

States' Fiscal Crises: A National Security Issue

by Mary Jane Freeman

Next year, there's going to be draconian cuts in state services. We can get through this year. But next year we're going to hit the wall.

—Paul Patton, Kentucky Governor and National Governors Association president

These words reflect the dire circumstances U.S. state and local governments are in, as their revenue collections have plummeted by anywhere from 5% to 20% over the last two years. Various national organizations representing states, cities, and governors held meetings in Washington recently, to ring the alarm bell in hopes of getting the President to realize just how close the nation's public economy is, to coming to a halt.

State budgets are imploding everywhere, and deficits are growing by the month. The collective two-year budget deficits for the states, over Fiscal Years 2003 and 2004 are estimated at \$100-plus billion. How quickly these deficit holes are growing, was indicated in a National Conference of State Legislatures (NCSL) fiscal survey released in February. It reported that for Fiscal 2003, aggregate state deficit estimates *doubled* in just two months, from \$17.5 billion in November 2002 to \$26 billion in January 2003. *EIR* warned, when the survey appeared, that the \$26 billion figure was still too low, and that it was on top of \$49 billion *already eliminated through spending cuts* and accounting tricks, so that the current 2003 budgets could be passed. So states, by January, were really juggling a \$75 billion collapse of revenues. Revenues have since declined further, leading to even deeper spending cuts, in an effort to balance the books by fiscal year's end, which in most states is June 30. These cuts are a threat to life as well as to national security.

The NCSL, the National League of Cities (NLC), and the National Governors Association (NGA) held meetings and lobbying days in Washington between mid-February and mid-March. All of them called on President Bush to provide Federal aid to states and localities. Each proposed their own stimulus package, as they found the President's to be less than helpful. But the axiomatic assumptions which underlie their efforts remain fixed in the past 30-years' "post-industrial society" matrix, and therefore operate as mere band-aids on gaping wounds.

To solve the revenue hemorrhaging, it is time for elected

officials to recognize that we are in a systemic meltdown of the world economy, as Democratic Presidential pre-candidate Lyndon LaRouche has identified. Once the problem is recognized, adopting LaRouche's New Bretton Woods policy, to put the bankrupt world financial-monetary system through bankruptcy reorganization and to launch infrastructure building programs, will be easy.

Is Anybody Listening in Washington?

The NGA meeting in late February, where Kentucky's Governor Patton made the remark cited above, was the most contentious. Prior to this annual governors' meeting, NGA committees worked out a Federal aid package to states—in the range of \$30-50 billion—which was to be a focus of their meeting and lobbying efforts. But, informed that such an idea would be met by "deaf ears" at the White House, Republican members quashed the plan, which led to some partisan bickering. In fact, President Bush rejected their aid plan, while sugar-coating his description of Federal grants he is proposing. A source close to GOP conservatives in Texas told *EIR* that even Texas Gov. Rick Perry's (R) appeals to Washington have been met with the message, "Tough it out."

Ultimately, a compromise was issued, seeking funding but with no price tags, for three Federally mandated programs. The three are: special education under the Individuals with Disabilities Education Act (IDEA); elementary and secondary education under the No Child Left Behind Act (NCLB); and some homeland security measures. The compromise package, if fully funded, would be in the range of \$15-20 billion for the states. Whether or not Federal funds are allocated, all three programs have to be implemented, putting extreme pressure on the states.

The NCSL annual "Leader to Leader" conference had half its usual number of attendees, as most states were too broke to send representatives, while some Congressional speakers failed to show up. Ironically, the hot topic was the states' multi-billion budget deficits and the uncertainty of reviving the economy in the midst of the Bush Administration's war drive. Nervous laughter punctuated the budget roundtable, as horror stories were shared and NCSL Fiscal Affairs Director Corina Eckl opened by admitting that the February survey numbers, cited above, were "woefully wrong," as the crisis is "changing daily."

New York State Sen. Stephan Saland proved her point. He said that New York's \$2.5 billion deficit for its Fiscal Year ending March 31 still had not been closed, and that Fiscal Year 2004, beginning April 1, is already projected to be at \$9.3 billion and could get bigger. Independent confirmation of the "daily" revenue demise came in the March 7 *Houston Chronicle*, which reported that Texas Comptroller Carole Strayhorn said the deficit, as of Jan. 30, was \$9.9 billion, *five times bigger than the \$1.8 billion it reported* for the February survey. February's collections, in Texas, fell dramatically, prompting Strayhorn to say, "We're not seeing any light at the end of the tunnel."

