

US state and municipal governments plan massive austerity to meet COVID-19 budget shortfalls

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8 May 2020

As the US begins “reopening the economy,” sending millions to potentially be exposed to COVID-19, a variety of state and municipal governments are announcing cuts to medical programs and education and furloughing workers to make up for major budget shortfalls. Most local governments have cited unexpected costs from the COVID-19 pandemic and loss of revenue from the lockdown as causes of their budget crises.

According to the Center on Budget and Policy Priorities, a think tank focused on the impact of federal and state budget policies, most states will face budget shortfalls of roughly 10 percent for the current fiscal year that ends on June 30 for most states, and more than 25 percent for the 2021 fiscal year. Since they are required to balance the budget before the end of the fiscal year, some states will be arranging to cut billions of dollars within the next few weeks.

Maryland is projected to have a drop in revenue of as much as \$2.8 billion while Arkansas is estimated to have \$353 million less than expected. The think tank has also noted that next fiscal year Alaska and New Mexico could lose up to \$815 million and \$2 billion, respectively, because they rely heavily on oil-related industries, which have taken a major hit from the recent collapse in oil prices.

Most states and municipalities have agreed to overcome the budget shortfall either partially or completely through slashing social programs, instead of raising taxes on wealthy individuals and corporations. The result puts vital programs on the chopping block as unemployment reaches as high as 20 percent.

While specifics of the cuts for many states have not yet been determined, a handful of both Democratic and

Republican governors have already released plans to cut hundreds of millions from Medicaid alone. Ohio Republican governor Mike DeWine has announced \$210 million in Medicaid cuts and Colorado Democratic governor Jared Polis has announced \$183 million in cuts to the program. Georgia Republican governor Brian Kemp has called on all state agencies to make a 14 percent reduction across the board.

New York Democratic governor Andrew Cuomo, who has been hailed in some liberal circles for his response to the COVID-19 pandemic, has expressed a willingness to make \$10.1 billion in cuts from the mid-year budget. The new budget could cut 20 to 30 percent of Medicaid funding.

Medicaid—which provides health insurance to roughly 70 million low-income adults, children and disabled—is partially funded by the federal government, and frequently experiences high enrollment during recessions. In the fiscal year of 2019, Medicaid made up just short of 20 percent of state budgets.

On April 21, the National Governors Association (NGA) sent a letter to leading Democrats and Republicans in Congress and the Senate requesting that Federal Medical Assistance Percentages (FMAP) be doubled to 12 percent. FMAP, which helps provide federal funding for state-administered programs like Medicaid, had been temporarily increased to 6.2 percent as a result of the Families First Coronavirus Response Act. The letter notes that the 2009 Recovery Act raised FMAP to 12 percent and encourages the federal government to help expand unemployment insurance, education programs and help states acquire medical equipment and COVID-19 tests.

Other states have targeted education programs to

make up for the budget shortfall. California, which has a budget deficit of \$54.3 billion, could cut \$18 billion from schools and community colleges. Tennessee has decided to cut a \$48 million literacy initiative program and a \$250 million trust fund deposit for mental health programs in schools. Raises for teachers and other state employees have been cut from four to two percent for next year.

New Jersey Democratic governor Phil Murphy has announced a freeze of \$920 million in appropriated 2020 fiscal year spending. The freeze would also stop \$45 million in state aid to municipalities.

In a separate statement, the NGA and six other organizations representing the state and local governments called on Congress to “immediately provide robust, flexible relief.” The statement notes that the Coronavirus Aid, Relief, and Economic Security Act, better known as the CARES Act, did not provide a fund to offset budget shortfalls and does not provide relief for local governments with a population below 500,000.

The United States Conference of Mayors, which cosigned the statement, has noted that only 36 out of 19,000 cities, towns and villages have a population above 500,000. They have also noted that, “Nearly 100% of cities with populations above 50,000 will see a revenue decline this year.”

The conference recently requested \$2 billion “to reimburse states and localities for uncompensated care.” For comparison, the CARES Act provided \$454 billion for finance guaranteed loans to big corporations.

Municipalities of virtually every size have responded to the crisis with cuts and furloughs of workers:

- Philadelphia, Pennsylvania is proposing a \$370 million reduction with hiring freezes and layoffs of part-time and temporary employees.

- Dayton, Ohio furloughed roughly a quarter of municipal employees, and announced that more furloughs are expected in the future.

- Detroit, Michigan cut \$348 million in a recently passed budget that primarily slashed the funding for parks and recreational activities.

- Milwaukee, Wisconsin has announced plans to furlough 260 employees and cut hours for another 500.

- Houston, Texas has announced the possibility of furloughing all employees, except those working for the police and fire departments, to overcome a \$200 million budget deficit.

New York City Democratic mayor Bill de Blasio has announced the possibility of the city furloughing essential employees to help pay for the city’s budget deficit. While New York has remained one of the global epicenters of the COVID-19 pandemic, de Blasio announced on Wednesday that without a stimulus package from the federal government “all options are on the table” for addressing the deficit.

Last month Senate Majority Leader Mitch McConnell called on state governments to declare bankruptcy instead of receiving a bailout from the federal government. If a state declared bankruptcy it would then allow the government to tear up pension agreements with retired workers.

The introduction of massive cuts to social programs with seemingly unlimited resources turned over to Wall Street speaks to the complete irrationality of capitalism. As millions of workers across America are impacted by COVID-19 and driven into unemployment, programs that provide healthcare, education, and jobs are being destroyed.



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