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Bankrupt States Need LaRouche's 'Super-TVA'

by Paul Gallagher

As Argentina's economic collapse went into a second and greater default on Nov. 14, it was worth remembering that the country's economy was shattered when, in late 2001, the revenue sources of Argentina's provinces were shut down, on International Monetary Fund orders, to attempt to pay debt. The same depression process—state governments losing their revenues and governors being forced into disastrous economic cuts which only make their revenues fall further—is now at the center of the economic crises gripping South America's other two biggest economies, Brazil and Mexico. Germany's states, and its capital city Berlin, are collapsing under debt, raising taxes and laying off their employees, driving the decline of the underlying German economy. And in the United States, too, this worst economic depression has announced its deadly presence by the sudden disappearance of government revenues at all levels, but most dramatically in the states. But in the United States, governors are so far *choosing* suicidally to gouge their own states' economies—although they have an immediate alternative to fight for, given them by the "FDR-style" example of 1930s government credit and recovery measures, and by 2004 Presidential pre-candidate Lyndon LaRouche's "Super-TVA" strategy (see box).

The news began to come out immediately after Election Day, that the tax revenue meltdown of the American states was far worse than previously admitted. Whereas the 50 states had a combined revenue deficit of about $40 billion, terrible enough, in Fiscal Year 2002 (which ended, for most of them, on June 30), the announced deficits for FY 2003—only four months old—already add up to at least another $50 billion across the country! Twenty-one states have already admitted larger deficits than the ones with which they painfully closed last year after cutting programs—especially medical insurance—and using up their reserves. And so far, 12 states have announced anticipated budget deficits, totalling $30 billion, for Fiscal Year 2004.

A Warning From Two Years Ago

Candidate LaRouche had publicly warned state legislatures, after a meeting with legislators back in February 2001, that they should expect to be hit with revenue declines on the order of 30% in the next few years. Few believed him then. Now, a number of states—see California's revenue graph, for example—already confront tax revenues which are 10-15% lower than they were at that time: simple proof that the U.S. economy has been and is shrinking, not "recovering."

In a period of three days, Nov. 11-13, some 14 states put out new and worse budget-disaster announcements. More importantly, the estimates of these revenue holes now change almost daily—always for the worse. In Connecticut, for example, Gov. John Rowland and Democratic leaders went into a Nov. 14 meeting to discuss the state's estimated $450 million deficit, and came out of it announcing that the deficit was $500 million!—with a further $1.5 billion hold projected for the next fiscal year. In both Maryland and Virginia, budget-deficit estimates are jumping up by about 15% each month so far this fiscal year. A self-feeding process is setting in, in which austerity and layoffs must be calculated to reduce further tax revenues, which have already plunged due to the collapse of income from the stock market and the bankruptcies and downsizing of businesses.

Merely apply the same, relatively honest process of estimation to shrunken revenues of the FY 2003 Federal budget, and one will see, as LaRouche estimated after Election Day, a national budget deficit of $250 billion or more, on top of FY 2002's $179 billion. That is why Congress again refused to enact a budget in its "lame-duck" post-election session, even though the budget year is two months old.

As it was in the case of Franklin Delano Roosevelt's recovery policy, this death spiral of government revenues can only be reversed by assertion of government power to create directed credit for infrastructure and jobs. This is LaRouche's

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LaRouche Calls For 'Super-TVA'

This statement was released Nov. 9 by the candidate's political committee, LaRouche in 2004.

Democratic Presidential pre-candidate Lyndon LaRouche is launching a major drive, to force through an FDR-style "Super-TVA" of crucial mass-employment progams now indispensable for halting the economic disaster now hitting the United States.

LaRouche explained, that the system is now plunging into a collapse. A comprehensive change in national and state economic policies, is now a matter of life or death for our economy. We must shift from the Wal-Mart to reality. Reality means infrastructure building as the leading edge of a revival of durable goods production.

LaRouche outlined an emergency program of infrastructure building in energy production and distribution, water management, and mass transit rail-network programs, chiefly on the state level, but with backing by the Federal government. These are the immediate emergency measures to halt a presently spiralling, and accelerating collapse in state economies of many of our states. These emergency actions to be begun now, are part of a larger package which LaRouche described as a "Super-TVA."

