US: State budget crises trigger layoffs, cuts in social programs

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State governments are facing unprecedented budget shortfalls as the fiscal year draws near its June 30 close. In response, governors and state legislatures are slashing social programs and laying-off state workers.

Collectively, the states confront a fiscal deficit of $121 billion for the coming year. Last year the states weathered a $104.2 billion deficit, according to data from the National Conference of State Legislatures. The two-year states' deficit is upwards of $225 billion, $81 billion more than what President Obama's stimulus package, the American Recovery and Reinvestment Act, allocated to all municipalities and the 50 states for the next two years.

Several factors are causing sharp declines in state and local tax revenue. Most important among these is the unemployment crisis, which is without parallel since the Great Depression. New statistics from the Labor Department reveal that the unemployment rate increased in 48 of 50 states from April to May. Increasing unemployment further complicates state budgets by straining aspects of the already woefully inadequate social safety net, such as unemployment insurance, welfare programs and Medicaid.

According to a recently released analysis by the Nelson A. Rockefeller Institute of Government, state-level income tax collections fell a staggering 26 percent in the first quarter of 2009 compared to the previous year. At the same time, 23 of the 30 most populous states have seen a significant increase in their welfare caseloads, a *Wall Street Journal* and National Conference of State Legislatures report reveals. Use of the Food Stamp Program, a more sensitive barometer of worsening social conditions, is at an all-time high. And states are now responsible for more than $6.5 billion in monthly unemployment checks, "siphoning so much money from states' trust funds that all but a few have borrowed money from the federal government already or will soon need to," *Stateline.org* notes.

Unemployment and declining wages continue to propel forward all the elements of the housing crisis—foreclosures, declining property values, and reductions in sales and housing starts—which in turn diminishes state and local revenue arising from property taxes and fees on home sales. For the same reasons, consumers are spending less, meaning that those states that depend on sales taxes for their budgets are seeing less revenue. Finally, a fall-off in business activity is lessening corporate tax receipts. According to a survey by the National Governors Association, sales tax revenue has fallen 3.2 percent from the previous year—the sharpest ever decline— and corporate income tax has tumbled by 15.2 percent.

Budget crises have triggered sharp political tensions in state capitals, the *New York Times* notes. In Illinois, Democratic legislators are rebelling against Democratic Governor Patrick Quinn and his call for a modest increase in personal income taxes. In Massachusetts, the Democratic governor, Deval Patrick, is threatening to veto a proposed sales tax increase authored by the Democratic-controlled legislature. In Arizona, Republican Governor Jan Brewer is suing the Republican-controlled legislature before the Arizona Supreme Court in an attempt to compel it to submit a budget—so that she can veto it. In Minnesota, Republican Governor Tim Pawlenty has declared he will act unilaterally to enact cuts totaling $2.7 billion from nearly all government agencies and social programs after failing to reach a compromise with the Democratic-controlled legislature.

There is, however, broad agreement among all factions of the state-level political elite that it is the working class that must foot the bill for the economic crisis, either through regressive forms of taxation or through cuts to social services and education, or both. There is no evidence from any of the 50 states that governors and legislatures are contemplating large-scale tax increases on the extremely wealthy or seizing the assets of the major banks that precipitated the economic crisis.

A survey by the National Governors Association found that, nationwide, governors are proposing measures that would result in $24 billion in increased revenue. These monies would come through sales tax increases, "sin taxes" on tobacco and alcohol, user's fees on public services, taxes realized through the promotion of gambling, and increases in income taxes, which at the state-level often come in the form of the regressive "flat tax"—a system where all earners pay the same tax rate, regardless of income.

But $24 billion in increased revenue, even should it be realized, will still leave a combined deficit of about $100 billion, which the governors declare can be resolved only by slashing spending. While under normal conditions state spending tends to increase by about 6 percent nationally, in fiscal year 2009 it fell by 2.2 percent, and will fall by at least 2.5 percent in 2010. This will be the first time that state spending declined for two consecutive years in the 32-year history of the National Governors Association survey of state budgets. These spending reductions will cut directly against whatever economic stimulus comes out of the American Recovery and Reinvestment Act.

