

U.S. states reveal huge budget deficits

by H. Graham Lowry

Since the November elections, state governments across the United States have displayed remarkable talents for surprising discoveries. A number of fiscal "black holes" have been identified, far larger than the budget deficits previously measured. These have been swiftly reported with a judicious measure of astonishment, and much rattling of budget-cutting sabers; but political fictions are being rapidly replaced by depression realities.

California, New York, Massachusetts, Connecticut, Virginia, Maryland, and Florida are among the states which have experienced post-election revelations of the multi-hundred-million-dollar kind in current deficits—and their projections for the next fiscal year are generally three to four times worse. The dissipation of campaign smokescreens has brought to light the fact that the U.S. economy is collapsing so completely, that no state has the tax revenue base to meet its budget.

According to a study released in September by the National Governors' Association, 33 of 45 states had shortfalls in projected corporate income tax receipts during fiscal 1990. More than half of them also had lower than the expected revenues from sales and personal income taxes. At the same time, state tax increases for 1991 totaled \$10.3 billion, "the largest single-year increase ever recorded." Yet the states drew up their budgets for 1991—most of which took effect July 1 of this year—on the assumption of "slow, but positive, growth." The governors' study plainly declares, "They do not anticipate a recession. If a recession were to occur, states would be in substantially worse condition."

'Tis the season for austerity

Ten days after the election, Massachusetts discovered an additional deficit for the current fiscal year of \$500 million, even though nearly \$730 million had been cut from the budget since July 1. Republican William Weld, the blueblood bankers' boy, won the governorship with a campaign including tax relief for the beleaguered citizens of Massachusetts—and promptly dropped his pledge. During his reelection campaign, New York's Gov. Mario Cuomo (D) declared that this year's deficit would be \$824 million, but he told legislative

leaders at the end of November that more than \$1 billion must be cut from the current budget. The deficit for the fiscal year beginning next April 1 is now projected at \$3 billion. The legislature was ordered into special session Dec. 10 to begin the bloodletting.

After an easy election victory, Cuomo is demanding reductions of more than \$200 million in statewide school aid and \$125 million in Medicaid, as well as the elimination of 6,000 state jobs in the next few months. A statewide hiring freeze would cut another \$250 million from New York's payroll through attrition. New York City alone would lose \$185 million in state aid, according to Mayor David Dinkins (D), on top of a city deficit already figured at \$388 million.

California, Connecticut in crisis

The most dramatic case to date is California, where the state's official fortunes have been reversed with stunning speed. Addressing a special legislative session on Dec. 3, lame-duck Gov. George Deukmejian (R) demanded \$1 billion in emergency budget cuts, to cover a remaining deficit estimated at only \$30 million just a month before. From an already battered educational system, Deukmejian wants to cut \$526 million in state aid to local school districts.

With the continued dismantling of the state's productive industry and agriculture, the tax base has been collapsing faster than the bookkeepers can adjust the revenue figures. In late July, the legislature "balanced the budget" by slashing \$2.7 billion in spending and piling on \$900 million in new taxes. At the end of November, the state budget committee released an analysis reporting that "the state's fiscal situation has taken yet another turn for the worse." It now projects this year's revenue shortfall at \$1.5 billion, and the deficit for fiscal 1991-92 to hit \$5.9 billion. That is 10% of the California state budget—and even that forecast assumes a 5% rate of economic *growth!* The report adds, "Of course, an even bigger problem would emerge if California's economy experienced an outright recession."

The extent of actual economic devastation is sharply revealed in the case of the much smaller state of Connecticut, the wealthiest in the nation. A staggering \$1.5 billion deficit for fiscal 1992, which was projected in October, was refigured at \$2.1 billion a week after the elections—equaling 30% of the entire state budget. In August, the state's errant forecasters had put the deficit at just over \$1 billion—less than half of the figure now being told dismayed Connecticut voters.

At least two-thirds of the estimated shortfall is attributed to the collapse of revenues, especially from the state's mammoth insurance industry, which appears to be on its way to the same scrapheap on which the nation's savings and loan institutions are to be found. Connecticut Governor-elect Lowell Weicker, who campaigned against imposing a state income tax, now says he will not rule it out.