He expained: A new Federal credit-generating mechanism, even bigger than the project-oriented TVA which Franklin Delano Roosevelt launched, is the only kind of program that can deal with the disaster which confronts us now.

Every single state is bankrupt. California is facing a $24 billion deficit this year, and even if there were a so-called recovery, the 2003 deficit is projected to be over $20 billion. Texas's deficit is between $10-15 billion this year, and there are similar budget blowouts in all 50 states.

After 30 years of New Economy insanity, it's going to take a generation 30 years to rebuild the real economy to levels which existed prior to the 1971-1981 wave of destruction of much of the nation's basic economic infrastructure and industrial and farm sectors. We have already entered the worst systemic economic and financial disaster in modern history. What is required right now, states' demand for action by the Bush Administration, to set up a "Super-TVA" Federal agency, that will fund the urgently needed emergency infrastructure-building needed to avert an already-ongoing general collapse of the national economy.

This new mechanism, should not pour funds into the repayment of old state debts, but into major, urgently needed infrastructure projects—real development corridors. The existing state debts will have to be restructured, and the states will have to totally rethink how to deal with their budgets. But the Super-TVA's funding of large-scale infrastructure projects will create the productive jobs, and the expanded tax revenue base, that is required to actually solve the crisis.

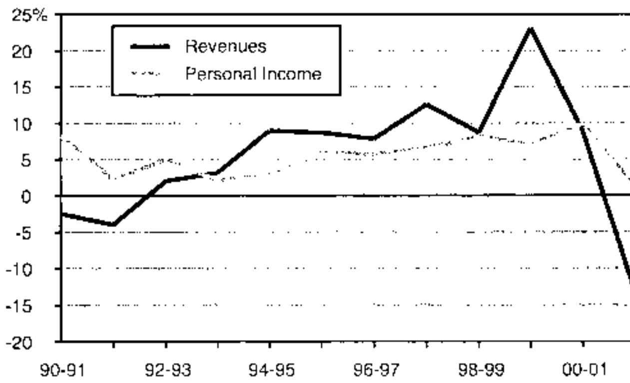
This "Super-TVA," will be a tightly administered, effective Federal authority, disbursing low-interest, long-term credits into the states to launch these projects. To make this happen, we require emergency legislation, which repeals all of the deregulation laws of the past 30 years.

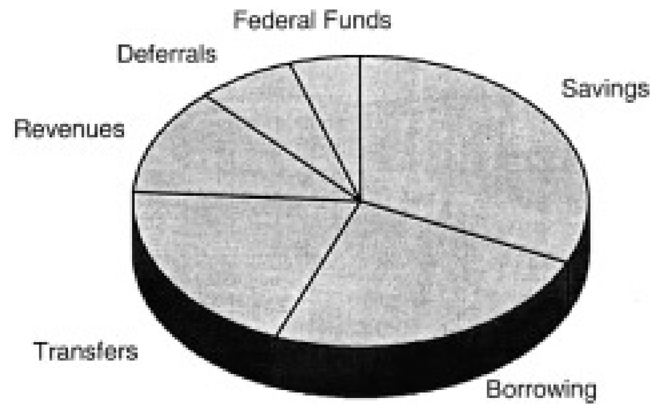
The election is over, it's time to focus on the reality of economic collapse. We need a new political agenda, defined by the Super-TVA. Let's get moving now.

emergency proposal for a "Super-TVA" for reconstructing infrastructure and regulating public utilities—modelled on the most successful single infrastructure and economic development program in history til now. The proposal was launched as LaRouche moved to take leadership in a broken Democratic Party.

'Worst in Anyone's Memory'

In Oklahoma, school districts have begun to pay their employees with bank warrants rather than funds, and a superintendent in the city of Lawton says, "These [state] cuts are by far the worst in anyone's memory." In Virginia, public libraries which were built during the Great Depression, are being closed down in this depression, as one round of billion-dollar cuts after another is announced by Gov. Mark Warner. In Georgia, the state's comptroller finds that revenues have fallen by an astonishing 16% from one year to the next. In New York, where the state budget is $8 billion, perhaps $10 billion short, and New York City's additional revenue hole has suddenly grown to $6 billion, associates of New York City Mayor Michael Bloomberg are telling the press, "a gigantic tax hike is inevitable"; thousands of employees will be fired, health care and senior citizen centers closed, transit fares and bridge tolls increased. In Connecticut, Governor Rowland threatens to lay off 3,000 state workers immediately, unless they agree to cuts in their salaries and benefits which equal $23,000 *taken from each of the 45,000 state employees* over two years. In California, 7,000 state employees have already lost their jobs. In Virginia, 3,700 jobs have been terminated and 1,800 more employees are being laid off. In Iowa, 50,000 state workers are told they will be "furloughed"—briefly laid off—for periods during the year. No such pattern of events has been seen in the United States since the Great Depression.





