U.S. States Have No Way Out But 'Super TVA'

by Paul Gallagher

The non-partisan Congressional Budget Office's Jan. 26 report of a $477 billion "unified" Federal budget deficit in the now-ongoing Fiscal Year 2004—while only part of the terrible story—is in itself a $100 billion jump in the deficit over that of FY 2003. When more Iraq spending is demanded later this year, that deficit should go over $500 billion; and when the "unified" ploy is taken away—that is, not counting the "borrowing" from the Social Security and Medicare Trust Fund surpluses—it's headed for more than $600 billion. That will put the Federal deficit in the range of 30% of the Federal budget. It indicates the White House's and Republican Congressional leaders' continuing desperation to try to resuscitate the economy by feeding middle- and upper-class households' spending, and corporations' profits—with tax cuts of unprecedented size and feverish increases in outlays on defense and "security"—all this creating no more employment than did Herbert Hoover.

But this ability of the Federal government to issue debt as currency through the Federal Reserve and private banks—were it used, instead, as *credit creation* for projects through the U.S. Treasury according to national banking principles—could be creating hundreds of thousands of new jobs in infrastructure partnership with the states and regulated public corporations. It could be building new high-speed rail service, new energy grids, new water management capabilities for North America's western desert areas, modern public hospital facilities—and providing desperate states like California with new springs of tax revenue. New figures on the states' fiscal plight show that that dramatic national policy shift is their only hope.

Without Presidential candidate LaRouche's Super-TVA approach, all the Federal states, and cities as well, are continuing to head toward bankruptcy in the general collapse of the country's real economy since 2000. As LaRouche emphasized in a Jan. 10 Internet webcast, the states are now making their bankrupt fiscal situations worse whether they try to increase tax rates to get more revenue, or lower them to get more "business."

Raising Taxes, Losing Revenue

The late-2003 claims by the consultants of the National Conference of State Legislators (NCSL), that state fiscal situations were "showing improvement" after three years of extreme distress, are disproven simply by looking at the states' revenue collections, as reported every quarter by the Census Bureau. For the combined first three quarters of the calendar year 2000, all of the 50 Federal states had collected $424 billion in total tax revenues. But for the first three quarters of calendar 2003, the 50 states' total tax revenues were 2.5% less, at $414 billion—despite roughly 4% population growth, inflation, and a 35% fall in the value of a dollar over those three years. Furthermore, the January-September 2003 total shows no improvement over the same period of 2002.

Over the three fiscal years (July-June) 2001 to 2003, states' revenues fell by about $22 billion—almost $60 billion when adjusted for population growth and inflation—so that there was a 5% drop in state spending per capita during that time. And the decline has not ended.

There can be debate over the Federal deficits, as to what part of them is caused by the Bush Administration's tax cuts, and what part by economic collapse: *EIR* has estimated 70% of the drops come from economic decline; one other independent estimate has been about 60%. But there can be no such argument about the states' falling revenues: *30 of the 50 states have raised their taxes since 2000,* according to the Center for Budget and Policy Priorities (CBPP) in Washington which tracks their fiscal situations. The states' and localities' *share* of national tax collections is the highest it has ever been in United States history, due to the severe drops in Federal tax revenues over those same three years. Yet, the state governments have raised their tax rates, but clearly failed to stop the decline in their revenues thereby—just as LaRouche stressed on Jan. 10.

A CBPP report released on Jan. 24 emphasized that the states' tax increases, like the Federal government's tax cuts, have been regressive: The Federal cuts have given money back largely to high-income households; and the states' emergency tax increases, mainly a variety of sales tax increases and new fees, have hit lower-income households disproportionately. Much more than raising taxes, however, states have cut their spending—it is 2.9% less, nationally, in calendar 2003 than in 2000. The loss of state-subsidized health insurance by 1.6 million poor Americans is only the sorest of those cuts; national increases have been measured in homelessness, in official poverty, and in the incidence of hunger. Nearly all states have cut their higher education budgets; eleven, thus far, have cut their "sacrosanct" kindergarten-to-12th-grade education budgets. Jobs have of course been lost, not created, as the states thus tried to *prevent* their tax rates from rising.

And the taxes and spending cuts have *not* improved the states' fiscal gaps. The hopeful claims which NCSL or the National Governors' Association make near the beginning of each state fiscal year (for most states, that starts in July)—banking on the past year's cuts and tax/fee increases having been "enough"—are dashed as that fiscal year goes on. Over the past three fiscal years, 2002-2004, the 50 Federal states will have had to make up budget shortfalls of $190-200 billion; of that, $78 billion in revenue gaps will have appeared in this fiscal year, 2004, showing that the situation is not improving. And already, based on Fiscal 2005 estimates by just 21 states which have made them thus far, the shortfalls for the next fiscal year apparently total another $40 billion, reports the CBPP; that indicates the fiscal gaps next year will be at least as bad, nationwide, as they have been for the past three years. This is fresh bleeding from the limbs that had already been repeatedly bled hoping to bring on, or survive until, a "recovery."

