instructions given on May 19, 2001.' " Among them are Academician Lvov, Sergei Glazyev—a corresponding member of the Academy of Sciences as well as Duma committee chairman—and the deputy director of the Federal Security Service (FSB), Yuri Zaostrovtsev, "who advocates criminal prosecution for taking hard currency out of Russia."

This working group, according to *Novyye Izvestiya,* is supervised by Vyacheslav Soltaganov, former chief of the Tax Police, and since March 2001 Deputy Secretary of the Security Council. He holds the rank of general in the FSB. Nadzharov complained, "It was Soltaganov who advocated an all-encompassing system of secret financial police in Russia and abroad. This led some business owners to start thinking about defecting to the shadow sectors of the economy. It also led the President to assign the notorious 'economist' to the Security Council. There, Soltaganov proved his ingenuity by drafting a plan for the future economic development of the state. Its very first paragraph specifies in no uncertain terms that the status of Russia as a geopolitical power directly depends on implementation of the concept of economic security."

The Letter of the 43

Among the many commentaries and statements published in connection with the anniversary of the Aug. 19-21, 1991 "coup" attempt in Moscow, an outstanding one was the open letter from "43 concerned citizens," published in the left opposition paper *Sovetskaya Rossiya* on Aug. 14, which Sergei Glazyev also signed. Other signatories included Communist Party leader Gennadi Zyuganov, Agrarian faction head M. Kharitonov, the editor of *Zavtra* A. Prokhanov, Academician Zhores Alfyorov (Nobel Prize winner in physics), retired Gen. I. Rodionov, and other nationalist authors and military figures. The document, "Stop the Lethal Reforms!," highlights the strategic nature of Russia's choice of economic policy. It was addressed to the population, but included an appeal especially to President Putin, after enumeration of the woes inflicted upon Russia during the past decade.

The appeal concluded, "We have no illusions about President Putin's abilities and moral principles, but we appeal to him to shed the terrible burden of Yeltsinism. It is necessary for Putin to get rid of Yeltsin's retinue, who are so hated by the people. . . . We appeal to the President to take the helm of the state away from such amateurs as Kudrin and Gref, who are sending the economy into a tailspin. Let the President strike a decisive blow at the shadow business and mafia, as he did in the case of [Boris] Berezovsky and [Vladimir] Gusinsky. The overwhelming majority of the population will support him in this matter: workers, peasants, academics, the military and patriotic businesspeople among them. The secret service officials who came to power with Putin, bringing with them strong wills and selflessness, are stifled by the corruption of Yeltsin appointees. They are sure to become Putin's supporters in 'curing' the state. . . ."

Governors In Denial As State Budgets Blow

by Mary Jane Freeman

By the June 30 end of most U.S. states' fiscal year, "expanding budget gaps" due to "anemic revenues" had hit 20 states. Reality had struck: the stock market/New Economy blowout, combined with the million-layoff collapse in the manufacturing base of the U.S. economy, caused revenues to nosedive, and state after state to report tens to hundreds of millions of dollars in shortfalls.

Now comes news from state budget offices across the nation, of new shortfalls in the tens of millions in *just the first month* of the new fiscal year (July 2001-June 2002). The reports confirm Lyndon LaRouche's analysis: the depression is here. But governors, legislators, and state officials are in a state of hysterical denial, hoping somehow to ride it out. July's news has meant and will mean: layoffs of thousands of state employees; school budgets and health care programs being slashed; public safety job vacancies left open; state infrastructure left to rot; rainy day, surplus, and tobacco settlement funds drawn down; and states' bond ratings downgraded.

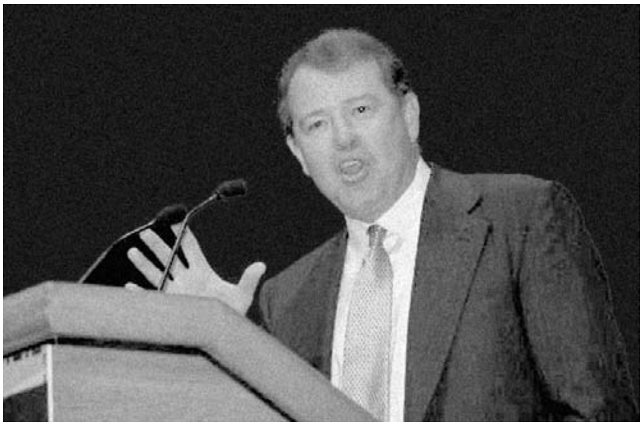
Contrary to wishful thinking, this fiscal year will be a disaster for most states. The 1990s "golden years," when states relied heavily on revenues generated from taxing Federal Reserve Chairman Alan Greenspan's stock market bubble, are over.

