

US states move to make cuts permanent

Tennessee suspends enrollment in children's low-income health care plan

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A growing number of states are responding to their worst-ever budget crises by enacting permanent cuts to spending on social programs and education and by laying off and furloughing workers.

For the first time ever, the collective spending by state governments has declined for two consecutive years. It fell 4 percent this year and 4.8 percent in the last fiscal year according to the National Association of State Budget Officers.

The worst is yet to come. States estimate that their most severe shortfalls will come in the 2011 fiscal year. The National Conference of State Legislatures predicts a combined deficit among the states of \$110 billion for the next two years. It is generally accepted that state budgets will remain in the red until 2013 at the earliest, while "some predict state revenues will not rebound until late in the next decade," according to *Stateline.org*.

Unlike previous recessions, most cuts enacted now will not be reversed. "I think we're kind of in a permanent retrenchment," said Raymond C. Scheppach, director of the National Governors Association.

The budget crisis facing states is driven by a fall in tax revenue, which itself reflects the growing impoverishment of the working class. Unemployment and widespread cutbacks to wages and hours have resulted in a sharp decline in income tax revenue and sales tax receipts. At the same time, business tax revenue has also fallen.

A November 23 report by the Nelson A. Rockefeller Institute of Government shows that state tax revenues in the third quarter declined in all 44 states surveyed and by 10.7 percent in total. Corporate income taxes dropped off even more sharply, by 19.4 percent.

July through September marked the fourth quarter in a row in which both personal income tax and sales tax receipts fell on a year-over-year basis. Sales taxes fell by an average of 8.2 percent and declined in 38 of 39 states surveyed (the only exception being Massachusetts, where lawmakers increased the sales tax rate). Seventeen states saw a double-digit decline in sales tax revenue.

Personal income tax collections, which make up about 40 percent of total state tax revenue, declined by 11.4 percent, dropping in all 38 states where data were available. Twenty-one states saw a double-digit

percentage decline. Out of the 50 states, only sparsely populated North Dakota did not see an increase in joblessness in the third quarter.

The unemployment crisis cuts two ways; as tax revenues fall from the decline in income, unemployed and underpaid workers are more reliant on social programs, which are funded for in part by state budgets. These include, most notably, unemployment insurance, low-income health insurance, and food stamps.

By continuing to lay off and furlough workers, the states are themselves contributing to the very crisis that has sent their budget into the red. Since December 2007 one million state workers have been affected by various cutbacks. "Nearly all states have instituted hiring freezes, at least 75 percent have eliminated vacant positions and more than half have laid off and furloughed workers," *Stateline.org* reports.

Furthermore, the health of state budgets is widely considered a "lagging indicator." "In the past, states' toughest budget years have been the two years following the end of a recession," according to *Stateline.org*. "That's because, by then, Medicaid rolls have swelled as more people lose their jobs and health insurance, even as state revenues continue to lag. But because this recession has been deeper than any in modern history," balanced budgets may not return for several years, the website concludes.

The pay and benefits owed to state workers consume about 20 percent of state budgets. The rest goes to fund the operations of various state agencies, education, and social programs. States are also taking the knife to these.

This week, a particularly graphic example of this came from Tennessee, where it has been announced that the state's health insurance plan for children from low-income families, CoverKids, will no longer accept new applicants. The Tennessee legislature has not appropriated enough money for the program to meet rising demand, even though state spending is matched 3-to-1 by the federal government through the Children's Health Insurance Program, or CHIP. State officials have so far refused to tap into the CoverKids program's own "rainy day fund," saying this would be fiscally irresponsible.

In addition, Tennessee will also no longer accept applicants for its

health coverage for low-income adults, CoverTN, which is jointly funded by employers, employees, and the state.

In the twelve months ending in October, 110,000 Tennesseans lost their health coverage, mostly as a result of layoffs. Over 10 percent of the workforce is unemployed. And Tennessee's decision to refuse further low-income applicants also coincides with the ending of a short-term COBRA aid program, by which the federal government contributed about two thirds of the cost of insurance plans so laid off workers could maintain their employer-based plans.

