

# US state budget crises fuel massive spending cuts

## Deadlines threaten government shutdowns

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State legislatures in many states across the US worked late Tuesday to push through budgets containing massive spending cuts, as five states—California, Arizona, Mississippi, Pennsylvania and Indiana—faced the possibility of at least partial shutdowns if their legislatures were unable to reach agreement.

The overarching theme of this budget scramble is the drive to impose the burden of the budget crises on the backs of the working class and poor. With states' populations already facing record unemployment levels, state workers are facing wage cuts, mandatory furloughs and layoffs. At the same time, social services—in demand more than ever due to the worsening recession—are being targeted for draconian cuts.

As late as Monday afternoon, 32 of the 46 states whose fiscal year ended midnight Tuesday did not have budgets signed by their governors. States are grappling with deficits totaling a collective \$121 billion, and all states but Vermont require that their budgets be balanced.

Personal income tax, which accounts for more than a third of state revenues, dropped by 26 percent in the first four months of 2009, according to the Albany, New York-based Rockefeller Institute of Government.

With consumer spending down significantly, sales tax revenues have also fallen. Many state budget proposals include new sales taxes and increases in existing ones—measures that will disproportionately hit working families and the unemployed already struggling to keep up with the cost of housing, food, medical bills and other basic necessities.

Since 2002, government shutdowns have hit only five states. The current rash of threatened budget crises has been fueled by the deepening recession. “It’s a lot of states that are coming down to the wire,” Todd Haggerty, a research analysis with the National Conference of State Legislatures, told the *Los Angeles Times*. “It’s far more than we’ve seen in the past, and it’s because of the state of the economy.”

President Obama has made clear that the government will not step in to alleviate the crisis facing the states. In May, Treasury Secretary Timothy Geithner rejected a federal bailout of the largest US state, California, which now faces a \$24.3 billion budget deficit. Geithner demanded instead that California and other states “put in place reforms that will restore their creditworthiness.”

With its refusal to take any action to stanch the budget crisis, the Obama administration is signaling that the price of this “creditworthiness” is to be paid by the American population, with a massive drive for cuts in jobs and social services at the local level. The ruling class is seizing on the budget crisis and its subsequent bloodletting as the model for a permanent reduction in working-class living standards.

State employees are one of the main targets of state budget cutters. More than 728,500 state workers in at least 21 states have been forced to take furloughs, or unpaid time off, according to Stateline.org.

In Hawaii, which faces a \$729 million budget shortfall, Republican Governor Linda Lingle has proposed making up the majority of this—\$688 million—by furloughing every state employee for three days a month for the next two years. These 72 days of unpaid time off amount to a nearly 14 percent pay cut

for every worker.

Lingle commented June 18 that the plan “allows all employees to be a part of our shared sacrifice to close this budget gap.” Also sharing in the sacrifice are Hawaiians dependent upon state programs; disability checks are being delayed and the newly unemployed will wait longer for their claims to be processed.

In California, 238,000 state workers have been forced to take off two days a month without pay since February. The state hopes to save \$1.3 billion over 18 months through these unpaid wages. More than 10,000 state workers have already been laid off.

California Governor Arnold Schwarzenegger has threatened to veto any budget that includes tax increases, and has proposed \$16 billion in budget cuts. These sweeping cuts include elimination of a healthcare program for 930,000 low-income children and shutting down the state’s main welfare program. The governor also wants to slash \$200 million through disbanding the Cal Grant program for college and university students.

Democrats in the state legislature have proposed \$11 billion in cutbacks. They have also called for raising vehicle licensing fees by \$15, and increasing taxes on tobacco products and companies that drill for oil.

Without a budget agreement by the midnight Tuesday deadline, California—the state with the worst credit rating—was to be forced to begin issuing about \$3 billion in IOUs to cover spending. Those receiving such promissory notes from the state would include contractors—such as IT companies and food caterers to prisons—as well as the developmentally disabled and welfare recipients.

In Arizona, another state facing a budget impasse, Republican Governor Jan Brewer has been sparring with the Republican-controlled legislature over terms of the state budget, which faces a \$3 billion gap. Brewer has called for raising the state sales tax to fund services, and said she would veto any bill that did not include the hike.

Republicans in the legislature refused to send Brewer a budget that she had pledged to veto and tried to delay sending it until the last minute, in an attempt to force the governor to choose between signing the bill or forcing a government shutdown. They have also proposed transforming the state’s graduated income tax into a flat tax.

Arizona has never been shut down for lack of a

budget, and the prospect of social chaos and hardship loomed as the deadline approached. State officials said that unless a deal were reached, dozens of state agencies and services would close and thousands of state workers would be out of a job.

Driver’s licenses would not be available, road construction would halt and state parks would close. Reports of child abuse would not be investigated and visitation at state prisons would be suspended. The Department of Health Services would be unable to track infectious diseases and other health emergencies.

The Indiana House voted 62-37 Tuesday for a new two-year state budget, narrowly averting a state shutdown. The \$27.8 billion budget also spends about \$1 billion in federal stimulus funds.

One of the key contentions in the budget was a proposal to allocate funds to bridge a \$47 million gap in the Marion County Capital Improvement Board (CIB), which runs Indianapolis’s professional sports and convention venues. The budget includes \$9 million over the next three years to bail out the CIB.

Indiana schools, on the other hand, will receive only a 1.1 percent increase in 2010 and 0.3 percent in 2011. Some school districts, including Indiana Public Schools in the state capital, will see their funding drop. Schools in Gary, Indiana, with a 15.5 percent official jobless rate, will lose \$12 million in funding.

As the midnight Tuesday budget deadline for Pennsylvania approached, Democratic Governor Ed Rendell predicted that a budget deal would not be reached. This is the seventh straight fiscal year that the state has begun without a budget. Pennsylvania faces a \$3 billion budget shortfall, and Rendell has proposed a 16.3 percent income tax increase over three years, which Republican legislators oppose.

If no budget agreement is reached, state employees will receive partial paychecks on July 17 and 24. After that, they will not be paid at all, but will still be required to report to work, according to new legislation.



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