More than any other state, California's economy—one-sixth of the country's—desperately needs LaRouche's "Super-TVA" implemented fast. Its revenue growth turned into a plunge already in 2001, as its citizens' income fell (left). It hemorrhaged more than $7 billion buying superinflated electric power, and needs urgently to build new power plants and bring its whole grid under state ownership and regulation. It's proposed "solution" (right) is a combination of $8 billion in new cuts ("savings") and impossible fantasies of revenues, Federal aid and borrowing increasing. It's LaRouche's policy or disaster.

The announcements of severe layoffs of state employees which came first in California, and are a rarity in the United States, have been coming fast since Election Day. Long before that, the states' contributions to the safety of the poorest 20-40% of the population, including the indigent elderly, had been cut everywhere. New Jersey gives one brutal example: Its state health insurance program was cut by $43 million, resulting in the termination of coverage for 44,000 adults, 26,000 of whom were receiving the state insurance because they had serious health problems making it unlikely they could get private insurance; this will cause many preventable and early deaths. State as well as Federal contributions to the Medicare and Medicaid health insurance programs have been cut more or less drastically in virtually every state, resulting in many groups of physicians simply withdrawing care from those elderly or poor patients. Mental health and anti-drug program centers are being closed everywhere.

But the sign of how deep the crisis has become, is that cuts in education budgets—which had already been hitting higher educational institutions—are now being proposed for the basic "K-12" elementary and secondary schools, always sacrosanct from the budget axe for both political and necessary cultural reasons. A recent report by the U.S. Senate Committee on Health, Education, Labor, and Pensions found that total state K-12 education expenditures, projected for Fiscal 2003, are $6.7 billion below what is necessary to accommodate the normal ongoing increases in the population of elementary and secondary school students.

The California Example

There are dozens of states which already have budget deficits in excess of $1 billion per year. In the case of middle-sized states like Michigan or Connecticut, this requires either cutting large chunks out of the state's economy—or generating new jobs and revenue by turning to national banking and directed credit creation for infrastructure, which must be done through acting on the Presidency and Congress, and requires LaRouche's leadership.

Then there are the largest states, whose budget holes are measured in the tens of billions—Texas, $10 billion; New York, at least $8 billion; and California, at least $23 and perhaps nearer to $30 billion.

No state shows more clearly than California the urgent necessity of a solution which comes from the Federal level to the states, and which assists and regulates the creation of modern new, hard economic infrastructure, to generate skilled public, and matching private employment and revenue. California is in the midst of two successive fiscal years with revenue deficits in excess of $20 billion each, having seen first the aerospace industry shrink drastically, and then the Silicon Valley and related "New Economy" go down. It was bled of $7-8 billion in 2001 subsidizing the purchase of electrical power which had been jacked up to superinflated prices by Enron and the other energy pirate companies; it has been unable to borrow that, or other major money back on the bond market; it lost all regulation and control of electrical power production within its borders, during the deregulation fiasco. The state continues to suffer an absolute shortage of electrical power capacity, even with falling total electricity usage.

California Gov. Gray Davis and legislative leaders are now deluding themselves with a budget "solution" (see chart) which is a complete fantasy. It schedules another $8 billion in brutal spending cuts; then assumes an *increase* in state revenues during Fiscal 2003; and an equally illusory increase in ordinary Federal aid to the state—with the Federal deficit ballooning into the hundreds of billions. At the same time, California's ambitious plans for statewide high-speed rail-

roads, are being based on the assumption of private funding.

California urgently needs to re-regulate electric power, bring the plants under state control, and build new power and transmission infrastructure. It can't do this without Federal credit directed to the purpose, and shielded from being diverted back to up the state's large bonded debt: LaRouche's "Super-TVA" policy.

