Obama and the fiscal crisis of the states

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The class character of the Obama administration is clearly indicated by one statistic: President Obama has made available more than $12 trillion in cash infusions, loans and guarantees to the financial industry, but for state governments that are facing massive budget deficits, Obama has thus far provided only one quarter of 1 percent of that amount in federal stimulus funds—about $30 billion.

The administration has refused to provide emergency aid to the states, including some of the largest in the country, such as California and Pennsylvania, which are on the brink of default. The White House is sitting by while states across the country lay off workers and slash spending on education, health care and other essential social programs.

The crisis confronting state governments is unprecedented. States that imposed large-scale layoffs, unpaid furloughs and wage cuts, closed offices for days at a time and slashed services in order to balance their budgets for the recently ended fiscal year are once again piling up deficits.

Tax collections gathered from April through June fell by 16.6 percent, breaking records dating back 50 years, according to a report released this week by the Nelson A. Rockefeller Institute of Government. Forty-nine states saw revenues decline in the quarter, 36 by double digits.

Preliminary data suggest that tax revenue for July and August likely fell by 8 percent, about the same as the decline for the fiscal year ending in July.

Most states approved their budgets for next year at the end of July. Little more than two months later, at least 18 face unanticipated operating deficits that will necessitate further cuts in state services.

The states' budget crisis is caused, in large measure, by the impoverishment of the American working class. Layoffs and wage cuts have driven states' income tax collections down by 27.5 percent from the previous year. Stressed workers have, unsurprisingly, spent less on consumer goods, thus reducing sales tax receipts by 9.5 percent, according to the Rockefeller Institute.

Declining home prices have slashed local property tax revenues, which largely finance the public schools.

Soaring unemployment is not only bankrupting the states. It is creating a social crisis without parallel since the Great Depression. Five states—Michigan, Nevada, Rhode Island, California and Oregon—have official unemployment rates above 12 percent, led by Michigan, with 15.3 percent.

This social crisis is placing unprecedented demands on state budgets. States typically provide around half of all funding for unemployment insurance, food stamps and Medicaid health coverage for the poor. They provide funding as well for public schools and colleges.

Every day, there are reports of major cuts or layoffs enacted or threatened:

• In a bid to close a $600 million deficit, Massachusetts' Democratic Governor Deval Patrick on Thursday threatened to cut 2,000 jobs unless workers accept cuts in pay and benefits.

• Also on Thursday, New York Governor David A. Paterson, a Democrat, outlined $3 billion in cuts this year, and warned that the state faces a $50 billion three-year deficit. Paterson proposed massive cuts in education, Medicaid and public transportation, and $500 million in budget reductions for all state agencies.

• Iowa's Democratic Governor Chet Culver last week ordered a 10 percent across-the-board cut in state spending, a total of $565 million. The cuts will result in an anticipated 1,000 layoffs of state workers.

• Tennessee will cut an additional $350 million from next year's budget after discovering that the $753 million reduction already enacted is insufficient. Among other cuts, the state will reduce funding for its Medicaid program, Tenicare, and will liquidate its "rainy day fund," which until recently was estimated at $750 million.

The situation confronting the states is expected to deteriorate further. Like the unemployment rate, the fiscal health of state and local governments is considered a "lagging indicator."

"An end to the recession doesn't mean an end to state budget problems," said Robert B. Ward, a fiscal studies expert with the Rockefeller Institute. Ward anticipates a "long, hard slog over two, three years or more."

Corina L. Eckl of the National Conference of State Legislatures noted that when the last recession ended in 2001, state budgets continued to deteriorate for two more years.

The states' crisis will be further compounded when federal stimulus money is exhausted after the 2011 fiscal year. Though the stimulus program's award to the states is dwarfed by the fiscal crisis—this year's combined $63 billion falloff in tax revenue is twice what states have taken in through the stimulus—in some cases, it has prevented a complete breakdown. Michigan, for example, will likely use hundreds of millions in stimulus money to help meet a $2 billion budget deficit for 2010.

Lawmakers frankly acknowledge that when this money runs out, more drastic cuts in social spending will follow. Unlike previous recessions, moreover, it is widely accepted that the layoffs and reductions in government services being carried out now will never be restored.

In the name of "living within our means" and making "hard choices," the Obama administration is opposing a second stimulus package.

At the height of the budget crisis in California, the state appealed to the Obama administration for aid to close its $26 billion deficit. This was flatly rejected, the administration declaring that states must "put in place reforms that will restore their creditworthiness."

The reactionary role the federal government is playing in relation to the states marks a historical reversal from periods in the nation's history when the federal government was identified with social reforms that were resisted by the states.

In response to the mass struggle of African-American workers in the 1950s and 1960s, the administrations of Eisenhower, Kennedy and Johnson undertook a series of actions that pitted Washington against Southern state capitals. In the 1930s, Franklin Roosevelt's New Deal reform legislation provoked denunciations among state power brokers that the federal government was usurping local power. And from 1861 to 1865, the federal government under Abraham Lincoln successfully prosecuted the Civil War, which resulted in the end of chattel slavery and the destruction of the Southern slave-owning class.

Under Obama, the federal government is playing the opposite role. With state governments disintegrating by the day, working people who depend on their social services and employees who depend on these programs for their livelihoods face complete indifference from the White House.

This new relationship between Washington and the states can only serve to inflame and reignite the centrifugal tendencies that have long been an explosive force in the political life of the nation.

As popular opposition intensifies against the policies of Wall Street—which controls every branch of the government—one form it will inevitably take is increasing tension within the federal system.

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