'Fiscal Fascists' Guide State Budget Slashing

by Mary Jane Freeman

There's a $50 billion hole, as of mid-October, in American state budgets, and it *will* get bigger. Facing disappearing revenues, governors and state legislators are turning to sharp austerity measures to meet the "all-powerful Bottom Line," rather than demanding the nation solve the pervasive revenue collapse with an economic recovery, FDR- or LaRouche-style. The prescription for doom—slashing government jobs, programs, and services—which every state in crisis is now adopting, is prescribed by the Manhattan Institute, founded by adherents of fascist Friedrich von Hayek. It, in cahoots with the neo-conservative, Wall Street-controlled American Legislative Exchange Council (ALEC), drafted an influential July 2002 budget crisis blueprint, entitled "Show Me the Money: Budget-Cutting Strategies for Cash-Strapped States."

As of mid-October, at least 46 states now project substantial Fiscal Year 2003 revenue deficits, on top of the severe shortfalls most suffered in Fiscal 2002. The projected gap of almost $50 billion for all states is up from the year-end FY 2002 (June 30) deficit of $37 billion. Most states, in adopting FY 2003 budgets, had already cut spending from the previous year's level from 3-7%, hoping this contraction would keep government intact until "the recovery" came. None has appeared; revenues are plummeting like a stone in water. The one-time revenue fixes used to close last year's deficits, such as draining "rainy day" funds or collateralizing tobacco settlement monies, are gone. And as the Manhattan Institute-ALEC July blueprint hoped, the fiscal crisis is pushing policy-makers to make the "politically difficult reforms to state programs and processes"; i.e., privatize government by "reducing the size and scope" of it.

Round One in Virginia, Massachusetts

Right on cue, as the anemic tallies of Fiscal Year 2003 first-quarter (July-September) revenues came in, and as the National Conference of State Legislators (NCSL) revised the cumulative projected shortfall to the $50 billion level, citizens of Virginia and Massachusetts were told by their governors that the only solution to expected $2 billion deficits was to eliminate jobs and programs. Both states had relied heavily on "New Economy" and stock market revenues, which crashed. Posturing about tough choices, the governors of both states were, rather, cowardly failing to intervene to change the doom caused by their own deluded belief in "free-market solutions."

Virginia's Gov. Mark Warner (D) announced $858 million in cuts Oct. 15, admitting these are a "partial" solution to the revenue shortfall, and that more are likely. Warner's announcement came just four months after Virginia had closed its $3.8 billion deficit in FY 2002 by drawing down its rainy day fund, borrowing from its Medicaid Intergovernmental Transfer fund, cutting agency budgets 3% across-the-board, cutting programs by $545 million, and more. Now Virginia is laying off 6,400 employees—1,837 state workers and 4,570 higher education jobs over two years. A hiring freeze will continue, and Warner axed the salary increases of those still employed. Revenue-generating Department of Motor Vehicles offices will close one day a week, and 12 will close permanently. Libraries will shorten hours and cut staff. Universities and colleges will cut jobs and hike tuition fees.

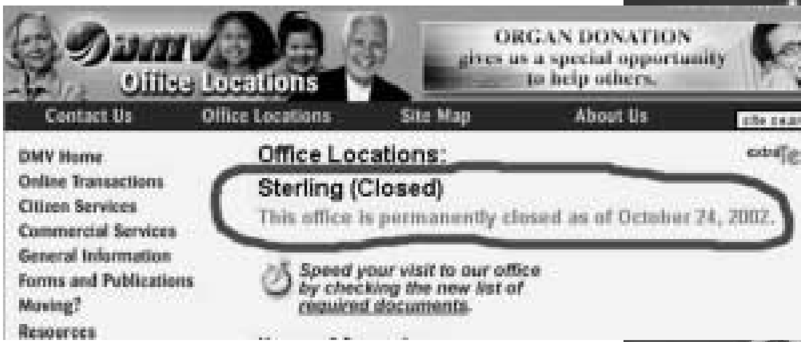
Health and Human Resources cuts total $111.4 million, hitting public health programs, including Emergency Medical Services programs, and those for the elderly; and stricter hospital admission criteria will be enforced. Aid to localities across the state lose $114.5 million. Overall funding is reduced for 140 other programs, including maintenance of ports and harbors. Primary education and Medicaid have been spared, but Warner made clear they'll be next in the near future.

On Oct. 11, Massachusetts' acting Gov. Jane Swift, using emergency powers, slashed $202 million out of the state's current budget, which will affect thousands of state jobs. Like Warner, she said this was only the beginning, asking legislators to come back into session to find at least $100 million more cuts. To close the state's FY 2002 deficit back on June 30, Swift and legislators had cut $900 million from programs, hiked taxes by $1.2 billion, and drained nearly all of its $1.8 billion rainy day fund. Then, fantasizing a quick recovery, legislators adopted a FY 2003 budget which assumed that there would be a 75,000-job gain! Instead, Massachusetts has lost 66,000 jobs since the Spring. So Swift swung the budget axe.

