Revenue losses push budgets to the brink

by H. Graham Lowry

The ongoing collapse of the U.S. economy has now forced state and local budget-cutters onto the horns of an impossible dilemma: There is not enough left to cut to cover the deficits, and there are not enough incomes left to tax to make up the difference. Any continuation of prevailing economic policies will soon lead to the disintegration of the basic functions and vital services of the public sector.

The month of March provided dramatic evidence that the cumulative result of simply imposing austerity—instead of reviving real economic output—is a rapidly disappearing revenue base. With deadlines for tax filings approaching, March is normally one of the strongest months for revenue, but this year was generally a bust. Nationwide, new unemployment claims averaged 200,000 a week more than in March 1990, a 60% increase!

California deficit exceeds state payroll

For California, which in January calculated a deficit through June 1992 totaling $7 billion, the official estimate now stands at $12.6 billion. Gov. Pete Wilson has acknowledged that not even laying off the entire state work force, or closing all its colleges, universities, and prisons, would make up the deficit, which amounts to 23% of the proposed budget. The final figures for March also show revenues down another $214 million; the steepest drop was in personal income tax collections, down 25% from a year ago. California's official unemployment rate hit 7.7%, compared to 5.3% last March.

The administration and legislature are now flailing about, weighing combinations of up to $6 billion in further budget cuts and $7 billion in additional taxes. California's deficit is greater than the entire budget of 45 other states—exceeded only by the general funds of New York, Illinois, Massachusetts, and Texas. Seventy percent of its general fund is spent on public schools, health, and welfare. Much of the spending eliminated would simply be loaded onto local and county governments, which are already sinking under their own deficits. The city of San Jose, located in the Silicon Valley where prosperity seemed to rule not long ago, has just reported a deficit of $24 million for the current year, more than twice what it announced only weeks ago.

In Massachusetts, staggering job losses have wiped out the state's unemployment fund. The unemployment rate reached 10.3% in March, a huge increase from the 5.9% of a year ago, and almost 40% higher than when Gov. William Weld took office in January. The unemployment fund, which stood at $324 million at the end of 1990, dropped to $61 million at the end of March. Now shrinking at $5 million a day, it will run out by mid-April unless the state can borrow emergency funds, at junk-bond rates. Overall revenue in March collapsed by another 5.8%, adding $45 million to the current-year deficit, now around $900 million. Meanwhile, Governor Weld is trying to lay off 7,000 state workers.

Slave labor plans in New York

New York State entered its new fiscal year April 1, without a budget in place and with a projected deficit of nearly $6.5 billion. Its unemployment rate hit 7.1% in March, against 5.3% a year ago, and the state's economic experts project another 250,000 jobs will disappear during the next 12 months. Gov. Mario Cuomo's administration has a new plan which will throw even more out of work, by forcing hundreds of thousands of current welfare recipients into low-level jobs at barely half the minimum wage.

As proposed by New York Social Service Commissioner Cesar Perales, the chronically unemployed home-relief recipients, two-thirds of whom suffer physical or psychological disabilities, will no longer receive direct benefits. Instead they will be placed in "jobs" with employers who will receive state grants for their wages, and pay only the difference between the grant and the "prevailing wage." Thus, employers who now pay the legal minimum wage of $4.25 an hour, can replace their workers with welfare victims, and pay only about $2.25 an hour from their own pockets, with the state paying the rest directly to the employers.

There is no provision in the scheme for job training, and the state's payments would end entirely after one year, at which point the employers "in good faith" are supposed to keep the workers on. Most employers, of course, would likely prefer simply to replace them with a new batch of welfare victims, and have the state again cover a chunk of the payroll. Many will no doubt be familiar faces, since nearly 75% of New York's new welfare cases are "home relief" victims of the depression.

Local social service departments will enforce this labor recycling, with powers to deny any benefits to victims who do not comply. The state will "save" additional money by taxing the "income" of those forced to work. The geniuses in Albany have not commented on the revenue to be lost from those whose salaries are currently paid entirely by employers, but will soon be on the unemployment lines.

Other state capitals may not be far behind. Ohio's Gov. George Voinovich, facing a 7.6% unemployment rate and what he calls "a budget problem unparalleled in Ohio history," has proposed to eliminate the state's $300 million general assistance program of aid to the poor.