EIR's May 4, 2001 issue showed that 14 states were then engulfed in budget crises: we forecast that at least 25 would be critical by June 30, and all states by year's end. On Aug. 17, a *Boston Globe* article reported: "At least 26 states . . . are facing budget cuts in the wake of a sharp drop in the taxes they collect from investors rocked by the stock market's decline. States collected billions . . . in taxes on capital gains and income earned through stock options during the Internet-fueled bull market. . . giving them a chance to boost spending, cut taxes, and increase surpluses. But with the high-flying Nasdaq Stock Market down 50% in the past year and investment-related taxes evaporating fast, the pendulum is rapidly swinging back."

It is high time elected officials faced reality.

July's Revenues Plummet

An hysterical calm seems to be gripping governors and legislators as July's bad news rolls in. Many officials are saying, "we have to wait to see if there's a trend," as if some artificial "fire wall" existed between the just-closed fiscal year



A Wall Street source of denial of economic reality: Economist Stuart Varney keynoted the National Conference of State Legislators on Aug. 12. He advised the officials, nearly all facing meltdown of their state budgets, to buy stocks and wait for a second-half recovery!

The State Capitol in Columbus, Ohio. State officials claimed of July's accelerating drop in tax receipts, "It's just one month. It's not time to panic."

and the new one. Nebraska Gov. Mike Johanns, announcing an $8 million July revenue shortfall, exclaimed, "I don't want to be the little guy . . . screaming 'wolf' and 'the sky is falling.' " Rather, Johanns wants to wait for "two or even four months" to see if a trend exists, even though Nebraska's FY2001 had a $57 million shortfall against expected revenues, and the state began FY 2002 with $33 million less in its cash reserves—a circumstance which required a halt to all state agency discretionary spending as of mid-July. The 2.8% revenue growth rate was the lowest in the state since 1986! Does he see a trend, yet?

But Nebraska's first month revenue shortfall pales in comparison to many other states. Here is the "trend" reported by a few states on just their July tax receipts shortfall as against projected revenues: Arizona, $29.1 million; Indiana, $83.5 million; Missouri, 50% down; Ohio, $41.1 million; and Tennessee, $62.9 million. Let's take a look at how these one-month declines compound and complicate the budget balancing acts of a few states.

Indiana's $83.5 million July shortfall resulted mostly from a more than 50% drop in corporate tax receipts, from an expected $36.9 million to an actual $18 million. Also, income tax receipts were $52.3 million short, while sales tax receipts were off $12.7 million. The state's economy depends on manufacturing, and the severe shutdown occurring in this sector has caused the state's revenues to go "into the sewer," Pat Kiely, president of the Indiana Manufacturing Association, bluntly told reporters the news. Gov. Frank O'Bannon last year faced a $231 million revenue shortfall that required over $200 million in spending cuts and use of $150 million of surplus and rainy day funds, leaving the state's cash reserves at $808.7 million, the lowest since 1994. In July this year, he ordered 7% spending cuts becuase of where revenue shortfalls seemed to be headed.

Gore's Tennessee Is the Worst Case

The fact that revenues are coming in 50% below forecast in Missouri is due to a large decline in corporate tax payments and a projected drop in state capital gains taxes. In FY 2001 Gov. Bob Holden, faced with a $400 million revenue shortfall, imposed a state hiring freeze, cut 500 jobs, and halted building projects. Now he's expected to announce up to an 18% budget cut ($220 million) in state spending. State workers are demonstrating against salary freezes and staff cuts, shouting "One-Term Bob" and carrying signs reading, "Recall the Governor."

Ohio's July $41.4 million shortfall occurred as income and sales taxes receipts, only, came in under projections. Last fiscal year Ohio had a $282 million shortfall and made two rounds of spending cuts to balance FY 2001; yet a senior budget analyst said of the July news, "It's just one month. It's not time to panic. We need to see a trend before. . . ."

