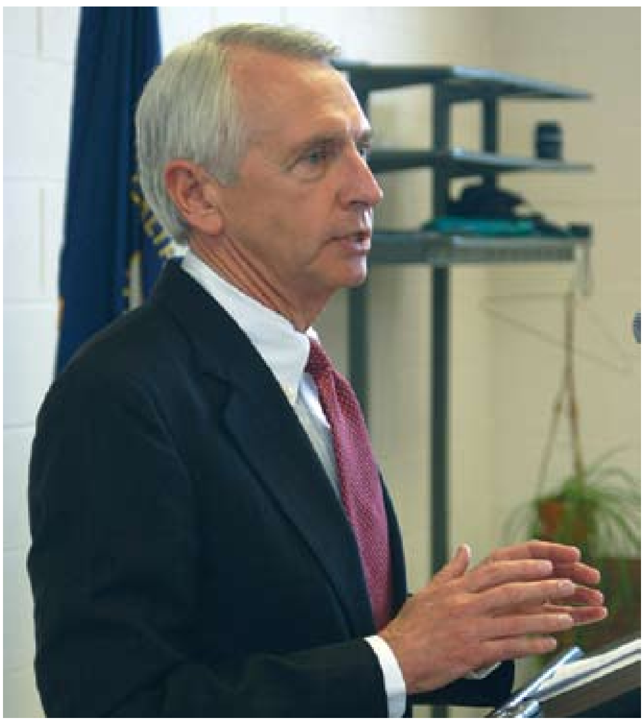
Budget Crises Explode Across the U.S.A.

by Mary Jane Freeman

"This year is unlike any other since the early 1990s. House prices across America are falling. Foreclosures and bankruptcies are up, fuel and food prices are rising," said Maine Senate president Beth Edmonds as she gavelled into session the state's Senate on Jan. 2. Even before the first of 44 states to hold legislative sessions this New Year opened their doors, more than $25 billion in state revenue shortfalls were announced. Over 20 states and hundreds of localities will scramble to plug revenue gaps as the housing market crashes all around, gashing surpluses and earlier rosy revenue forecasts. Of the 44 states, 36 will be in session by mid-January, while another 4 states with no scheduled legislative session have looming budget deficits. Thus nearly all state legislatures this year will confront economic depression conditions deepened by the Bush years.

EIR, in November 2007, forecast, "As [bank] loan losses pile up, foreclosures accelerate, employment in the manufacturing-productive sectors declines, energy prices climb, and tax revenues shrink, legislators and elected officials will be in constant special session." Every tax revenue component—sales, personal income, corporate, and property—has been hit by the bursting of Alan Greenspan's housing bubble. On Dec. 31, in a widely reported New Year's eve National Public Radio interview, Greenspan admitted that the bubble is burst, saying, "something unexpected" will happen soon, which will "knock us all down."



Beshear/Mongiardo campaign

No sooner was Kentucky's new Governor, Steve Beshear, sworn into office, than he was forced to announce a $434 million revenue shortfall. He attributed his state's problems to the national economic "downturn."

Earlier, *EIR*'s March 23, 2007 issue showed that this knockdown is not "unexpected," but rather would be a consequence of Greenspan and his Anglo-Dutch financier masters' intention to bankrupt America. At least one-half of the U.S. commercial banking system's assets of $11.73 trillion, at that time, were invested in real estate—a blowout ready to happen.

Foreclosure Crisis Impacts Millions

Numerous policy reports issued in December, all pointing to the downturn in states' and cities' revenues, confirmed *EIR*'s forecast. "Twenty-four states and Puerto Rico reported state revenues have been hurt by the housing sector slump," began the National Conference of State Legislatures' (NCSL) "State Budget Update: November 2007," issued on Dec. 10. Using data from the first four months of states' 2008 fiscal year—July 1 to Oct. 30—only nine of those 24 states reported that revenues had fallen short. But now, those nine states have grown to 20 with reported revenue shortfalls, either for the current fiscal year or FY 2009, which begins July 1, 2008 in most states.

A U.S. Conference of Mayors (USCM) report issued Nov. 27 likewise showed the impact of the foreclosure crisis. This crisis "will result in 524,000 fewer jobs created next year and a potential loss of $6.6 billion in tax revenues in ten states," it stated. Combined economic output losses in the top ten metro areas "exceeds $45 billion," or $166 billion for all 361 metro areas, Global Insight's data analysis found for the mayors.

USCM president Douglas Palmer, who is the mayor of Trenton, N.J., quipped, "Not long ago economists said housing was the backbone of our economy. Today the foreclosure crisis has the potential to break the back of our economy, as well as the backs of millions of American families, if we don't do something soon."

