Only 'FDR Solution' Can Stop States' Collapse

by Mary Jane Freeman

Over two years ago, in February 2001, Lyndon LaRouche, now the leading Democratic Party 2004 Presidential pre-candidate, warned a group of American state legislators that the Federal states faced huge revenue declines—30% was his estimate—unless economic policy dramatically changed. He counseled legislative leaders and others, then, to learn and adopt the lessons of President Franklin D. Roosevelt's 1933 emergency actions to restart the economy.

Recalling FDR's use of the Reconstruction Finance Corporation (RFC) to issue directed credit for economic projects, LaRouche told a March 21, 2001 webcast audience, "You put the [public infrastructure] project into effect, in order to stimulate that local, state economy. In that way, you're able to pull things together and get the state through it." In other words, a real Federal-state partnership centered on job creation, to grow the productive economy as the only sound means to reverse revenue declines.

Most state leaders didn't listen, considering LaRouche's forecast of revenue collapse, as incredible. Now, they are suffering through it in shock. Holding fast to their delusion that the "New Economy," stock market-driven speculative consumer economy would somehow revive, governors and legislators have been scrambling to "manage" a cumulative three-year collapse of state revenues of nearly $200 billion. The result: School districts have shortened school years and/or days, laid off teachers, increased class size; aid cuts to colleges and universities have brought tuition increases from 10-40%; Medicaid coverage has been eliminated for hundreds of thousands of Americans, swelling the number of uninsured and straining overcrowded hospital emergency rooms; aid to localities has been cut, slashing fire, police, and sanitation services; and, in nearly 40 states, taxes have been or are about to be increased.

No End in Sight Without Policy Change

Another unexpected shock to most state elected officials: The budget cuts and tax increases failed to stop the revenue hemorrhaging; new, and worse, revenue shortfalls appeared. Fiscal Year 2003 (July 2002-June 2003 for most states) is a prime example. States had closed a nationwide $49.1 billion revenue gap—by cutting expenditures, draining reserve funds, or using other accounting measures—in order to enact their FY 2003 budgets. By January, they faced a new cumulative shortfall of $25.7 billion, forcing many to make more spending cuts at mid-year. Then by mid-April, the shortfall reappeared, and grew another $4.2 billion. Revenues were falling like stones in water. Up to mid-April, the total revenue shortfall—despite steadily reduced spending—for Fiscal Year 2003 had mounted to $79 billion, according to the National Conference of State Legislatures' (NCSL) "State Budget Update: April 2003," and was still rising. *EIR* estimates that the shortfall is much larger.

NCSL's report was issued before April 15 tax receipts had been tallied. So they, rightfully, included a *caveat:* FY 2003's deficit could get worse if April tax returns fall short. This would send "precariously balanced 2003 budgets into a tailspin," and in turn, require 2004 budgets to absorb bigger carried-forward deficits, and/or more spending cuts than are already being hashed out by legislatures. The report also showed that even before the June 30 end of FY 2003, 41 states face a cumulative $78.4 billion gap between revenues and expenditures for Fiscal 2004! This predicament is why numerous legislators and governors are still wrangling over Fiscal 2004 budgets, which must be in place by July 1.

With barely one month now left before the end of most states' 2003 fiscal year, the rate of economic collapse continues to accelerate, and the folly of trying to cut budgets and raise taxes so as to "adjust" to this process of collapse, could not be more clear.

As of mid-May, in those states which *have* tallied April tax receipts, revenues have indeed, again, fallen short even of lowered forecasts, and thus the FY 2003 deficit is still growing. April shortfalls have been reported in Arkansas, California, Colorado, Connecticut, Idaho, Indiana, New York, North Carolina, Oregon, and Pennsylvania. By law, all states except Vermont must balance their budgets by fiscal year's end. Either new rounds of cuts before June 30 will be made, or the new deficits rolled into Fiscal Year 2004, thereby further complicating adoption of new budgets.

