US: State governments enacting budget cuts and tax hikes

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State governments in the US are facing budget crises without precedent since the Great Depression of the 1930s. The stock market collapse has resulted in sharp declines in state tax revenues. Large tax increases and huge cuts in public and social services at the state level are inevitable over the next year.

The fiscal problems are discussed in a report by the National Governors Association (NGA) that was issued last month. Since then the crisis has only deepened.

According to the NGA, state tax collections fell by 6 percent in the last fiscal year, which in most states ended June 30. Sales tax revenues, amounting to a total of $147.6 billion, were 3.2 percent lower than had been forecast. Personal income tax revenues, more heavily dependent on capital gains and other payments from the wealthy, were $187.8 billion, or 12.8 percent lower, and corporate income tax receipts were off by 21.5 percent.

The sudden explosion of state budget deficits mirrors the transformation of record federal budget surpluses into massive shortfalls over the past year, with the important difference that the budgets of state governments must be balanced. Democratic and Republican governors, including prominent politicians who were just reelected after keeping silent on the depth of the crisis, are now scrambling to come up with budget-balancing measures.

The states, responsible for many programs such as public higher education, Medicaid health benefits for the poor, and a major portion of local education spending, are poised to unleash major attacks on workers' living standards. Tax increases and spending cuts will have the effect of deepening the lingering recession, which shows increasing signs of turning into the kind of prolonged stagnation and slump that has beset the Japanese economy for over a decade.

In the post-World War II period, state unemployment insurance benefits acted as "counter-cyclical" measure, putting money into workers' pockets and fueling consumer spending. However, over the past two decades the percentage of workers covered by the jobless pay program has fallen drastically. The combination of rising unemployment, tax increases by state governments and further cuts in social programs is certain to take its toll on consumer spending, the major factor thus far preventing the ongoing slump from becoming something far worse.

Of the 50 states, 23 have already raised taxes. The great majority of these increases are regressive, disproportionately targeting lower-income households. Out of a total of $8.3 billion in increased taxes for the fiscal year beginning in most states on July 1, taxes on cigarettes and other tobacco products were increased $2.9 billion, for instance, and sales taxes were hiked by $1.4 billion.

Meanwhile, spending on Medicaid, the health program for the poor and disabled that is funded by both the states and the federal government, soared by 13.2 percent last year, leading to an acceleration of plans for tightening eligibility and eliminating Medicaid benefits for millions of people. Health costs currently account for 30 percent of state spending.

Some of the hardest-hit states have already enacted or proposed draconian budget cuts and increases in fees and taxes. The University of Iowa increased tuition and fees by 18.5 percent, after a 9.9 percent increase only a year earlier. Arizona's incoming governor is calling for 10 percent spending cuts across the board at state agencies.

Among the states most severely affected are some of the country's largest, including California and New York. Tax revenues in these two states, with a combined population of more than 50 million, were heavily based on the stock market boom. Income tax collections in New York State have fallen by $1.5 billion, or 7.5 percent, in the first six months of the current fiscal year.

New York is facing a $2 billion budget gap for the current fiscal year, and about $10 billion for the fiscal year that begins in April 2003. For California, the situation is even worse. In early December, Democratic Governor Gray Davis announced an estimated budget shortfall of $21 billion for the next 18 months. On December 18, Davis revised his earlier estimate “slightly” upward—to $34.8 billion over the same 18 month-period. This deficit is larger than the annual budget of every other state, with the exception of New York.

The California governor has already called for spending cuts of $10.2 billion, which will have a devastating impact on education, welfare, health and other services. All public schools, community colleges and public universities will be affected, and thousands of state employees will face layoffs. The latest budget figures show, however, that far more draconian measures will be needed to eliminate the shortfall.

The situation in New York is almost as dire. The current state budget is $89.6 billion, including $8.2 billion for Medicaid and $14 billion in state aid to local schools. Health care and education spending are facing major cuts, just weeks after the reelection of Republican Governor George Pataki, who received the endorsements of both the largest hospital workers’ union and New York City’s United Federation of Teachers.

The impending attacks on public services by the Democrat in California and the Republican in New York, whose reelection in each case was backed by major trade unions, underscores the basic agreement of the two capitalist parties when it comes to making workers pay for the economic crisis. With the assistance of the broadcast and print media, these politicians were allowed to wage their successful campaigns for reelection while keeping silent about their plans—undoubtedly already being developed during the election period—for a frontal assault on the living standards of the working class.