That "something," as more and more legislatures and cities are recognizing, can only be Lyndon LaRouche's Homeowners and Bank Protection Act (HBPA). To protect the millions of homeowners, in or threatened with foreclosure, as well as state and Federally chartered banks, LaRouche's HBPA must be taken up by Congress, since this foreclosure crisis is actually a crisis of the whole economic-financial system, which is precariously perched on a $20 trillion highly leveraged monetary time bomb.

States Scramble To Plug Budget Holes

When the NCSL report was issued, 18 states reported being "concerned" about their revenue outlook. Indeed, since then most of them have declared shortfalls for this fiscal year or next. Arizona is a case in point: When *EIR*'s mid-November article appeared, Arizona had a seemingly manageable $250-500 million shortfall, but now it is nearly $1 billion. Like many governors faced with bigger than expected budget holes, Arizona Gov. Janet Napolitano has presented a package of cuts, new borrowing, and "rainy day fund" withdrawals. She proposes borrowing $393 million for school construction, thereby leaving general fund cash for other expenditures.

On Jan. 4, a day after her plan surfaced, a *Bloomberg News* report showed the folly of doing this. Premiums on the yields above the benchmark bond rates issued by California, Florida, Massachusetts, and New York, have doubled since July, causing a hike in the cost of states' borrowing—all to attract investors who, in the midst of the credit markets' freeze-up, sought higher yields on ten-year bonds.

Kentucky is another state newly joining those with declared deficits. On Dec. 27, eleven days after newly elected Gov. Steve Beshear was sworn in, he held an emergency press conference to announce a $434 million revenue shortfall for this fiscal year, and an additional $500 million for the next. Revenue, which had been expected to grow by 4.5%, instead was less than 1% for this fiscal year. Beshear insisted that Kentucky's "budgetary crisis" is a result of "a national economic downturn; subprime mortgage difficulties affecting our housing industry and durable goods manufacturing; and the lowest employment growth in several years."

LaRouche, referring to California's $14.5 billion deficit, deemed these revenue failures, proof of the "catastrophic" failure of the Bush Administration's economic policies.

Beshear pointed to a $389 million shortfall in the state's Medicaid budget, a third of which is paid out of its General Fund revenues. A Kentucky state legislator told *EIR* that the deep unemployment, especially among young workers in the far west of the state and Louisville area, have caused increased demands for Medicaid. Since Bush took office in 2001, the state's unemployment rate grew from 5.2%, peaked at 6.3% in 2003, and has hovered between 5.7% and 6% since 2004.

As *EIR* showed, both sales tax revenues and real estate-related taxes have been severely hit by the housing crash. The NCSL's report noted that many states expected a "slowdown" but "the drop [has been] even higher than expected." The Dec. 31 *Los Angeles Times* gave the example of Greeley: Colorado's finance director Tim Nash "predicted a slowdown," but he expected an inflow of $2.6 million from sales taxes on new construction. Instead, Greeley will collect $1.2 million, 54% less than planned, due to fewer new housing starts. The NCSL reported that a dozen-plus states had declines in real estate-related taxes: Nevada reported that property transfer tax collections were 18% down from a year earlier. Minnesota's deed transfer tax was down 24%, and its mortgage tax, down 19%. The real estate transfer tax was down 8.7% in New Hampshire and 6% in New Jersey, as of October. These add up to tens of millions of dollars in lost revenues in these states alone.

The fall in these revenue sources also directly impacts county and local budgets. For example, Massachusetts' projected $1 billion FY2009 budget shortfall has nearly 40 mayors of cities and towns preparing to cut services, lay off staff, and curtail other expenditures, according to a Jan. 3 *Boston Globe* report. Already since 2002, the Massachusetts Municipal Association reported, state aid to localities is down $621 million annually. This led to Saugus town officials cutting $5 million in services during 2007.

In Maryland, where sales tax revenues began falling in early 2007 due to the housing slump, many counties now expect multi-million-dollar shortfalls by July 1, as a $1.8 billion budget "fix" of tax hikes and budget cuts, stitched together by state legislators and Gov. Martin O'Malley, curtails state aid to the counties. Montgomery County, the state's most populous county, announced a hiring freeze and $23 million in mid-year service cuts to stem a $401 million deficit for fiscal 2009.

Cutting services and workforce, building casinos, axing capital infrastructure projects such as new schools or bridge maintenance, reducing health services, are dead-end austerity measures. Only LaRouche's FDR-style economic recovery measures, starting with the HBPA and followed by infrastructure building projects and a new job corps for youth, will secure a durable tax base for America's state and local governments.