

U.S. 2012 STATE BUDGET DEADLINE

Chain-Reaction Bankruptcies For Global Monetary System?

by Marcia Merry Baker

June 27—U.S. state governments are in an impossible situation, which itself marks a crisis point for the collapsed world monetary system. July 1 marks the beginning of the new budget year FY 2012 (state fiscal year/SFY) for 46 states,¹ with their governments committed to the charade of devising and implementing ways to cut their operations sufficiently to “manage” debts and expenditures for essential functions, which, in reality, are unpayable because of collapsing economic activity and state revenues.

A drama ensued over the last two weeks, in which 21 states and the District of Columbia were in a frenzy to come up with a budget by the deadline. More than one state—Minnesota, California, Pennsylvania, among others—may begin July in a political stand-off to even concur on a pretense-budget. On July 1 they may resort to suspending staffing and programs, while their lawmakers continue haggling. California has done this several times before. Pennsylvania operated the first two months of SFY 2011 without an approved budget.

But today’s situation, because it is taking place within the context of the world financial blowout, is not simply more of the same. Even state budgets that have already been ratified are no “solution.” All states (except Vermont) are required by their own laws to have a bal-

anced budget. Therefore, over the last three years of worsening economic collapse, states “balanced” their budgets by cutting a combined total of \$430 billion out of expenditures, to try to reduce spending as fast as their revenue was falling—a figure that can be translated into thousands of layoffs of policemen, firemen, and teachers, and the slashing of services for the poor. Meantime, the same economic collapse was adding to state expenses to meet their responsibilities, in particular, for Medicaid—medical care for the poor—as more people became impoverished.

But now, the estimate as of mid-June, was that another \$103 billion had to be cut from the SFY 2012 budget year of the 21 states which still hadn’t ratified their budgets yet. Across the board, states’ combined projected spending for SFY 2012 is less than in 2008.

The clincher in this disaster and its timing, is that on June 30, the Obama Administration is terminating billions of dollars in Federal aid to states.

Dump Obama, Get Glass-Steagall

Lyndon LaRouche, reviewing the situation on June 23, said that the crisis of the states portends a “Constitutional crisis,” a crisis which puts the survival of the nation at stake. The only solution is for the Federal government to return to the principle of the general welfare, which requires dumping the bailout and reinstating the Glass-Steagall principle. Given Obama’s role as

1. Four states begin their fiscal years on other dates than July 1: Alabama and Michigan, Oct. 1; New York, April 1; Texas, Sept. 1.



EIRNS

Michigan's Rick Snyder, along with several other first-term governors, are making axe-murder cuts to state budgets—but this is only adding to the budget blowout potential. Here, LaRouche organizers in Detroit campaign for Glass-Steagall, May 2011.

a British puppet, that means *he* has to go, while Glass-Steagall, which is now before the House of Representatives (H.R. 1489), is rammed through immediately.

LaRouche pointed to July 10 as the crucial date, a ten-day grace period after the July 1 beginning of the new fiscal year. He said that by July 10, as of now—unless some kind of gimmick or special legislation is put forward to temporarily address the states' crises, and temporarily affect the exact date—the whole system of the U.S. government is going to disintegrate. Some fraudulent scheme may be attempted to temporarily let the states off the hook, but to no avail. The states must reconcile their accounts, but the accounts are more than they can deal with. The entire Obama program on this is hopeless. The role of the national government is critical, but the government of Obama is hopeless.

LaRouche said that we are looking at a chain-reaction breakdown of the entire system over the Summer. We have reached the end of the line, the last stop on the trolley. The cuts forced on the states will cause that effect. Obama is finished. If we don't dump him, then we're finished too. If you don't dump Obama, you don't have a nation.

He said we must act by July 10, and get Federal relief to let the states function. We're at that point now. Anything else is fraudulent. Unless we turn Obama out into the streets, we're not safe. We must have Glass-Steagall.

Impossible Situations

In six states, the size of their shortfall for 2012, taken as a percentage of their projected general fund budget, is over 20%. The projected deficits for the new year (i.e., the gap, as a percent of the projected 2012 general budget, from the Center for Budget and Policy Priorities, June 2011): California (27%); Nevada (38%); New Jersey (36%); Oregon (26%); Texas (21%); Minnesota (20%).

For the next six states, the projected deficit is 15-20%: Louisiana (19%); New Hampshire (18%); New York (18%); Arizona (17%); Illi-

nois (16%); Washington (15%).

Another group of 13 is between 10 and 15%: Connecticut (15%); Vermont (14%); Maine (14%); Mississippi (14%); Alabama (14%); Pennsylvania (14%); Virginia (13%); Florida (12%); North Carolina (12%); South Carolina (12%); Wisconsin (12%); Ohio (11%); South Dakota (11%).

Such widespread and large projected deficits are not new this year, but come on top of similar shortfalls each of the past three budget years, since the 2007 financial disintegration and economic breakdown began.

We are now at the point where states cannot carry out their responsibilities to their citizens, while keeping up a fiction of solvency by downsizing functions and finagling their books, to "balance out" plunging revenues. Whatever happens on July 1 or the ensuing few weeks—when accounts are to be reckoned—the proliferation of budget tricks will only heighten the likelihood of the breakout of chain-reactions of non-payment.

California, with the biggest budget, has had the longest-running record of accounting maneuvers and tricks to make it from one year to the next, in addition to making murderous cuts in government programs. California will carry over from FY 2011, an \$8 billion deficit into FY 2012.