CoverKids complements the state's Medicaid program, TennCare, which helps to provide coverage primarily for the extremely poor and disabled.

"This is a scary place for babies if CoverKids is gone," Sandra Neely of Spring Hill told the *Tennessean*. Neely used TennCare to help her three-year-old granddaughter save an injured tooth. With CoverKids no longer accepting applicants, the family may be without insurance if they earn more money.

"Without CoverKids, there will be no insurance out there for children who are on the borderline of poverty, for the people in the middle who work but don't have or can't afford insurance," Neely said.

"In the midst of an economic crisis putting so many middle-class families on the brink, our state's policy decisions push them over," Michele Johnson of the Tennessee Justice Center said to the *Tennessean*. "The citizens of this state will be paying for these cuts in fiscal and human terms for decades."

Tennessee faces a \$1.5 billion deficit in its \$29 billion budget. In freezing out new CHIP applicants it follows California, which rejected new applications between June and September.

These cuts expose once again the reactionary character of President Obama's proposed health care overhaul, which will call on the states to provide expanded Medicaid coverage without providing further federal funding. As unemployment increases and the COBRA coverage extension ends, the solvency of the states' Medicaid, CHIP, and other low-income health coverage plans is in increasing doubt.

No state has spared its population cuts and layoffs. Only this week there have been dozens of such announcements.

- New Jersey on Tuesday withheld a scheduled delivery of \$20 million in aid to cities and towns, citing a growing budget gap. The hardest hit will be poor cities in the south of the state. "A cut at the height of the economic recession, forcing service reductions and higher property taxes, is unconscionable," William Dressel, executive director of the state League of Municipalities, told the *Philadelphia Enquirer*.

- The Georgia legislature may convene in early January to enact an additional \$400 million in cuts, its Senate Appropriations Committee Chairman Jack Hill said on December 1. The state has already cut \$3 billion from its budget in the past year, with Governor Sonny Perdue recently putting in place \$900 million in cuts that included three-day furloughs of teachers and state workers. More furloughs and layoffs

are anticipated to meet the new deficit.

- The Missouri Department of Transportation said Tuesday it will lay off 100 workers and transfer the savings toward its contribution to workers' retirement plans, which has an unfunded liability of \$1.6 billion.

- On Tuesday North Carolina Governor Beverly Perdue told reporters that the state's Medicaid program is already \$150 million over budget for the first quarter of the current fiscal year, largely due to unemployment.

- The state of Hawaii, which already ceased public education on Fridays during the school year to save money, is also instituting 15 furlough days for workers at state libraries over the next two years, the equivalent of an 8 percent pay cut.

- Kentucky will attempt to save \$20 million this year by cutting educational funding for preschool programs and curriculum for gifted students.

- The New Hampshire legislature is likely to suspend a school construction fund that assisted local school districts by picking up the tab on between 30 percent and 60 percent of the cost of new buildings.

- Top Iowa legislators have said in recent days they will enact cuts in all state agencies. "I think everybody is going to see a cut. Everybody," said Mike Gronstal, a leading senate Democrat in a comment to the *Des Moines Register*. "I think you'll see layoffs. I think you'll see ... early retirements, so I think you'll see fewer state employees. We'll try to do it through attrition."

- A cost-cutting commission in Louisiana said this week that government agencies should seek to reduce the state workforce by 15,000 over three years through layoffs and attrition.

- Mississippi took in \$25 million less than it had projected for November, Governor Haley Barbour's office announced on Tuesday. It is \$136.6 million short of projections for the first five months of its fiscal year. A new round of cuts is expected within days.

- New Mexico is coping with unprecedented demand for food stamps, statistics from its Human Services Department reveal. In only one year, the number of people using food stamps in the state has increased by 70,000, or 28 percent.

- Vermont lawmakers are considering cutting \$20 million in state mental health care services, which could cause 3,000 people to lose access to psychiatric treatment.



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