



Those who cannot remember the past are condemned to repeat it. Santayana

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WINTER WARNING



California – The Golden State at the Brink of Collapse

Facing a \$24 billion (U.S.) budget shortfall and running short of practical solutions, California is moving closer to a self-induced state of bankruptcy. In a special Tuesday morning address last week at the Sacramento Capitol, Governor Arnold Schwarzenegger told State lawmakers that *“California’s day of reckoning is here”* and that government inaction could cause the State to run out of cash within 2 weeks. Governor Schwarzenegger has previously proposed massive budget cuts to education, health care and the prison system. Now, he is proposing to eliminate and consolidate more than a dozen State departments, boards and commissions; including the Waste Management Board, the Court Reporters Board, the Department of Boating and Waterways and the Inspection and Maintenance Review Committee.

California’s population is only a few million less than the entire population of Canada. It is alarming to Canadians, especially British Columbians, to witness the actions of our American friends down the west coast who continually practice shooting themselves, in a financial sense, in the foot. Last month, Californians overwhelmingly, rejected a series of special ballot measures aimed at curbing the State’s growing budget deficit by \$6 billion (U.S.) through the middle of 2010; including increased taxes and borrowing, with limits on future government spending. Only a measure to punish elected officials by denying them pay raises in deficit times, won easy approval. In a statement conceding defeat on these propositions, Governor Schwarzenegger said *“I respect the will of the people who are frustrated with the dysfunction in our budget system. In order to prevent a fiscal disaster, Democrats and Republicans must collaborate and work together to address this (budget) shortfall.”* Indeed, Chris Lehane, a Democratic Party Strategist, said that the May plebiscite *“really under scores that California State Government is so structurally flawed that it is ungovernable. There is no clearer sign of how these structural issues have hurt California, than by looking at the State’s public education system, which has gone from first to worst in a generation.”*

Last winter, citing the enormity of California’s deficit problem, the three major U.S. credit rating agencies, Standard & Poors, Moody’s Investors Services and Fitch downgraded approximately, \$60 billion (U.S.) of the State’s outstanding bond issues to the lowest rating level of any American state. Were it a separate country, California would represent the world’s eighth-largest economy, but the State has been hammered by the global economic depression and reduced State revenues; hence, a record budget deficit. The State Government is constantly deadlocked because legislators require a two-thirds majority in order to raise new taxes. Governor Schwarzenegger had been urging voters to support new revenue raising measures that would limit the need for deep cuts in education and emergency services.

However, voter opposition to tax hikes increases the likelihood that California must drastically reduce its spending on essential public services. Thousands of jobs in education, fire fighting and corrections are in



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jeopardy. The Chairman of the California Democratic Party declared that “people are going to have to figure (things) out: do they want schools, do they want roads, do they want public safety, do they want to take care of the less fortunate? At some point, that’s going to happen.” In Los Angeles, Mayor Antonio Villaraigosa said the Governor’s plan to “balance (the State’s) books on the backs” of local government could force the City to cut services and seek loans of \$68 million (U.S.) to \$120 million (U.S.) from the private sector. “I for one will not sit idly by while this process runs its course.” Meanwhile, Los Angeles County risks losing more than \$300 million (U.S.) from recent and proposed State actions which could affect County welfare, drug prevention and other programs. County Supervisor Zev Yaroslavsky said “a lot of people are going to get hurt.”

Not only in California, but also, across America there seems to be voter opposition to both tax increases and reduced spending at all levels of government. The country is in a state of financial denial while the national debt soars exponentially past the \$11.4 trillion (U.S.) level at an hourly rate of \$360 million (U.S.). The California legislature adjourns for summer recess on July 17th. It will be a long, hot summer in the Golden State.

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