As federal stimulus funds dry up

US state budget deficits could top $140 billion

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States across the US are facing the largest budget deficits in history. Budget shortfalls in 44 states and the District of Columbia could reach $140 billion for fiscal year 2012, which begins this July 1 for most states. These huge deficits come as federal stimulus funds from the American Recovery and Reinvestment Act will be largely depleted by the end of fiscal year 2011.

The Obama administration and Congressional Democrats and Republicans have made it clear that there will be no federal bailout of the states and no federally funded jobs or public works programs to alleviate the crisis. These budget gaps threaten the jobs, pensions and benefits of hundreds of thousands of state workers, as well as the social services and programs provided to millions.

Some Republicans have also floated the idea of altering laws that prohibit states from declaring bankruptcy, to make it easier for state governments to rip up workers' contracts and attack pensions. A number of municipalities, which are not barred from seeking relief in the courts, have already initiated bankruptcy proceedings and have threatened to default on loans.

According to a report from the Center on Budget and Policy Priorities (CBPP), 22 states are already projecting budget shortfalls totaling $70 billion for fiscal year 2013, which begins 17 months from now. The report, which was updated January 21, predicts that this number is likely to grow and will persist into the future. Even before the budget shortfalls of 2012 and 2013, states have closed budget gaps totaling some $430 billion in the past three years. All states but Vermont have laws requiring balanced budgets.

When the drying up of federal stimulus funds is taken into account, the CBPP projects that state budget shortfalls nationwide could exceed $140 billion in fiscal year 2012. While states utilized a total of $158 billion in Recovery Act dollars for 2009, 2010 and 2011 combined, only $6 billion remains available for 2012. The CBPP report estimates that these state budget gaps could threaten 850,000 jobs next year.

The following are just a few of the largest projected budget gaps for 2010:

California—$25.4 billion (29.2 percent of FY2011 budget)

Illinois—$15 billion (44.9 percent of FY2011 budget)

Nevada—$1.5 billion (45.2 percent of FY2011 budget)

New Jersey—$10.5 billion (37.4 percent of FY2011 budget)

Texas—$13.4 billion (31.5 percent of FY2011 budget)

The scope of the deficits faced by many states means that the austerity measures required to balance these budgets will take on drastic proportions. The vast majority of states, 46, have already made substantial reductions in services, with these cuts falling disproportionately on poor and working class families. Added to this, enhanced Medicaid funding that has been extended for six months through the end of June 2011 will soon expire for most states.

Politicians of both parties have refused to consider increasing taxes on the wealthy. The combined budget deficits, while large, are a small fraction of the total wealth of the Forbes 400 richest Americans. The annual military budget of the US, about $700 billion, is five times the total deficits of the US states.

In an appearance before the Senate Banking Committee on January 7, Federal Reserve Chairman Ben Bernanke insisted that the central bank has "very limited authority" to assist states. "We have no expectation or intention to get involved in state and local finance." He added, "To the extent that there's anyone to look at that, it would have to be Congress."

It is clear that the only way Congress intends to "get involved" in the crisis of the state and local governments is to block any federal bailouts and demand that states balance their budgets by "restructuring" government workers' contracts.

Republican Newt Gingrich, former House speaker, is pushing for the change to US law to allow states to file for bankruptcy. And last month, Rep. Devin Nunes, Republican of California, introduced the Public Employee Pension Transparency Act, which would specifically prohibit federal bailouts of states. It would also require more reporting of details of state and local pensions, to open the way for reducing benefits and changing eligibility requirements.

Another Republican Congressman, Jason Chaffetz, told Bloomberg News that Republicans have been in touch with bankruptcy attorneys to discuss ways to change the laws to enable states to restructure financial obligations such as debts to retirees.

While rejecting aid to the states, the actions of the Obama administration in collusion with Congressional Republicans will serve to boost corporate profits and the bank accounts of the super-rich while further impoverishing the states. These measures include extending the Bush-era tax cuts for the rich and cutting the estate tax.

A provision of the tax-cut agreement reached in November allows full expensing of business investments, which could cost states more than $11 billion over two years in lost tax revenue, according to the CBPP. Another proposal by Congressional Republicans to cut domestic discretionary spending could cost states some $36 billion a year in lost federal grants.

Local governments are also facing record budget deficits combined with continued mass unemployment. An economic forecast by HIS Global Insight has projected that 109 metropolitan areas will end 2011 with an official jobless rate of 10 percent or higher. The report projects that 105 metropolitan areas will not return to prerecession job levels until 2015. In 32 areas, including Toledo, Ohio and Detroit, this will take until 2025.

The US Conference of Mayors met last week in Washington DC as states are imposing severe cuts in aid to cities as a result of their budget crises. At the same time, falling home values are belatedly leading to diminished property tax assessments. Municipalities have responded by laying off workers, raising taxes, reducing and consolidating services, privatizing departments and selling off city assets.

Los Angeles Mayor Antonia Villaraigosa, a Democrat, is seeking to lower the cost of pensions for new-hires in the police and fire departments and wants to require city employees to contribute to the cost of their retirement health benefits. He told the *New York Times*, "The fact is, our pensions aren't sustainable."

Michael A. Nutter, Democratic mayor of Philadelphia, has cut 1,200 jobs and raised the city's sales and property taxes. City residents have been placed at risk through the institution of "rolling brownouts" of fire stations—closing a few stations a day to save money.

Pembroke Pines, Florida has been hard hit by the housing crisis. Mayor Frank C. Otis issued a declaration of "financial urgency," allowing the city to reopen labor contracts, cut workers' salaries by 4 percent, and end the defined benefit pension plan for new nonuniformed hires. The city's buildings department has been privatized.

The White House issued a statement following a meeting with a delegation of mayors, declaring: "The president discussed the steps taken to get the economy growing again, to create jobs and help businesses grow, such as the critical investments in infrastructure."

With this cynical statement, Obama proposed no actual federal aid to create jobs or improve infrastructure. The new White House Council on Jobs and Competitiveness, headed by General Electric CEO Jeffrey Immelt, will instead be aimed at increasing corporate profits and doubling exports—by slashing workers' wages and benefits while driving up productivity.