But for Tennessee, July's tale of tax receipts being $62.9 million below forecast, and 6.25% *below* last year, spells catastrophe in the making. It also comes after a fierce budget battle between Gov. Don Sundquist (R) and legislators. Fiscal year 2001's $218.6 million revenue shortfall required over $150 million in spending cuts and the use of at least $50 million in rainy day funds to plug the gap. But it must have been worse, because when the budget debate began, state budget analysts informed lawmakers that the state actually faces a $550-$880 million general fund deficit in FY 2002.

By law, as with most states, deficits are forbidden as the budget must be balanced, and so the battle over the new budget began. Sundquist proposed a tax reform package which included instituting an income tax, along with an increase in the sales tax rate. The tax hikes were rejected after protesters stormed the state capitol, broke windows and shouted anti-tax slogans. Then legislators squeaked out a FY 2002 "balanced"

The State Capitol in Nashville, Tennessee. The states' tax revenues have fallen outright; its budget shortfalls were hidden during the 2000 Presidential campaign, but have exploded now.

budget by slashing $100 million in expenditures and using $560 million in one-time tobacco settlement funds to fund ongoing expenses.

After this $19.6 billion budget passed, restoring pay increases for teachers and state employees which had been cut in previous budgets, Sundquist vetoed it, calling it "full of reckless disregard for our state's future." The legislature overrode his veto, and within a week Sundquist's State Finance and Administration officials directed all agencies to draw up plans to cut 5-10%.

The governor began announcing the size of the cuts on Aug. 23, and is expected to make all the cuts public before Sept. 1. Some legislators have told *EIR* that the actual shortfall, the real cost in terms of impact on peoples' lives, is $1 billion, when cuts that have been and will be made are combined, together with the use of tobacco monies and rainy day funds, which jeopardizes all future expenditures.

Virginia: RNC Chairman on the Spot

Alabama and Michigan, which use an October-to-September fiscal year, each report significant revenue declines. Alabama's corporate tax receipts through the end of July were $62.2 million—a close to 30% drop from the $87.9 of the first ten months of FY 2000. Since February, up to $80 million in corporate tax refunds have not been issued as a way to maintain some cash flow, while $3-4 million in personal income tax refunds are on hold.

But the July shortfall indicates Alabama is heading for a $300-400 million hole, not the earlier estimate of $262 million—which itself required a pro-rated 6.2% slashing of the education budget across the state. Higher education cuts could now rise to 7.3-9%, the second highest level of cuts in 70 years!

The State Capitol in Phoenix, Arizona. July, the first fiscal month of most states' new year, brought sickening revenue shortfalls; Arizona's was $30 million.

Michigan reports tax revenues from all sources for the first ten months (October 2000-July 2001) are down $647 million. So far agencies have cut $300 million in spending, a hiring freeze exists, and $155 million rainy day funds and $82 million tobacco funds have been used as a stop-gap. Gov. John Engler, a fanatical GOP-tax cutter, has insisted on keeping his tax givebacks while decimating the state's school budgets.

Virginia's economy is "still growing" said its Governor, Jim Gilmore, who is also G.W. Bush's chair of the Republican National Committee, as he finally admitted the state had a $52 million revenue shortfall at the June 30 close of FY 2001. Gilmore's accountants came up with a shortfall just shy of the budget-trigger which would have required him to forgo his election promise to repeal car taxes. The magic number was met, in part, by imposing $421 million in cuts across the board, including a hiring freeze, salary raises for teachers and state workers delayed, deferred capital improvements for colleges, and to generate revenue, a delay in giving a 0.5% reduction on food sales tax.

But Gilmore's hijinks were exposed as "creative financing" Aug. 20 when he peddled his "rosy" picture to the state's Senate and House finance committeemen. GOP Senate Finance Committee Chairman John Chichester led the chorus, telling Gilmore that his proposed FY 2002 budget has $500 million in unfunded needs in education, Medicaid, and capital construction. Chichester noted the state's revenue stream is in trouble, since tax receipts from individual income, corporations, and sales, *all* fell, resulting in a mere 3.1% revenue growth rate. More than double that, 7.7%, would be required to meet Gilmore's revenue projections. When Gilmore repeated his rosy theme that Virginia is doing better than other states, Sen. Warren E. Barry (R) retorted, "[Gilmore's] saying today that the sky is falling, except here in the land of Oz."

