State budget shortfalls deepen US social crisis

Tom Eley
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State and local governments in the US confront budget deficits and revenue declines not seen in modern history. In response, state capitals and city halls are launching unprecedented cuts to social services and forcing wage cuts and layoffs on public employees.

A new report by the Nelson A. Rockefeller Institute of Government reveals that state tax collections tumbled by 11.7 percent in the first quarter of 2009 over the previous year, the sharpest decline on records dating back to 1952. Preliminary data for the second quarter of 2009 suggest a 20 percent decline in tax receipts. The drop in sales tax revenue and the combined decline of state and local tax revenue were also the highest since statistics became available. Tax revenues declined in 47 of 50 states in the first quarter; 49 of 50 states experienced economic decline, according to the study.

The major tax revenue streams of state governments have eroded sharply. Due to layoffs and wage cuts, income tax payments have fallen, year-over-year, by a staggering 17 percent. The falloff in business activity and profits has reduced corporate income taxes by 18.8 percent. The worsening economic situation confronting millions of families is expressed in a sharp fall in sales tax revenue, by 8.3 percent, as consumers cut back on spending.

At the same time, state and local payments related to unemployment benefits, welfare payments, and other social services are being stretched liked never before, as layoffs and poverty mount. State governments have actually cut their Medicaid funding, although this has been temporarily offset by an increase in federal spending on the low-income health coverage program.

While providing trillions to Wall Street, the Obama administration has explicitly rejected any bailout of the states, ensuring that tens of millions of working people, already hit by the economic collapse, will see vitally needed social services slashed to the bone.

Over the next few years, the states collectively face an estimated $200 billion shortfall. This is far more than the $144 billion the economic stimulus package, the American Recovery and Reinvestment Act, allocated in fiscal relief to all state and local governments to stay tax increases and cuts in education and health services.

The $200 billion estimate does not include additional outlays that changes to Medicaid might require should President Barack Obama's health care “reform” become law. States currently split the cost of the health insurance system with the federal government. It is likely that the bill for any expansion of Medicaid coverage would be funded at least in part by the states. State governors have expressed their opposition to providing further state funding.

A recently-released report by the National Conference of State Legislatures (NCSL), noted that while fiscal year (FY) 2009 was one of the worst-ever for state budgets, 2010 and the following years will be “even worse.” And even though states have been forced to close a combined $142.6 billion shortfall, it is anticipated that new gaps will emerge in the first quarter of this fiscal year. “If you think legislators are breathing a sigh of relief because their budgets are passed, think again,” said William Pound, NCSL executive director. “If history repeats itself, states are bound to see budget gaps reappear within the first quarter of FY 2010.”

“It takes state budgets a couple of years to recover after a recession ends,” said Corina Eckl, a director of the NCSL's fiscal program. “The last recession lasted eight months, but it took states five years to fully recover. The current recession has already lasted 19 months and it isn't over. Without a doubt, lawmakers’ endurance to resolve extraordinary fiscal problems will be tested for years to come.”

According to a second NCSL survey, about two thirds of the states already project major budget gaps for FY 2011, and most of the rest have not yet made predictions. These 2011 gaps are likely to be in the double digits for some states, sounding “warning sirens—loud ones,” according to the report. Washington state and Maine project the largest 2011 shortfalls—both at around 21 percent of the estimated general fund. A smaller number of states have issued projections for 2012. Of these, fifteen predict shortfalls yet again, including, Hawaii (21 percent), Minnesota (19 percent), and New York (13 percent.)

Complicating the situation for 2011 and 2012 is the fact that only about $50 billion will be distributed to state and local governments from the stimulus package in 2011. Significant stimulus payouts cease thereafter, but there is broad agreement that the fiscal crisis confronting the states will continue.

States have raised $24 billion in taxes to meet the $142 billion FY 2010 shortfall, according to the NCSL. A handful of states, most prominently Oregon, have increased income taxes on top earners to generate revenue. Other states have increased their sales tax, including California. More have increased taxes on tobacco, alcohol, or ramped up various “user fees” for state facilities and parks.

