Bottom line on state budgets: deeper depression to come

by H. Graham Lowry

For most of the nation's states, the new budgets are in; and the bottom line is that continuing economic collapse is now presumed to be a way of life. Years of covering deficits with spending cuts and tax hikes have only worsened the problem. Worse yet, the Clinton administration has chosen to take the federal government further down the same dead-end trail, while claiming to see "recovery" at the bottom of the next ravine.

The message from Washington was that the new agenda for "change" in the United States did not apply to the ruinous economic policies which have prevailed for more than a quarter-century. Predictably, the nation's governors and state legislative leaders reached a consensus to impose more of the same budgetary austerity. The only difference this year was that that "consensus" was reached with less constituency opposition and legislative hand-wringing—and a consequent increase in official claims that the worst was over.

How bad is it?

State officials in California, the perennial "worst case" in revenue shortfalls, congratulated themselves this year for having met the July 1 deadline for the new fiscal year for the first time since 1986. Gov. Pete Wilson said that it was "a great pleasure to sign this budget, but the budget itself was not a great pleasure." The latest fiscal plan slashes spending by \$2.5 billion (more than is spent by 17 states) and defers, borrows, or dumps onto local budgets billions more.

Illinois went nearly two weeks into the new fiscal year without a budget, and ended up cutting over \$200 million, borrowing another \$900 million, and leaving localities to pick up the tab for hundreds of millions more. The state also made permanent a state income-tax surcharge passed during a previous fiscal crisis, adding another \$356 million in taxes. The bottom line: Illinois is still several billion dollars below the level of spending needed just one year ago.

Indiana's legislature passed a budget over Gov. Evan Bayh's veto, only to hear that he would begin mass layoffs of state employees if another \$160 million in cuts were not imposed. The state budget director added that the new two-year budget is already projected to fall short by \$370 million in revenues. On his own authority, Bayh has also declared he will use his administrative powers to reduce Medicaid spending for the poor by \$540 million.

States such as Massachusetts and New Jersey produced budgets with less dramatic cuts than last year (\$200 million compared to \$1 billion in New Jersey's case), but those comparisons are wildly misleading. Massive layoffs and reductions or outright elimination of major programs in the last few years, especially for the poor, the sick, and the elderly, have simply lowered the required levels of spending. Narrowing the deficit has simply meant throwing more people on the scrapheap. Looking behind the numbers, one finds that most budgets now build in a worsening human toll.

What's going on in California?

The state of California imposed budget cuts and tax increases amounting to \$25 billion the last two years—nearly half of the *total* current budget of \$52 billion. For its pains, Moody's Investors Service, one of the watchdogs over state spending, renewed its AA credit rating July 15, yet warned that the cutbacks Wall Street had demanded might hurt the state's economy! Moody's report notes that the new budget, which cuts the state's local aid by \$2.6 billion, will reduce the level of public services provided by municipalities, and thus worsen the state's "business climate" and "quality of life."

Cuts to higher education "will have similar negative effects," Moody's declared. "The severity of the economic damage from these factors is unpredictable," the report concluded. Moody's proceeded, however, to give its highest rating, MIG 1, to \$2 billion in revenue anticipation notes which California floated the following week.

Now look at the actual basis for California's current budget numbers. The net overall cut of \$2.5 billion is just the tip of the iceberg. The budget carries over a \$2.7 billion deficit from the fiscal year which ended June 30; another \$1.7 billion cut in school aid is carried over as an off-the-book "loan" to be repaid by the districts. Local sales tax increases totaling \$1.4 billion must be approved on the November ballot to partially sustain local services hit by cuts in state aid. And \$500 million disappears by allowing counties to ignore state mandates, including authority to reduce general assistance grants to 40% of the federal poverty level.

The biggest swindle is seizing \$2.6 billion in local property tax revenues which formerly went to local governments for services and public safety, and using them to cut state spending for public schools. This is done in the name of "making education a priority" by keeping spending at last year's level—with no provision for inflation. But California's school spending on a per pupil basis has been declining for 30 years, and now amounts to only $4,200 a year, compared to a national average of about $5,600.

