New York: payments to cities, schools cut as Wall Street profits soar

William Moore
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Coming on the heels of his praise of the Wall Street financial elite last week, New York Governor David Paterson has ordered the withholding of between 10 and 19 percent, a total of $750 million, in scheduled state payments to local governments, school districts, and health insurers to cover an expected deficit this month.

The slashing of these payments is wreaking financial havoc on these local entities, hitting the poorer areas most heavily. This is especially true since it comes in the middle of the annual budgetary cycle, when the loss of aid will upend expenditure schedules that had already been set. A wide variety of local programs will face cuts, and layoffs of both public employees and workers for private and non-profit service providers will inevitably follow.

The New York Times cites as examples of the effects of these reductions: "The Mount Vernon School District has largely stopped ordering supplies and equipment for its schools. The Saugerties Central School District has warned 36 teachers that they could face layoffs. The Albany School District is switching to a cheaper food service company starting next month."

Some of these actions, which are being repeated across the state, had already been initiated, or at least planned as contingencies, in anticipation of cuts to be made to in the current state budget recently negotiated by Paterson and the legislature. While the final compromise directed the harshest cuts towards areas other than education, Paterson is now, in effect, overriding that agreement.

The cuts will force school districts to dip into reserve funds, if they have them. The wealthier school districts do, poorer districts do not. If forced to borrow money to meet budgeted expenses, school districts will be penalized by having to pay interest on money they had expected to receive from the state.

Essential municipal services will also be impaired by these "delayed" payments. For example, according to the *Albany Times Union*, delayed reimbursements for human services to counties surrounding the state capital include: Albany County - $1,084,000; $378,000 for Rensselaer County; $293,000 for Saratoga County; and $881,000 for Schenectady County. There is no guarantee that such cuts will not be repeated in the future. County and municipal budgets are already at the breaking point due to the economic crisis.

The budgetary shortfall, which is Paterson's justification for withholding the payments, is directly linked to the world financial crisis and the resulting decline in tax revenue from Wall Street. There has been a 4.4 percent decline in income tax receipts as compared to what was expected when the current budget was enacted last April. This amounts to a loss of $1.1 billion for the year through November.

Aside from the nominal "millionaires' tax" enacted as part of the current state budget, Paterson and the legislature have refused to draw any additional revenue from the very financial elite which: a) caused the economic crisis; and b) is now set to lavish unprecedented year-end bonuses on itself. The availability of money for these bonuses, coming from firms which a year ago were on the verge of total collapse, is entirely due to the huge federal TARP bailout, funded by the public treasury, and the subsequent return by Wall Street to the same wildly speculative practices that triggered the economic crisis in the first place.

Indeed, the order to cut payments comes as the state comptroller has announced that Wall Street has rebounded dramatically from its recent crisis. *The New York Times* reports, "The comptroller, Thomas P. DiNapoli, said investment firms produced a record $49.7 billion in profits in the first nine months of this year. That amount is nearly two and a half times the previous annual peak in 2000 and well exceeds November's forecast for profits of $38.4 billion ...".

The *Times* continues, "As a result, the bonus pool for Wall Street employees based in New York City is expected to be higher than the estimated $18.4 billion paid in 2008, which despite a 44 percent drop from 2007 was the sixth-largest bonus pool on record. Indeed, he said, 'the average bonus could grow at an even higher rate since there are fewer jobs than last year," citing analysts' estimates that average bonuses could rise as much as 40 percent'".

In his speech last week in New York City, Paterson praised Wall Street's financial parasitism as "the engine of our economy in New York" and defended the lavish bonuses on he grounds that without them, the salaries of the bankers and traders were "rather low".

Beyond Wall Street, however, the fiscal condition of the state government continues to deteriorate. The State of New York currently has an outstanding debt of $56.9 billion, second only to that of California, which owes $66.4 billion. The state government's recently released mid-year budget update estimates that the 2010-2011 budget will have a deficit of $6.8 billion, with $14.8 billion and $19.5 billion deficits in the succeeding two years.

These growing shortfalls mean that the cuts made so far are only a prelude to ever more severe attacks on the jobs of and services to working people. Paterson earlier this month signed legislation that created a substantially downgraded retirement plan for newly hired government employees. Future attacks include Paterson's stated intent to "reform" Medicaid, for which he recently gained support from county government executives.

Excluding Wall Street, worsening economic prospects are also evident in the private sector. Reuters reports that the Federal Reserve's gauge of manufacturing activity in New York State took an unexpected, sharp drop in December.

"The New York Fed's 'Empire State' general business conditions index fell to 2.55 in December from 23.51 in November ... This was the biggest monthly decline on record and the lowest reading since July 2009 when it was at minus 0.55 [negative numbers indicate economic contraction]. Economists polled by Reuters had expected a December figure of 24.00."

Meanwhile, the index of prices paid to manufacturers fell to minus 9.21 from minus 2.63, the new orders index fell sharply to 2.20 from 16.66 in November, and the employment gauge dropped to minus 5.26 from plus 1.32. These trends indicate that the state's tax revenues are likely to decline even further in the coming months.

The partial withholding of payments to local governments and schools is being presented as a temporary measure, to be made up once the fiscal crisis eases. However, statements by Paterson and his representatives are laced with qualifiers which make it clear that payment of the withheld amounts is far from a sure thing. With the progressively worsening budgetary crisis and general economic situation, this "temporary" withholding is very likely to become permanent, and in fact to increase in the future.

For months, Paterson has been proclaiming oncoming financial Armageddon, demanding massive cuts in the current state budget. In response, the state legislature recently slashed $2.77 billion in expenditures, primarily targeting health care and other services, over and above the cuts made when the current budget was enacted last spring. However, these cuts were not sufficient to close the projected $3.2 billion deficit in the current fiscal year; a deficit which is likely to continue to grow. So, Paterson, loudly denouncing the legislature's cowardice for not having cut even more, has unilaterally ordered the withholding of a significant portion of payments due to local government entities.

Paterson himself recognizes that his action is undemocratic and predicted that he would be sued as a consequence. The New York State United Teachers and school officials have now initiated such legal action on the grounds that the governor's action is unconstitutional since the payments have already been authorized by the legislature. Nevertheless, Paterson proclaims, in melodramatic and Bonapartist tones, that, due to the legislature's failure to make sufficient cuts, he must act in the interest of "the people". The Governor insists that he is doing what is necessary to keep the state from insolvency. "I am being sued for trying to keep New York State's finances solvent," he complained.

"This is a desperate attempt by special interests to put their needs ahead of the people of the State of New York," he continued. "This lawsuit does nothing to help us solve a severe cash crisis that threatens our ability to pay our obligations at the end of the month."

With remarkable arrogance, Paterson responded to the lawsuit by saying, "What these school districts and unions and otherwise have done is said: 'We aren't the special interests—we're extra special ...We're supposed to get all the money and everybody else can just divide up the crumbs.'"

It should be noted that the withholding of funds for schools and local services comes only after monthly obligations to the wealthy holders of state bonds (presumably not a special interest) have been paid in full.

The actions of the New York governor represent a warning. To the extent that they conflict with the interests of the financial elite, what little remains of democratic forms of government will be scrapped, with rule by executive dictate imposed under the guise of dealing with the financial crisis in the "public interest".