Senator Saland, also a former NCSL president, commented that his state's tax revenues have fallen "off the cliff," while Michigan's budget expert said his states's revenues had fallen a "staggering" 17% compared to 2002, leading to cuts in prescription drug aid and education. NCSL's Eckl revealed that 48 states now report budget gaps—only Hawaii and New Mexico report none—instead of 36, when the survey was released.

The NLC mid-March meeting had the largest attendance of the three meetings. There are two key factors contributing to the plight of cities. The first, a long-term problem, has been the transformation from a consumer to a producer economy. Such a change has wiped out the tax revenue base from which schools, police, fire departments, etc. were sustained. The second factor is a direct result of the states' budget crises, as aid to localities has been slashed. San Francisco, as of January, had a \$200 million deficit and was expected to lose \$85 million due to state aid cuts.

Particularly affected by the revenue shortfalls have been police and firefighters, just when there has been increased demand for their services due to homeland security legislation. "The challenges we face as a nation are not going to be solved by duct tape," exclaimed New Haven Mayor John DeStefano, who is also NLC president. His rebuke came when he released an NLC survey of 322 cities and towns, assessing their state of preparedness. The survey found that 16% of cities cut police positions in the past year; another 8% will do so this year. It also found that 9% of cities were forced to make cuts in firefighter positions, while another 7% will do so soon. It will only get worse, as NLC points out that Bush's FY 2004 budget decreases spending on local law enforcement.

Asked to pick the single top priority for the nation, 43% of surveyed city leaders chose "investing in local infrastructure and programs to strengthen the economy." The findings confirm what LaRouche and *EIR* have insisted: Economic security is at the core of national security; and without basic economic infrastructure in place and functioning, the nation is vulnerable.

Adding to this bleak picture was a fiscal survey released by the National Association of Counties (NACO) in late February. Almost 72% of U.S. counties are faced with revenue shortfalls, while 45% of them have raised, or are considering raising, taxes to cover losses. Fifty-three percent reported that their state government was cutting aid to localities in this fiscal year, as compared to 21% in FY 2001 and 36% in FY 2002. To deal with the funding gap, some county governments have already imposed these austerity actions: reduced service-delivery (38%); spent contingency funds (34%); imposed hiring freezes (33%); increased taxes (32%); eliminated services (17%); made layoffs (16%). As the deficits grow, one-quarter of these counties have under consideration plans to cut road construction, public health, family and human services, highway and street maintenance, healthcare

programs, and sheriff departments.

The hypocrisy of the Bush/GOP "no new taxes" and/or "tax cut" proposals is writ large at the county level. NACO president and Dallas County, Texas Commissioner Ken Mayfield put it this way: "Being forced to consider increasing taxes, in order to provide essential services to the American people, counties are in a no-win situation. [The] demand for services continues to rise. The Federal government can provide help and ease the strain on local property taxpayers." Forty-five percent of the responding counties are considering tax hikes as a solution to their revenue shortfall. So much for Bush's tax breaks for Americans.

Deadly Impact and Jeopardizing the Future

Faced with a third year of dwindling cash, state officials choose to cut programs and services. The result is mounting layoffs, school closures, and life-threatening actions. In Oregon, 100,000 people were forced to go cold-turkey in February when state aid was halted for medications for the mentally ill and drug addicts. New Jersey Gov. Jim McGreevey proposed axing 16,000 senior citizens from a prescription drug plan, in order to save \$26 million out of the \$1.3 billion deficit he faces.

Pennsylvania Gov. Ed Rendell's planned \$1 million cut in the Department of Mental Health and Retardation budget will mean ending crisis intervention programs for thousands, while a \$4 million cut at the Department of Human Services will eliminate drug and alcohol treatment programs, among others. Rendell had hoped for debate on his budget, but the GOP-controlled legislature moved to adopt it, putting him in a position where he may have to veto his own budget, if he did not intend such draconian measures. An agency director decried the cuts. People "won't know where to turn," she said. They'll end up "in our jails, homeless shelters," and emergency rooms—all of which are overcrowded.

Education budgets had been spared until now. But the revenue drops are too big. Arkansas plans to slash its number of school districts from 311 to 116, a 63% reduction, to help cover its deficit. Kansas, Pennsylvania, and New York also have plans to merge school districts. Studies have shown that mergers save money, but student achievement scores fall, family involvement lessens, and transportation cost go up.

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