It is widely accepted the states’ budget deficits will continue to be met primarily through cuts. These will target education, health care, unemployment and welfare assistance, and the wages, benefits, and conditions of state workers.

According to the National Governors Association’s biannual *Fiscal Survey of States*, published in early June, in 2009 spending from states’ general funds fell 2.2 percent, the first decline since 1983, and governors recommended a collective 2.5 percent spending cut for 2010. This would be the first time states cut their collective spending for two years in a row.

This week the National Governors Association held its annual meeting in Biloxi, Mississippi. Less than half of the nation’s fifty governors attended the event, most of the absences owing to unresolved budget disputes or other economic concerns.

Among those not in attendance were Pennsylvania’s Democratic Governor Edward Rendell, who told the *Washington Post* he feared public backlash should he attend after forcing a “payless payday” on state workers. Likewise, Pennsylvania’s legislators will miss the annual convention of the NCSL, even though it is being held in the state. About 69,000 state workers have been held hostage by a standoff between the Democratic controlled House, Republican Senate, and Rendell, over how deeply, and which state programs to cut. On Friday, state employees got only 70 percent of their paychecks. If the budget is not resolved by their next pay day, in less than two weeks, the workers will receive nothing. The pay will be restituted “several days,” after a budget is eventually passed, without interest.

Also absent from the governors’ meeting was Arnold Schwarzenegger, the Republian governor of California, the largest, and most crisis-ridden US state. Schwarzenegger and the California legislature are now determining how to carry out cuts to meet a $26 billion budget deficit. One area that appears likely to be targeted for savage cuts is Healthy Families, which provides low-cost health insurance to families that make too much to qualify for Medicaid, but not enough to pay for their own insurance. On Friday, Healthy Families stopped accepting new applicants in anticipation of the cuts.

Challenging California and Michigan, a recent study determined that Nevada is the “most distressed” state in the nation. Food stamp use is up 30 percent in one year, and there has been an increase of 40 percent in the number of children relying on Medicaid for health coverage. By next year 11 percent of the state’s population will be on food stamps, and twice that number will qualify for the program but not use it. Unemployment has risen to 12 percent.

In Ohio, Democratic Governor Ted Strickland approved a state budget after using the line-item veto 61 times. To meet a $3.2 billion deficit, Strickland took the knife to, among other things, an early childhood education program and $2 million the budget had slated to help families with children under the age of seven who require behavioral health services. To increase revenue, Strickland introduced slot machines to the state’s race tracks.

Rhode Island Governor Donald Carcieri has indicated that his state will adopt a system of mandatory furloughs for state workers. The state approved $57.6 million in unspecified cuts. Carcieri had already forced one furlough day last month on top of a round of layoffs, early retirements, and new health-insurance co-payments for state employees.

To lessen its budget deficit, New Hampshire has required that about 1,300 retired state workers begin to pay monthly premiums and co-payments for their health coverage and prescription drug orders. The premium payment will be $130 per month for retirees seeking to cover themselves and their spouses.

Like Pennsylvania, the budget in North Carolina remains unresolved weeks after the July 1 deadline. The state confronts a $4 billion deficit. Temporary budgets have been passed that put all state agencies on 84 percent of the last fiscal year's funding level. The unemployment rate in the state is 11 percent.

Washington cut out more than $4 billion in spending to settle its budget. Among the hardest-hit state agencies was its social services department, the Department of Social and Health Services, where over 500 workers will lose their jobs.

Cities are also enacting spending cuts, driven both by the economic crisis and diminishing assistance from state capitals. Baltimore, Dallas, Williamsburg (Virginia), and a number of other cities are reducing the number of times they carry out trash collection.

Philadelphia, the nation’s sixth-largest city, has ceased paying vendors who provide services to the city. The city confronts an expected $1.4 billion, five-year deficit.