Leadership and LaRouche's Policy

It is no accident that 10 of the 24 state governors who were eligible to seek re-election on Nov. 5, decided not to; and that of those who did seek it, seven were defeated. Suicidally, the National Governors Association held an immediate post-election, closed-door seminar in Austin, Texas, Nov. 15-17, to *teach budget-cutting* to the "baby governors" just elected. One of them, Democrat Jennifer Granholm of Michigan, faces a typical deficit for the just-started fiscal year—about $1.5 billion in the hole, out of a state general fund of only $9 billion. She immediately dashed the hopes of Michiganders who—in a deep fiscal collapse with public hospitals closing and schools going to four-day weeks—had elected her to replace a conservative Republican. "We are going to cut," Granholm told National Public Radio, "and it may be painful for the first couple of years, but we will get this budget in balance."

Rather than leadership in the crisis, this is the organized brainwashing of potential leadership, to cause disaster. The "fiscal fascist" think-tank, the American Legislative Exchange Council (ALEC), is being deployed to train governors to think only of downsizing and privatizing government. As California, Virginia, and many other states have already proven, this austerity brings pain and destroys lives, but can never restore "budget balance" when the economic source of revenue is being killed.

Another terrible path being seized upon, by the newly elected Governors Robert Ehrlich of Maryland and Mitt Romney of Massachusetts, among others, is the eager solicitation of casino-gambling centers, slot machines at race tracks, and other forms of mass gambling mania such as New Jersey, Connecticut, and others have already tried. These literally ill-gotten revenues have tapered off after a few years, even in the most-addicted states such as Mississippi, and studies show clearly their terrible social consequence in mass bankruptcies and psychological disorders among the citizens.

The state governors have only one way out: They must, and will be forced immediately to demand action from the President and Congress to "create revenue." Democrats gained governorships, including in key formerly industrial states such as Pennsylvania, Ohio, and Michigan; and the party's constituencies now demand that they give up the Joe Lieberman-style imitation of conservative Republicans, and act for economic recovery, so this pressure must hit the White House in the post-election period. Presidential candidate LaRouche's Super-TVA idea is the only national policy on the table, that will work.

Latest Greenspan-Fed Rate Cut Will Backfire

by Richard Freeman

On Nov. 6, Federal Reserve Board chairman Alan Greenspan led the Fed's Federal Open Market Committee (FOMC) in cutting two pivotal interest rates. It was a desperation move that Greenspan knows will largely fail—but will have far-reaching impact on the U.S. and world economy.

The FOMC unanimously decided to cut the Federal funds rate from 1.75% to 1.25%, a half-percent cut where a quarter-percent had been expected. The Federal funds rate is the rate at which banks trade overnight surplus funds; it is now at its lowest level since July 1961. The Fed also cut the discount rate (at which banks borrow directly from the Fed) to 0.75%, also a half-percent cut, to what appears to be its lowest level in 75 years.

Implication of a 'Negative Rate'

The Federal Reserve is desperate, because the bankrupt financial system and the physical economy are not responding to traditional monetary policy, and things are getting worse. It may also be that a catastrophe has already occurred in the credit markets, such as a derivatives blowout requiring an emergency credit infusion, which the Fed and the media are blacking out.

The FOMC had already talked of the consequences of such a very-low-interest-rate policy, which it called the " 'zero bound' policy constraint," at its meeting of Jan. 29-30, 2002. The minutes of that meeting, and a discussion that an unnamed senior Fed official held with the March 25 *Financial Times* of London, indicated that the Fed realizes a "zero bound" policy probably wouldn't work, and could end up creating paralysis—but on Nov. 6, it took the action anyway.

By lowering the discount rate to 0.75%, the Fed has lowered it below the official 12-month inflation rate level of 1.50%, which is the Consumer Price Index, published by the Department of Labor's Bureau of Labor Statistics (BLS). This situation gives rise to a "negative interest rate." The real inflation rate, as determined by *EIR*'s economic staff, is at least twice the official BLS rate. But, even taking the BLS's posted 1.50% inflation rate: This means that, were a commercial bank to borrow money for a year from the discount window of the Federal Reserve, when the time came for the bank to pay back the loan, *after the principal amount of the loan is adjusted for inflation,* it would pay