States are taking up a number of measures to meet the deficit—all targeting the living conditions of the working class. The most widespread will be funding cuts to welfare, public education, and state colleges. Layoffs, wage cuts, and wage freezes for state workers will be nearly ubiquitous, as well. Many states are resorting to mandatory furloughs of state workers and cuts in contributions to retired workers' healthcare and pension plans.

State governments are also passing their budget crises along to cities and towns. Already 18 states have reported slashing local aid, "and we think that's going to grow," Scott D. Pattison, executive director of the National Association of State Budget Officers, told the *Wall Street Journal*. Meanwhile, the US Conference of Mayors has complained to the Obama administration that federal money from the stimulus package is not being equitably distributed to big cities. Citing one example, the *Washington Post* notes that even though Cleveland and Cincinnati account for 40 percent of Ohio's economy, they have so far taken less than 5 percent of the total transportation stimulus money allocated for the state.

The worst is yet to come. Even in the best-case scenario—if recessionary business conditions end next year, as some economists predict—"the outlook for states is bleak," *Staline.org* notes. "The year after a recession ends is typically when state budgets are hit hardest, because by then, Medicaid rolls have swelled with the higher numbers of the unemployed who have lost their health insurance," the non-profit publication writes. "Many state leaders also predict serious budget trouble when the flood of federal stimulus money ends in two years."

The following sampling of measures aimed at reducing deficits offers a glimpse of the looming social impact to be shouldered by the working class:

• **California**, the nation's most populous state with a population roughly equivalent to that of Spain, confronts the largest budget shortfall, at $24 billion. The state's budget-cutting proposals are likely to be the most ruthless. Governor Arnold Schwarzenegger has proposed booting 500,000 poor and working class families off welfare, ending state-assisted health insurance for about a million children, and eliminating 220 state parks. California has already laid-off 10,000 workers, with indications it will lay off another 5,000 by month's end. **Wisconsin** is preparing to shut down a number of state parks as well.

• In **Ohio**, the Democratic governor, Rod Strickland, has announced a plan to cut $2.7 billion, targeting nearly all government agencies and social programs, and has promised major layoffs. "I will not sugarcoat what this will mean," Strickland said. "We will see further staff reductions." The balance of the state's $3.2 billion deficit will be made up, Strickland hopes, by introducing slot machines to horse racing tracks.

• **Illinois** will cut its contributions to foster parents by 50 percent. A foster parent of three children wrote to the *Chicago Sun Times*, "We love our children and have no intention of ever giving them up. However, we know that if these payments are cut, foster parents will begin to bring children in their care back to the agencies serving these children." "We get $392 per month to help our three-year-old," she wrote. "What will 50 percent of that take care of?" Illinois will also suspend about $15 million in annual payments to provide approximately 10,000 funerals for the indigent. Media accounts did not make clear what will become of the dead bodies of the poor.

• **Kentucky** has for the first time introduced sales tax on its famed bourbon whiskey, and like Ohio, will introduce slot machines at its horse racing tracks. Kentucky will also begin to charge its sales tax on cell phone ring tones and other electronic downloads.

• **Oklahoma** is reducing hours at its historical sites and museums.

• **Washington** is going forward with plans to lay off thousands of teachers, and will force electricians and plumbers to pay more for their licenses. The state is increasing tuition at state schools, as are **Kansas** and a number of other states. Washington and **Vermont** will also begin to charge taxes on electronic downloads, such as music.

• **New Hampshire** has announced plans to sell 27 state parks. "The list includes oceanside beaches, massive tracts of park land and mountains, as well as small wayside parks," the *Union Leader* reports. Their most likely buyers are extremely wealthy individuals who will convert them into private estates.

• State employees in **Hawaii** will be required to take three-day furloughs every month for two years. This is the equivalent of a 14 percent pay cut.

• **Nevada** is attempting to save $333 million by ordering one-day mandatory furloughs for state workers, and will start to charge users' fees for its court system, as will **Minnesota**, **Utah**, and **Iowa**.

• **Louisiana** is proposing to eliminate 15,000 state jobs over the next three years.

• **Florida** and **Georgia** plan to cut public assistance for the elderly. Florida will slap another one dollar in taxes on a pack of cigarettes, as will **Rhode Island**.

• **New Mexico** intends to force state workers to make larger personal contributions to their retirement funds.