While less in dollar amount, Swift's cuts are more draconian than Warner's. Massachusetts' safety net for elderly citizens, veterans, and public health infrastructure has been gouged. More than $28.8 million was cut from state retirees' insurance premiums. Distressed hospitals, non-profit health providers, and community health centers lost a total of $15.5 million; influenza vaccine stocks will be reduced by 19%.

Nationwide, the picture is the same. New York City's budget shortfall is near $5 billion, with Mayor Michael Bloomberg (R) preparing drastic changes and layoffs. The State of New York projects a $6-10 billion gap, with the Manhattan Institute calling for 20,000 job cuts, axing Medicaid, and privatizing services. California's shortfall is twice as large as New York's. Connecticut's comptroller reported revenues fell short $315 million in the first quarter of FY 2003 alone. Likewise, Arizona's first-quarter revenues dropped, resulting in a newly projected $500 million shortfall for the year. The emergency is the same everywhere, and worse in some "formerly industrial states" like Michigan.

ALEC—whose most prominent neo-conservative found-



Virginia Gov. Mark Warner's doomsday Oct. 15 announcement of 6,500 state layoffs and $860 billion—"for starters"—in cuts (DMV offices like this across the state were shut down) was a harbinger for all states by the end of the year. Failing to act on the national level for recovery measures, governors are putting the knife in their states' economies.

ers and members include Jack Kemp, Michigan Gov. John Engler (R), and Congressmen Henry Hyde (R-Ill.), Jon Kyl (R-Ariz.), Dennis Hastert (R-Ill.), and Tom DeLay (R-Tex.)—sponsored the disastrous "Budget-Cutting Strategies" policy in July. It expected that in the face of the "worst fiscal crisis in a decade or more," privatization of state government services would complete the "downsizing of government" project they launched in the mid-1970s. ALEC boasts it has over 100 members in "senior leadership positions" in state legislatures, along with 12 sitting Governors. The report calls for "reducing the size and scope of government," and says even the "serious spending cuts" now being made don't "reduce the medium- and long-term costs of operating government."

Author William D. Eggers is a "senior fellow" at the Manhattan Institute for Policy Research, and was the chair of the Government Reform Policy Committee for Texas Gov. George W. Bush during his Presidential campaign, who specializes in government efficiency and privatization, among other areas. That this is Wall Street's plan for the states can be seen by its board of trustees: former Citibank CEO Walter Wriston, Maurice Greenberg of AIG, bankers from Warburg Dillon Read, Crédit Suisse First Boston, Goldman Sachs etc. Prominent among its policy purveyors are neo-conservative influential William Kristol of the *Weekly Standard,* and James Piereson of the John M. Olin Foundation.

Eggers' "ten strategies for cutting budgets" include: reduce the workforce; cut spending across the board; reform entitlement programs; sell off state assets; allow private providers to provide services; eliminate programs by performance records; introduce performance pay as a way to cut out cost-of-living adjustments (COLA); use the Internet to replace humans; merge agencies; and create "cost-cutting brigades." Nearly all of these "options" are or have been in use, as the Virginia and Massachusetts examples show. But the Institute blueprint goes further: Under the nonsense-slogan, "choice-based reform," it seeks to wipe out the protections, created by the FDR legacy, for what he famously called "the forgotten man."

Permanent layoffs, the ALEC report says, are "the most effective short-term cost reduction measure." The impact of the loss on the workforce can be eased by "innovative use of Web-enabled technology," and "outsourcing and streamlining" are recommended to cut payrolls. Eggers cites Florida Gov. Jeb Bush's model which has "already cut thousands of permanent and temporary positions." Renegotiation of labor contracts is a must, since in a "severe budget crisis" union members can be coaxed into "contractual concessions . . . rather than face . . . layoffs." The most cynical element is reduction of retirement costs. "In the spirit of shared sacrifice, states can realize savings by . . . freezing COLAs for retirees" or making them pay a bigger share for health-care coverage, it claims.

Besides the mantra of privatization—"sell or lease government assets and enterprises . . . water systems, airports, hospitals, ports, . . . gas and electric utilities, . . . waste-water treatment plants, . . . tax leins"—ALEC's report goes for Medicaid: "Next to the recession, the runaway cost of Medicaid. . . . is the biggest cause of the current state crisis." Simply impose HMO methods on the Medicaid programs by issuing "vouchers or refundable tax credits to purchase personal insurance through independent brokers." If this radical "structural reform" is not possible, the next best options are to eliminate "institutional long-term care," impose "co-payments," cut "coverage of optional services."

Slashing jobs and services when the economy is crashing, and robbing retirees to make health insurance companies richer, is not fiscal reform, but "fiscal fascism." Elected officials are elected to defend the General Welfare; their duty is to promote an economic recovery.