One million jobs at risk

Ten US states face budget disaster

Patrick Martin
12 November 2009

Two reports made public Wednesday underscore the colossal dimensions of the social and financial crisis in the United States. One study warns that California and nine other US states face near-term budget crises that will force mass layoffs of public employees and cuts in schools and other services. The other forecasts that as many as one million jobs will be at risk when the full impact of the economic crisis hits state governments early next year.

The study released by the Pew Center on the States is entitled, "Beyond California: States in Fiscal Peril." It examines nine states that face California-style budget crises, including Arizona, Florida, Illinois, Michigan, Nevada, New Jersey, Oregon, Rhode Island and Wisconsin.

The ten states, counting California, are in every region of the country: the Northeast, the South, the Midwest, the Pacific Northwest, and nearly the entire Southwest. They have a combined population of more than 100 million people and account for one-third of total US economic output.

According to the study, the same pressures—the worldwide recession and the collapse of the housing bubble—that forced California to issue IOUs to state employees and suppliers during the summer "are wreaking havoc in a number of states, with potentially damaging consequences for the entire country."

In four of the states, California, Nevada, Arizona and Florida, the housing collapse has had the biggest impact. New Jersey's budget deficit is largely a byproduct of the 2008 collapse on Wall Street, which accounts for one-third of the state's economic activity. The other five states have been devastated primarily by the collapse of manufacturing industries.

Pew reviewed state statistics available July 31, 2009, so that further economic deterioration, particularly in industrial states like Michigan and Illinois, is not accounted for. Overall, the combined budget deficits for all 50 states were $162 billion in July, and that figure is estimated to have since risen by another $16 billion.

The study ranked the 50 states based on the change in state government revenues, the size of the state budget gap, the change in the unemployment rate, the foreclosure rate, and political obstacles like the requirement of a supermajority in the state legislature to approve budgets or tax increases. The study did not include such factors as long-term debt or pension liabilities for public employees, which would produce an even darker picture.

While California's gargantuan $46 billion deficit exceeds those of the other nine states combined, these states face shortfalls equally substantial considering their size and population. Among the findings of the Pew study is that Michigan, with the bankruptcy of two of the three big auto makers and an unemployment rate over 15 percent, is "trying to deal with today's problems on a 1960s-sized budget."

Oregon has been hit by the combined collapse of both low-tech and hi-tech industries—lumber and computer-chip manufacturing. Florida's population is actually shrinking for the first time since World War II. Illinois has the second largest state budget deficit, some $13.2 billion, and has been forced to borrow money to cover pension obligations.

The second study, by the Center on Budget and Policy Priorities, warned that the fiscal crisis of the states will become even worse next year.

For fiscal year 2010, which in most states began last July 1, 48 of 50 states faced deficits, all but Montana and North Dakota, but the severity of the crisis was partially alleviated by federal aid under the stimulus program enacted last March. This aid is to terminate in most cases by December 31, 2010, so the new fiscal 2011 state budgets will face the double impact of the deepening recession and the withdrawal of federal support.

The CBPP report declared: "The federal assistance that states received for their Medicaid programs under this year's economic recovery legislation is scheduled to end with a 'cliff' on December 31, 2010, and the assistance states received for education and other services also will be largely exhausted by then. Although that date is more than a year away, the problem is coming to a head now."

The reason is that state governments will start budget planning for FY 2011 soon, since most governors must send budget proposals to the legislature between December 2009 and February 2010, to allow time for debate and passage. This means that most state governors will propose massive budget cuts and tax increases before the coming spring.

Assuming that there is no further federal assistance to the states—the position taken by the Obama administration and the leaders of both parties in Congress—the deficit reduction measures taken by the states, according to the CBPP report, "will likely take nearly a full percentage point off the Gross Domestic Product. That, in turn, could cost the economy 900,000 jobs next year."

Watch David North's remarks commemorating 25 years of the *World Socialist Web Site* and donate today.

State and local government operations account for one-eighth of US GDP, so that the estimated 25 percent fall in state revenues, if translated into a similar decline in spending, will have a significant effect on the entire US economy.

According to the CBPP study, "The revenue decline in this recession is unprecedented; it is the largest on record in the post-World War II period. State tax revenues have been declining since the fourth quarter of 2008. In the critical April-June quarter, when a major portion of state tax revenues are collected, revenues dropped 16.6 percent in 2009 compared to the previous year. The income tax was down 27.5 percent, and the sales tax was down 9.5 percent."

The federal stimulus package covered between 30 and 40 percent of the current-year fiscal deficits of the states, enabling the states to preserve 255,000 education jobs and 63,000 jobs in other areas, according to estimates by the Department of Education and the White House. All these jobs will be at risk, along with hundreds of thousands more, in the coming year.

The ongoing recession, which has already driven the unemployment rate over 10.2 percent, puts the states in a fiscal squeeze. The receipts from both sales and income taxes plunge, while outlays for state services increase, particularly for programs like Medicaid that are need-driven. With the jobless rate expected to hit 11 percent early next year, and record demand for food stamps, heating and housing assistance, many of the states will face outright bankruptcy.

The dimensions of the social needs generated by the financial crisis greatly exceed the budgets of the state governments. But these sums are insignificant compared to the resources which the Obama administration and the Democratic-controlled Congress are devoting to their two principal priorities: bailing out the Wall Street financial interests, and continuing (and in the case of Afghanistan, escalating) the two wars launched by the Bush administration.

Total spending for the wars in Iraq and Afghanistan—$130 billion in the Pentagon budget and another $40-50 billion in an expected "emergency" spending bill—would by itself cover all the state budget shortfalls. And the bailout of the super-rich, with an estimated $23.7 trillion in loans, guarantees and direct cash injections, is more than 100 times as large as the total state deficit.

Thus the crisis of the states is not an inevitable byproduct of the recession, regrettable but unavoidable. It is a deliberate policy choice made by Obama and the congressional Democrats—and fully supported by the congressional Republicans and the corporate-controlled media—to devastate the living conditions of tens of millions of people. There is not a single "mainstream" political voice calling for the diversion of major federal resources in order to prevent state bankruptcies and safeguard essential services like education and public health, which are largely funded and operated by state and local government.