget.

Proponents of the amendment argue that, since the states are required by law to balance their own budgets, the federal government should be required to do so as well. The states, however, float bonds and borrow money for capital expenditures on major projects of all sorts, as *off-budget* expenses. Under the balanced budget amendment, the federal government would be prohibited from spending any more than it takes in as revenues.

Yet Congress is expected to approve the amendment early in June and submit it to the nation's state legislatures for ratification. Given the current mania for balanced budgets, many observers think the amendment might be ratified in as little as two years.

The House Budget Committee released a study on May 26, showing that even to balance the budget within five years would require by far the biggest spending cuts and tax increases in U.S. history. Even though wildly assuming a recovery, the study still projects annual cuts ranging from $38 billion the first year to $237 billion the fifth year, assuming a total deficit of $631 billion. Without tax increases, the five-year cuts in entitlement programs alone would total $297 billion. That is nearly 18 times the amount Congress is still struggling to find for this year's cuts in domestic, military, and foreign aid programs combined. The only way to balance the budget in this fashion is to eliminate the nation.