US: State budget cuts fuel social crisis

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The protracted budget crisis facing the overwhelming majority of the 50 US states is contributing to a deepening social crisis that affects not only the poorest sections of the population but also many tens of millions of working people.

The state of California, with a $38.2 billion budget gap, is by far the hardest hit, but by no means unique. A report issued last month by the National Association of State Budget Officers reported that 37 states had reduced their fiscal 2003 budgets by a total of almost $14.5 billion, the largest such cuts in recent history. Tens of billions more have been raised through borrowing, tax increases and a variety of fiscal maneuvers to make up total budget shortfalls approaching $100 billion. Most states are facing spending crises without parallel since the depression of the 1930s.

In California, where the budget deficit has produced a full-fledged political crisis in the effort by the Republican right wing to recall Democratic governor Gray Davis, the gap itself is larger than the total annual budget of every single other state with the exception of New York. A June 30 state constitutional deadline for a new budget has come and gone, and the budget stalemate is expected to last at least through the summer. The governor has proposed a plan to raise taxes by $8 billion and cut spending by $18 billion, while the Republicans insist on cuts that are even more draconian without raising taxes. California’s credit rating, already (along with New York and Louisiana) the lowest of the 50 states, is facing additional downgrading by the two major credit rating agencies, Moody’s and Standard & Poor’s. This will deepen the state’s fiscal crisis by raising the cost of borrowing to meet current expenses.

While most other states have succeeded in patching together temporary budget agreements, in almost every case they impose serious service cuts while leaving the underlying fiscal crisis essentially unchanged. The US state budget officers’ report indicates that the states’ total balances, including ending balances and “rainy day” budget stabilization funds, have fallen from a peak of $48.8 billion, 10.4 percent of total expenditures in fiscal 2000, to only $6.4 billion or 1.3 percent of expenditures in fiscal 2003. The balances were used to provide something of a cushion in the last two years of rising budget deficits. Similar but less steep reductions took place in the early 1980s and early 1990s, but the current economic slump, which officially began in March 2001, shows little sign of ending. The official unemployment figures, in fact, jumped from 6.1 to 6.4 percent last month, reaching a nine-year high.

The fiscal crisis is already imposing sharp social costs in the form of massive cuts in education, health care and other basic needs. Another year of recession or stagnation will mean even more severe cuts in public and social services.

Schools have been devastated, parks and libraries have been shut down, and public colleges have reduced financial aid and raised tuition. Several states, faced with runaway costs for prisons as a result of the law-and-order drive that has led to skyrocketing prison populations, have sought to raise money by cutting back on food served to inmates. Texas has slashed the daily calorie ration from 2,700 to 2,500. Minnesota and Virginia are serving prisoners only two meals a day on the weekends. Nevada considered cutting the food budget for prisoners, but the governor pointed out that the state already pays more to feed wild horses than to feed prison inmates.

Education is among the areas hardest hit by the cuts. Teachers in Portland, Ore., agreed to go without pay for two weeks, the equivalent of a 5 percent pay cut. In Colorado, some school districts adopted four-day weeks to cut costs. Tens of thousands of teachers in California are threatened with layoffs. In less-populated states the situation is just as severe. Half the school districts in Kansas have cut staff. Oklahoma has cut education spending 9 percent, and, according to the president of the Oklahoma Education Association, as reported by the *New York Times*, “We’ve got students and teachers cleaning the classrooms, parents bringing in furnishings and materials and no more substitute teachers.”

The impact of the fiscal crisis on medical care is, if anything, even more severe than that on education. The prolonged economic downturn has led to a sharp rise in the number of unemployed and working poor seeking health coverage under state Medicaid programs, funded by both the federal and state governments. The state share of Medicaid grew by 13 percent in 2002 and is projected to increase by another 8 percent in fiscal 2003 and 4.9 percent in fiscal 2004. The lower figures reflect not any drop in the need for Medicaid, but rather the ruthless measures already taken by many states to tighten eligibility requirements for Medicaid coverage. According to the National Conference of State Legislatures, 20 states are considering tightening eligibility, 21 states are considering reductions in benefits, and 14 states are contemplating reductions in payments to health providers.

Among the cuts already implemented are the dropping of 36,000 long-term unemployed from health insurance benefits in Massachusetts; the elimination of 208,000 people, including 55,000 children, from the Medicaid program in Tennessee; and the cutting of 30,000 from Medicaid benefits in Connecticut. Colorado has eliminated Medicaid coverage for 3,500 legal immigrants, the equivalent of a death sentence for some who otherwise could not afford the prescription drugs that are keeping them alive.

The Medicaid crisis is perhaps that aspect which most imminently threatens the already-fraying social fabric of the country. Medicaid currently covers 47 million people. One-fifth of the country’s children are presently insured under the system. Two-thirds of nursing home residents, including many workers who have exhausted their savings, have their costs paid for in part by Medicaid.

On the revenue side, 29 states have proposed tax increases for fiscal 2004 totaling nearly $18 billion. The great bulk of these increases are in the form of regressive taxation, disproportionately affecting the poorest sections of the population. Fifteen states, for instance, propose sales tax increases to raise an additional $6 billion, while corporate income tax “adjustments” that are proposed will raise only $759 million. Other regressive tax increases include those on cigarettes and alcohol.

The states’ fiscal crisis has being drastically deepened by policies inspired by the most extreme right-wing elements that have achieved dominance within the Bush administration. The White House’s recently enacted tax cuts only make matters worse for the states, since income taxes in many states—37 plus the District of Columbia—are tied to taxable income under federal law. The frenzy for tax cuts in the top brackets, plus the elimination of dividend taxation, could cost state governments up to $4.3 billion a year, according to a report from the Center for Budget and Policy Priorities.

Although even many Republican state officials are alarmed by the consequences of these policies, the Bush administration is fairly open in declaring that it aims to force the states to further shrink their public spending. The resulting misery is seen as a positive good. Grover Norquist, the president of the Americans for Tax Reform and one of the most influential spokesmen for the extreme right, who works in the closest alliance with the White House, recently declared, “I hope that a state goes bankrupt. I hope a state has real troubles getting its act together, so that the other 49 states can say, ‘Let’s not do that.’ We need a state to be a bad example, so that the others will start to make the serious decisions they need to get out of this mess...”