Revenue shortfalls lead to job losses and funding freezes in New Jersey

Jack Taylor
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The economic slowdown in the US has led to a precipitous drop in tax revenues for states and municipalities. In New Jersey this development, together with the impact of tax cuts enacted during the administration of former Governor Christie Whitman throughout the 1990s, has produced a budget crisis of unprecedented proportions.

New revenue figures certified on January 28 by State Treasurer John McCormac, who referred to the magnitude of the shortfall as “staggering,” showed the state’s $23 billion budget to be out of balance by a total of $2.9 billion, or about 12.6 percent. Revenues from the state’s “big three” taxes—income, sales and corporate—have fallen nearly $1 billion short of projections over the past two months alone, including a record one-month shortfall of $505 million in December. The state Constitution contains an amendment requiring a balanced budget.

The extent to which public revenues—and by extension, public expenditures and services—are dictated by movements in the stock market is being vividly illustrated in New Jersey. With the highest per capita income in the nation (as a result of the high percentage of wealthy New York suburbs), it relies more heavily on personal income tax revenue than most states. The collapse of the stock market over the past year, and of capital gains income with it, has drastically reduced income tax receipts.

The Enron collapse—which cost the state workers’ pension fund over $60 million when 2.6 million shares bought for $62 million were sold for $1.8 million earlier this month—has doubtless contributed to the crisis. For the first 25 days in January, income tax revenue was off by $374 million, some 80 percent of the month’s total shortfall. For the fiscal year ending June 30, 2002, the administration of newly inaugurated Governor Jim McGreevey estimates that income taxes will generate $1.5 billion less than the amount projected by the Whitman administration, and $600 million less than last year.

If a $1 billion error in the projected revenue generating capacity of the income tax reflects the inability of the big business politicians to understand and control the fundamental forces at work in the economy, cuts in public services aimed at the working class characterize their method of accounting for those forces after the fact.

In what are widely described as “preliminary” steps to address the shortfall, pink slips were distributed to about 600 state workers across all departments, with indications that over 1,000 could eventually see their jobs eliminated. Notable among these was the Office of State Planning, authors of the State Development and Redevelopment Plan, whose entire professional staff of 27 were issued notices telling them that “their duties and obligation to report to work cease immediately.” Savings from the eradication of this office are expected to total about $2 million, and are part of a broader effort to reduce state operating costs by $100 million, a quarter of which is to be accounted for by worker salaries.

Other preliminary steps include cutting aid to higher education by an additional $50 million, on top of the $22 million already cut by the previous acting governor, Donald DiFrancesco, as well as freezing state aid to municipalities at current levels. Both moves will disproportionately impact lower income and working families, especially those that may depend on financial aid to afford attending college, and especially those that live in urban areas which depend on state aid as a primary source of municipal income.

Loss of a yearly inflation adjustment to municipal aid can total from half a million dollars for a medium-size city such as New Brunswick, to well into the millions for large cities such as Newark. Cities and towns will be forced to balance these cuts, in turn, with cuts in public services and increases in property taxes, further weakening the financial position and quality of life of working people.

To top these measures off, a 10 percent transit fare increase is to take effect April 1 of this year, the enactment of which includes authority to implement subsequent annual increases through 2007.

Around the country, 43 other states also face budget gaps of varying gravity. California faces a $4.5 billion deficit, and New York a $3 billion deficit, larger nominal shortfalls, but smaller relative deficits when compared with New Jersey. The total funding gap for these 44 states currently stands at $40 billion, and is expected to rise to $50 billion by the end of the fiscal year.

Though New Jersey has felt the impact most acutely, the same general process is at work nationwide: after having cut taxes by some $34 billion during the stock market boom between 1995 and 2000, the economic downturn has thrown state governments into a fiscal crisis for which the working class, despite no increase in its living standards or real income over that period, is being forced to assume responsibility.