Meanwhile, Wilson has led a campaign which has put a school voucher initiative on the November ballot, posing a further threat to public education. The measure would provide parents with a voucher worth a little more than half the per pupil cost of public schools, to be used at public or private schools of their choice. State Controller Gray Davis announced July 24 that the voucher plan would force public schools to slash their budgets by at least 10%, since public schools would be "competing" with private schools for public voucher monies.

The voters have already been warned that they must increase their local sales taxes to cover vital services. At a press conference called by Governor Wilson in late June with police and fire officials, Sacramento Sheriff Glen Craig declared, "If this doesn't pass, we're going to be in the deepest trouble we've ever been in as far as local government is concerned." The state's elimination of $2.6 billion in local aid will cost Los Angeles County alone an estimated $292 million.

So what is Moody's betting on? That *state bonds* will pay off for investors, because more and more of its traditional obligations are being pawned off at the local level, in a kind of "do-it-yourself" austerity. Whether citizens continue to receive any benefit of vital services, public safety, education, and health care is strictly secondary, by this demented reckoning. And the gentlemen of Wall Street know full well that local communities cannot fill the gap left by the state. Overall municipal debt outstanding in California already totals *$130 billion.*

Is there a silver lining somewhere, or an imagined upturn on the wing? No, says a study commissioned by the Los Angeles Economic Development Corp. released in June. The touted "reconversion" of California's aerospace industries will only occur "on a small scale" for the foreseeable future. One-fifth of the companies surveyed reported that they were planning to leave California, and another 10% said they were considering it.

Of the estimated 1 million remaining jobs tied to aerospace, the study estimated that the state could lose as many as 270,000 of them by the end of the decade. The California aerospace industry lost more than 130,000 jobs directly supported by it from mid-1988 through February 1992. A separate report issued last fall said the state lost more than 80,000 aerospace jobs since May 1991.

The same picture applies to converting closed U.S. military bases. The commander of the 11,000-man Alameda Naval Air Station in California, scheduled for shutdown as part of defense cutbacks, said on July 7 it would not be available for civilian use until the end of the decade.

The Illinois shuffle

Gov. Jim Edgar of Illinois also resorted to shuffling around key budget responsibilities, swiping more than $200 million in local aid to cover state spending for public education. He even claimed a budget surplus following last year's massive cutbacks. Again, a look behind the numbers reveals a deepening crisis.

The state ended the fiscal year with a balance of $11.7 million, say the account books. But Illinois still owes nearly $1 billion, including nearly $600 million in unpaid Medicaid bills owed to health care providers. But most of the health care costs will be underwritten by the nursing homes and hospitals, which will be taxed to pay for their own reimbursement. In the meantime, the state will borrow $900 million to tide itself over.

The state's budgetary maneuvers in response to the public school crisis are truly a marvel. Chicago's public schools alone face a deficit of $415 million for the coming year. The new state budget provides the city with "access" to $84 million, while appropriating *not one cent!* Chicago schools would receive an "extra" $46 million by moving up their September payment to August. They would be allowed to use another $22 million by reducing the amount required for the reserve fund of the Chicago School Finance Authority. They would be allowed to "save" an extra $12 million by offering employees an early retirement package, and $4 million by charging school supplies to the textbook fund. A spokesman for the Chicago Civic Federation said June 30, "It's sort of like check kiting. That's not any new revenue; it's smoke and mirrors."

Another bill signed by Edgar at the end of June permits Chicago to levy four local taxes designed to raise $40 million annually, and to hold a non-binding referendum in November 1994 on removing the Cook County property tax cap. Real estate taxes in Cook County have already increased by nearly 60% since 1986.

Flood relief is another area which dramatizes the bankruptcy of the state. To deal with the massive damage from the flooding of the Mississippi River, estimated by Edgar at nearly $1 billion just a week after the budget was adopted, the state authorized $10 million to help pay expenses for the Illinois National Guard. The 96 counties outside the Chicago area were also given the authority to create "storm water management committees," to build levees and sanitary systems to control flooding. The committees will receive their funding through local property tax increases, totaling $57 million a year.

The flooding is clearly a national concern requiring massive federal aid. The problem is that the same ruinous economic policies have left Congress haggling over whether to appropriate emergency assistance, or wait until it can hammer out more budget cuts of its own.