

# U.S. state budgets unraveling already

by H. Graham Lowry

Five weeks after the July 1 beginning of the fiscal year, state budgets are already collapsing under huge and interest payments for emergency borrowing. Bitter legislative fights in a number of states dragged on well past the fiscal year deadline, only to end in the drafting of budgets which have already been denounced as inadequate to pay the bills. The state of Connecticut, still without a budget following Gov. Lowell Weicker's Aug. 7 veto of the legislature's latest tax plan, faced the prospect of a government shutdown for the second time.

## Huge shortfalls

Under the current rate of U.S. economic collapse, the plain truth is that no budgets will meet their projected revenue or spending levels. The situation in Maryland provides a dramatic case in point. After a series of blood-letting sessions during the past fiscal year, cutting more than \$650 million to bring the budget into line, the General Assembly was informed June 25 that this year's shortfall was *already* projected at a whopping \$300 million.

On Aug. 1, state budget officials announced the figure could grow to \$675 million next year; and Gov. William Donald Schaefer ordered state agencies to prepare for \$300 million in new cuts, about 5% of the general fund, beginning Oct. 1. Additional layoffs of state workers are considered "inevitable," and the chairman of the Maryland's House Appropriations Committee declared, "I think people are going to have to bite the bullet on taxes."

In California, Gov. Pete Wilson signed a \$55.7 billion budget July 16, which included \$3.2 billion in cuts and a record \$7.3 billion increase in sales and income taxes. The next day, he announced that he would still lay off up to 20,000 state workers, unless the legislature gave him a free hand to cut their wages and benefits by \$800 million. As it is, the California budget is full of holes, including \$2.5 billion in borrowing from special funds, shifting and delaying pension payments, and smoke-and-mirrors bookkeeping changes. Nearly \$1.4 billion in cuts to public schools was sold as a one-time reduction, with the money to be restored a year from now.

For his performance as Dr. Frankenstein in putting this budget together, Governor Wilson is now touted in the national media as a future Republican presidential contender. Beyond the fiscal sleight-of-hand in the state's budget projections, the entire package is absurdly premised on an economic upturn, echoing the ravings of George Bush. Even California's chief economist, however, estimates a one-in-three chance that the economy will not recover, but will experience what Wall Street wags call a "dead-cat bounce."

In Illinois, Gov. Jim Edgar signed budget bills July 24 which drastically reduce income assistance and health programs for the poor, in a package of cuts totaling \$1.5 billion—nearly half the total in California. But the Illinois health care appropriation assumes \$640 million in federal matching funds, tied to new state *assessments* on hospitals and nursing homes based on the amount of Medicaid services they deliver. Worse yet, this bookkeeping trick assumes federal funding from the very programs the Bush administration says it intends to eliminate.

## Constitutional crisis looms for Connecticut

The budget deadlock in Connecticut between the governor and the Assembly over tax policies threatened to become a constitutional crisis following Weicker's latest budget veto. The final temporary budget expired Aug. 5, and the state would thus be without funds if the veto were sustained as expected. The Assembly has repeatedly rejected Weicker's attempt to institute a state income tax, and the governor has vetoed every budget without one. Legislative leaders declared they have no plans to pass another temporary spending bill, but intend to challenge Weicker's authority to run the government by executive decree.

The budget dictators of Wall Street have been pushing for exactly such powers to impose austerity, and Standard and Poor's bond rating agency jumped in Aug. 5 by putting Connecticut's bond-anticipation notes and general obligation bonds on its "credit watch." S&P threatened to lower both ratings, due to the state's "continuing budget impasse and deteriorating financial condition."

The chimera of economic recovery and visions of coffers bulging with revenues have dazzled state governments across the country. But despite record tax hikes across the country, which may equal the \$23 billion in federal tax increases which Congress enacted last fall, state governments are already scrambling for funds. Even with major tax increases in half the states last year, state tax collections nationwide grew less than 1% during the first three months of 1991.

In many of the older industrial states of the Northeast and Midwest, revenue shortfalls doubled and tripled during the first six months of this year, forcing those states to reopen their budgets for additional major cuts. "If revenues don't pick up in the next month or two," said a spokesman for the National Association of State Budget Officers, "they will be right back in there."