The state and local revenue collapse shock

by Chris White

States and localities are beginning, now, to turn in reports of tax revenues collected through the April 15 cut-off point. Around the country the picture is one of an accumulation of apparently local disasters. Each one of such, however, is generated by the insistence, on a national level, of the financial powers that be, that run both George Bush and Michael Dukakis, to maintain the fiction that crisis potentials are being kept in check, while continuing the brutal austerity that ensures that the actual crisis will get far worse.

The national effort to paper over the depth of the crisis, could well be compared to the effort to weather-proof a holed and leaking house, whose roof is beginning to come down, and whose walls are beginning to bust apart, by adding fresh wallpaper to the interior. For a while, the view from the inside may look okay. No one in his right mind, though, would want to be caught on the inside when the weather breaks.

Democratic presidential candidate LaRouche warned, in the immediate aftermath of the Oct. 19 stock market meltdown, that chief among the overlooked effects of the wipe out of approximately $1.5 trillion worth of book values of stocks, in the period between the end of August 1987 and the Black Monday market bust, would be the evaporation of revenues of federal, state, and local government.

The initial estimate of the effects of the crash on the federal deficit was an increase in the order of $100 billion and up. State and local governments were anticipated to be proportionally hit, with the crucial difference, that most states and localities are not empowered to cover deficits by resorting to market borrowing as the federal government does, and states and localities, unlike the Treasury, do not have access to the printing press.

Now, the results are beginning to come in, and the forewarned-of bust in state and local government revenues is here. California has chalked up an $800 million shortfall, attributed by that state's responsible financial officials to the effects of last year's market collapse. Dukakis' Massachusetts is moving toward a $500 million deficit. New York State has a revenue shortfall. These add to the existing crises in the southwest, already chronic through the collapse of revenues from oil production and property taxation. On the local level, Wilson Goode, mayor of Philadelphia, an anti-tax increase reelection candidate, has been forced to go to his city council to ask for an increase in property assessments of from 14 to 30%. And this is just the beginning.

New round of austerity

With the shock of revenue collapse comes also a new round of brutal austerity against the essential services, like health, education, and infrastructure maintenance, that are funded out of the tax revenues of states and localities. This is further aggravated, around the country, by the now-surfacing effects of federal government budget-cutting austerity against especially Medicare and Medicaid programs.

Public school systems are reported to be under attack in northern California, New York, and New Jersey. Health delivery systems are likewise under attack in California, Ohio, New York, and New Jersey. The infrastructure side of the crisis is coming to the fore on the West Coast and the East. In Los Angeles, new construction has been banned until 1992 because the sewer system has reached so-called capacity. There's a new round of water crises erupting in the Bay Area and in New York and New Jersey. And, of course, the deterioration in the nation's transportation grid has once again been highlighted by the dangerous state of New York City's bridges, epitomized by the now closed Williamsburg Bridge.

Nothing just local

While it might seem that each such situation, which has erupted in the nation's most populous areas, and more broadly, is an eruption of some kind of local peculiarity, nothing could be further from the truth. The collapse of local revenues, and the consequent destruction of essential services and infrastructure on which the labor force and the economy depend, are the result of the insanity of the national-level insistence that brutal austerity against the economy, the workforce, and the population at large, be maintained, in favor of a commitment to defend the apparent integrity of the bankrupt financial system.

There can thus be no local or state-level solution to the crisis that lies behind the austerity shock now hitting states and localities with fresh vigor. The only effort that will work, as candidate LaRouche has stressed repeatedly, before as well as during the unfolding of the present financial and economic collapse, is to junk the financial and economic policies that have created the present mess, and set about the task of organizing a real recovery in the physical economy, by putting the labor force back to work, in wealth-creating productive employment.

The now erupting crisis, on the state and local level, is fresh proof of the insanity, as well as incompetence of the federal-level, financial institution-driven policy, of reducing expenditures of government to bring revenues and outgoings into so-called balance. Since the direct effect of the reduction of expenditures is to further depress the revenue base for all levels of government, through depressive constraints on both government activity, and therefore, the economy as a whole, the expenditure-slashing means of especially the last eight years have consistently had an effect the reverse of the one claimed. Through budget-gutting austerity, the tax revenue base has decreased, and therefore the inflation-adjusted shortfall, especially at the federal government level, has continued to increase faster than cuts have been made in expenditure.

The coupon clippers in the finance houses and banks who parasitize on government's credit-generating powers to finance this deficit are the only ones who benefit, at least in their own conceit. Actually, all they do is ruin themselves, since the spiral of economic decline and revenue decline, feeding inflation, continually devalues, and then wipes out the nominal book values of their holdings of government-secured debt. When the host dies, so too does the parasite.

The way out

What is needed, as LaRouche has repeatedly proposed, as a competent alternative to the built-in self-feeding depressive spiral of brutal austerity, is a policy which will permit the tax base of federal, state, and local governments to increase. That way, essential services, both to labor and through the infrastructural component of economic activity, can be maintained, while the economy is put back on the path of wealth-creating growth.

That can only be done at the federal level, through financial and economic reorganization measures, directed to that end. The new policy rests on both the constitutional bedrock that the institutions of government are the sole source of money and credit, and the accumulated body of law which permits such constitutional intent to be translated into practice, through emergency action of the executive branch. The bankruptcy of the banking and credit systems is not actually the kind of problem which Treasury Secretary Baker and his friends have determined, by their obsessive incompetence, to make it. Those powers of government are to be used to create in the order of $2 trillion worth of new credit to finance economic activity which cannot be financed by the self-destruction of the banking system under the combined effect of austerity thinking, and Wall Street's so-called "creative" or "innovative" financing methods of the period since 1982.

Such credits are to be issued in the form of U.S. Treasury notes, secured on the reserve base of gold, into the banking system for allocation into wealth-generating economic activity in industry and agriculture, infrastructure, and scientific and technological advance. On national television, LaRouche has outlined how a 50-year commitment to the colonization and exploration of, first, the Moon, and then Mars, would be the driver of such an effort. Over the near-term, under such a driver, the extension of such credits would have the effect of adding in the order of 5 million productive workers to the economy, in a four-year period, as a milestone on the road to shifting ratios of operatives to service sector workers back in the direction of 40% productive to 60% service sector, by doubling productive employment between now and the end of the century. High-skilled, high-paying jobs would be created to transform the economy and the world for the challenges that humanity ought to be conquering in the 21st century.

The by-product consequence is that the revenue base of all levels of government is increased, such that government at all levels is able to support, at less cost to the economy as a whole, improved levels of social and infrastructural services. Between that proposal, and the brutal austerity that is now gutting states and localities, as LaRouche warned it would, there isn't any middle ground. Without eliminating the policy outlook and commitment which insists that such brutal austerity is the only approach permissible, the crises now erupting will only get worse, and can only get worse. In perhaps the relatively short term, that will make a mockery of the insistence of Baker and Greenspan that the system is under control. Meanwhile, though, only the indicated change in national policy will begin to reverse the destruction now being wreaked at the state and local level.