Bond Ratings Threatened

One indicator of the growing instability of states' budgets—and growing worries of Wall Street bond rating firms—is their declining reserve funds. The National Conference of State Legislatures latest "State Budget and Tax Actions 2001—Preliminary Report" states, "Aggregate state balances fell 22% from FY 2000 to FY 2001" for the 46 states reporting. (Aggregate balances include general fund year-end balances and rainy day funds.) It is the ratio of balances to spending which heavily influences bond ratings which states rely on to borrow funds.

Thirty-three states drew down their balances to get by, resulting in the largest percentage drop in that ratio, year-to-year, in 20 years—from 11.5% in FY 2000 to 8.2% in FY 2001. Nationally, the 8.2% in the FY 2001 is still above the Wall Street dictated 5% margin, but ten states fell below that. In fact, downgrading of bond ratings for the following states has either occurred or been threatened: Michigan, New Hampshire, North Carolina, Tennessee, and Wisconsin.

Another critical metric is the rate of revenue growth. NCSL reports that 23 states saw lower than 5%, with four of those at or below 1%: Indiana (0.6%), Iowa (1%), Ohio (0.9%), and Pennsylvania (0.1%). The national rate for states in FY 2001 was 4.5%, as compared to 8.7% in FY 2000, an almost 50% decline in one year.

Clearly, the imagined "fire wall" between the "bad news" in FY 2001 which required over one-third of states to slash spending while draining reserve funds, and the daily "bad news" of FY 2002 revenue shortfalls, does not exist. Budget battles are still ongoing in four or five states as of this writing. The tricks used to "get by" or "ride it out" undermine the citizens' general welfare.

U.S. Infrastructure in $8-9 Trillion Deficit

by Richard Freeman and Mary Jane Freeman

Infrastructure and the machine-tool-design principle are two of the most critical elements in an economy, in terms of transmitting high rates of productivity and fostering real development. A nation that is serious about surviving would build up its infrastructure. But because of fatally incompetent U.S. policy, U.S. infrastructure is breaking down at an increasing rate, which contributes to the decline of America's physical economy. Yet precisely this deficit, of obsolete, collapsed, and non-functional infrastructure, is unmeasured.

The need to know the condition of U.S. infrastructure is elementary: to evaluate the true state of the economy as a whole, and to assess what work America must do to repair and upgrade infrastructure, to facilitate anti-entropic economic growth. The *EIR* economics staff is assembling a picture of U.S. infrastructure, and preliminarily, it estimates the U.S. infrastructure deficit to be a staggering $8-9 trillion.

America's breakdown has occurred in every type of infrastructure, during the last three decades. *EIR* is consulting a number of engineers, and building up a bill of materials of what is needed.

A look at the infrastructure problems was made in the March 8 report of the American Society of Civil Engineers (ASCE), which represents the engineers who design and build infrastructure. The ASCE report focusses on pre-existing infrastructure. It gave the cumulative state of U.S. infrastructure a failing grade of "D+," and concluded that America must invest $1.3 trillion in infrastructure over the next five years just to bring it to a functional level.

The ASCE report has value as a starting point, in that it presents the devastated condition of U.S. infrastructure, with limited, but helpful detail; it breaks down the overall $1.3 trillion bill for infrastructure investment for each sector.

But, the infrastructure deficit is far greater than $1.3 trillion. The glaring shortcoming of the ASCE report is what it leaves out. If America is to survive and advance, it must gather and transmit sufficient water, some of it coming from Alaska; it must build a national magnetically levitated train grid for passenger and freight transport; it must build entirely new cities. This represents a tremendous cost in the form of a bill of materials of real physical goods needed to construct these, and other necessary projects.

Such infrastructure building in America would be called into operation by the same policy transformation as would implement Lyndon LaRouche's policy for an Eurasian Land-Bridge. In America, such infrastructure projects would create millions of jobs on the infrastructure projects themselves, and additional jobs in the industries that would be stimulated to provide goods for the infrastructure projects.

EIR presents here a first overview look at the status of the U.S. infrastructure catastrophe, including the five principal forms of infrastructure: transportation, which includes roads, bridges, waterways, ports, etc.; water management, which includes drinking water and waste disposal; education; energy generation and transmission; and health and hospital services. ASCE estimates of the cost to maintain the equipotential of each type of infrastructure, are also supplied. *EIR* then looks at the larger infrastructure needs that must be faced.

Infrastructure Breakdown

Transportation is vital to move goods and people within cities or across the nation. Improved efficiency and time saved in transport is a marker of development.

Roads: One-third of the nation's roads are in poor or