In Illinois, the legislature sent a budget for Gov. Pat

Quinn's signature, which is "balanced" by simply putting off some \$1.1 billion in unpaid bills until FY 2013.

Moreover, the \$103 billion in next year's deficits, which the states have been hysterically working to "close" by July 1 in their SFY 2012 budget plans, does not count the overhang of multi-billions of unfunded state liabilities for pensions, loans taken for unemployment benefits, and similar obligations due. The non-payment of these can blow through the financial system at any time now.

Take the example of Pennsylvania, where, as of today, there is still no budget agreement. In Harrisburg, Gov. Tom Corbett and lawmakers have been hassling over what to do with an apparent "surplus" of \$540 million, while meantime, the state has \$4 billion owing on Federal debt for unemployment benefits, and \$20 billion in pension obligations! These situations are impossible.

There are dozens of instances. In Hawaii, where technically, the budget of \$11 billion was agreed to in May, Gov. Neil Abercrombie issued a memo June 23 implementing a new "horizontal budget adjustment" cut of 5%, to go into effect July 1. All departments of the state government are to themselves find ways to cut 5% across the board. Then, in SFY 2013, the new Hawaii SFY 2012 "balanced" budget mandates a second round of such "horizontal adjustment!" Statistics take precedence over people.

State Governments Don't Work

After three years of such budget "balancing," government functions are in breakdown across the nation, while any pretense of fiscal soundness is gone. Besides paying for state-level activities, state budgets have been critical in funding portions of the budgets for vital services in 3,034 counties, over 19,000 municipal governments, over 13,000 school districts, and thousands more special entities such as water districts, levee associations, health-care regions, etc. In recent years, the combined budgets for all these states and localities together, whose revenue support has crashed, has been over \$3 trillion.

The July 1 deadline is a flashing danger signal for all these localities. Thousands of them cannot provide any semblance of financial soundness, and at the same time, their provisions for conditions of life are unworkable. This is the Constitutional issue: The Federal government has the responsibility to see to the general wel-

fare. This is now an emergency responsibility.

A total of over 467,000 state and local public work-force jobs have been eliminated since June 2009—when the Obama Administration economists declared the "2007 Recession" over. This includes the loss of 188,000 teachers, as well as firefighters, police, public health workers, librarians, and many others. The rate of loss of jobs has not abated. In May 2011, there were 30,000 public sector jobs eliminated nationally, which was the seventh month of such job-loss in a row, and set to continue.

Yet several first-term governors—Wisconsin, New Jersey, Ohio, Michigan—came into office this year, making the axe-murderer claim to be able to cut public sector jobs and functions faster and deeper: in effect, to shut down government. This madness just adds to the July fiscal blowout potential.

Look at the situation in Michigan, whose state fiscal year begins Oct. 1, but that of many of its local governments is July 1. Pontiac, for example, may soon be the first-ever Michigan city to declare bankruptcy. Pontiac, the once-famous manufacturing center, is among many localities in the state, which have been declared "financially distressed," and have been assigned emergency managers (EMs), to "balance" their impossible budgets. But even this non-solution has run its course in several cases. For Pontiac, the latest proposal from its EM, appointed in 2010, was to simply bypass the town, and reassign police and other critical functions to the surrounding county. Now leaders in Oakland County, Pontiac residents, and others throughout the region are refusing to go along.

Highland Park may soon receive its fourth emergency manager, and undergo its second state takeover in a decade. On July 1, the city faces starting the new fiscal year with a \$320,000 deficit.

Obama Cancels Aid to States

In the face of this, the Obama Administration is presiding over the cut-off of Federal money to states and localities, as of June 30. So-called stimulus funding will cease (except for less than \$6 billion in SFY 2012), after Federal programs paid out \$150 billion to states over the last three years (2008-10), under the American Recovery and Accountability Act of 2009. Also ending June 30, is enhanced Medicaid funding, extended in August 2010 under the jobs bill (H.R. 1586), which also sent \$10 billion to the states, from January to June 2011, through the State Fiscal Stabili-

zation Fund. These programs expire June 30. Funding to states to support programs fighting HIV/AIDS will be reduced.

Plus, Obama is allowing to stand the so-called disaster relief payment ratio of 75:25—75% Federal government payment, to 25% state and local payment—for rebuilding costs after disasters (under FEMA, Homeland Security, and the Agriculture Department), even though hundreds of counties, as well as state governments, have no means to pay this. Local leaders are all pleading for waivers, under which they want the Federal government to pick up 100% of emergency rebuilding costs, because localities are economically destroyed.

But the Administration—despite flooding, drought, tornadoes, and other weather extremes, let alone mass joblessness—maintains its assertion that the economy is in recovery, and states and localities can pay up. Thus July 1, SFY 2012 is a call to arms for passing H.R. 1489 and companion Senate action to reinstate Glass-Steagall.

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Lyndon LaRouche ON Glass-Steagall AND NAWAPA:

The North American Water and
Power Alliance



“The greatest project that mankind has ever undertaken on this planet, as an economic project, now stands before us, as the opportunity which can be set into motion by the United States now launching the NAWAPA* project, with the preliminary step of reorganizing the banking system through Glass-Steagall, and then moving on from there.”

“Put Glass-Steagall through now, and I know how to deliver a victory to you.”

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