Cut, or Tax?

Any sampling of important states shows each one caught in the vise LaRouche pointed to, without a decisive national "bankruptcy protection" action aimed to provide them with credits for revenue- and job-creating investments. Arkansas, for example—although its native Presidential candidate Gen. Wesley Clark (ret.) has not treated the national fiscal crisis as an important issue—is currently in its second emergency special legislative session of the past year. The legislature is considering enacting an "education tax"—probably a regressive new sales tax—or, a significant increase in the state income tax, to try to increase revenues by $800 million for education costs. But the other 30 states which have already raised taxes, show the futility of that attempt.

In Alabama, candidate LaRouche has just made a campaign swing, giving public presentations and meeting with the state's legislative Black Caucus, on the way the coming financial crack is going to shape the Presidential race, and what to do about it economically. A political effort by Alabama Gov. Bob Riley—a Republican—to raise state taxes by an estimated $1.5 billion annually, just failed in a state referendum in 2003. The resulting austerity budget effectively has ended the state's children's health insurance program; cut off nursing home care for 3,000 senior citizens; slated layoffs of non-public safety state employees; scheduled 5,500 public school employees, including teachers, for layoffs in Fiscal 2005; slated reductions in state prisons employment; and so forth. The result will be lower state revenues still, forcing further cuts. Yet some Alabama legislators were asking LaRouche, "just when is this collapse going to hit"!

Virginia, whose semi-annual budget is about $29 billion, is in the same vise. In the past two budgets, multi-billion dollar budget holes have opened up, requiring severe cuts against higher education, state layoffs, closure of some state offices, etc. But the budget shortfall has returned; state revenues are lower than three years ago. Gov. Mark Warner (D) is now asking for a tax increase of $500 million, as part of a reworking of the tax code. But surprisingly, some of the state's Republican leaders, until now strong anti-taxers, realize the state is now unable to fund even the smallest transport improvements, for example, and have proposed a $1.5 billion tax increase, on the scale of the one that failed in Alabama. They point to the vise: Without such an increase, another $800 million in cuts may be needed in the new budget, hitting the bone of economic activity in the state.

LaRouche planned a television campaign in the state before its Feb. 3 primary, driving home his message to the whole nation: The only Presidential candidate qualified to run for the office, is the one prepared to deal with "Erinyes"—the economic Furies hitting the United States during 2004—and the one capable of getting Vice President Cheney out of office in that same time.

The most extreme case remains California, where the last two-year budget *deficit* reached $38 billion. The right-wing populist "beast-man," muscle actor Arnold Schwarzenegger, was forced into office by Cheney's faction of the Republican Party, in order to slash the state's government to pieces with cuts, while refusing to discuss any tax increases. California desperately needs an infusion of infrastructure credits—particularly for rapid increases in electrical power generation and for new rail corridors and water projects—in order to stop a "death spiral" of state revenues.

But since his Recall election, Schwarzenegger has put forward fiscal and budgetary proposals which confirm LaRouche's warnings: these drastic cuts now, and/or even worse cuts to come. His first measure, to repeal the increased car license fee just passed by the legislature, added $4 billion to the deficit. His second, was to bully the legislature to place a $15 billion bond measure on the March 2 ballot, despite the state's downgraded credit rating, to use new debt for operating revenue instead of infrastructure investment. Next, to "balance" the budget for the upcoming year, which begins in June 2004, Schwarzenegger proposed over $4.6 billion in cuts, largely from health and social services, in a state where more than 6 million people already lack health insurance, and which has seen a dangerous level of hospital closings and triaging of community health centers.

Schwarzenegger's 2004-05 budget includes $2 billion in cuts in K-12 education funding; over $700 million from higher education; and massive tuition and fee increases in the state college and university systems. He wants $1.3 billion in property tax revenue from cities and counties to be taken by the state, reducing municipal police and fire departments.

And still, these cuts leave a projected deficit of more than $6 billion in 2004-05; play-money compared to the size the deficit will actually assume as the latest looting further wrecks the state's economy.

In California, it was not all surprising, then, that 100 LaRouche Youth Movement activists had such a great impact on the State Democratic Convention in mid-January. Their leader's Presidential policies represented the only optimism and the only hope.