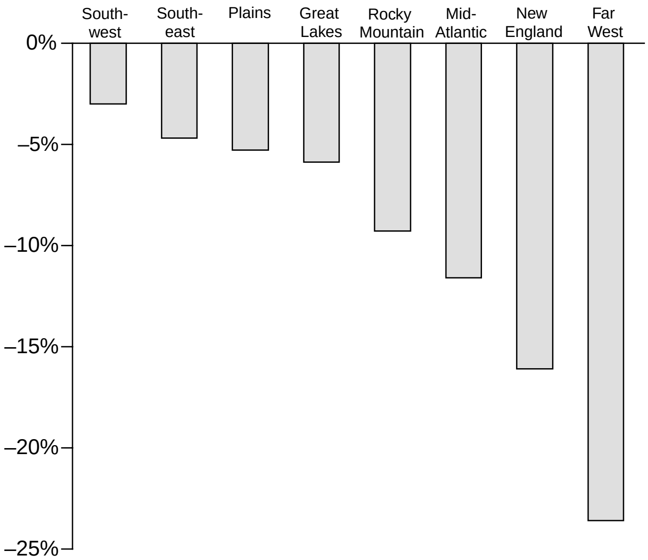
Speaking on May 10, LaRouche insisted that within the confines of the current failed economic policy, there is "no hope of balancing their books without killing people, that is, without cutting costs of government, which will have the effect of increasing the death rates and the general sickness rate; and will not allow people to develop, in terms of education and so forth," for a majority of states. Under present conditions, the states "cannot raise sufficient tax revenues to provide the things that the states *must* provide, to maintain the level of existence within those states. And therefore, we have genocidal programs of cuts in employment and services, which are hitting these states now," the candidate said.

No Region Is Spared

There's not a region of the country unaffected by the collapse. Taking the metric of personal income tax (PIT) revenues collected by states—which is the largest share of the

FIGURE 1

State Personal Income Tax Revenue Plunges from FY 2001 to FY 2002, by Region

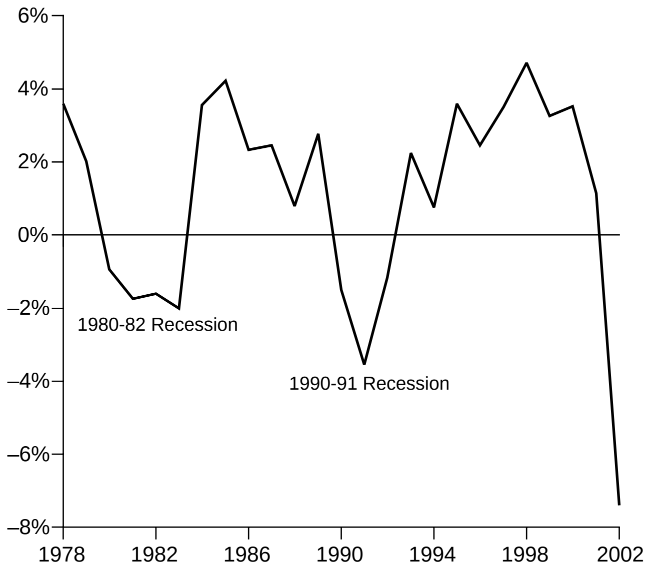


Source: Rockefeller Institute of Government, *Fiscal State News,* April 2003.

FIGURE 2

2002 State Tax Revenue Collapse Worse Than 1980-82 and 1990-91 Recessions

(State Tax Revenue per Capita)



Sources: Rockefeller Institute of Government, *Fiscal State News*, May 2003; U.S. Bureau of Economic Analysis, U.S. Bureau of Census.

revenues the states take in (**Figure 1**)—shows that one year after the unravelling of the stock market which began in March 2000, PIT revenue declines, from Fiscal Year 2001 to 2002, hit everywhere. The greatest falls were in states in the Far West (–23.6%), New England (–16.1%), and the Mid-Atlantic (–11.6%), mirroring the collapse of U.S. trade and exports produced and/or transported through these areas and, incidentally, confirming LaRouche's "incredible" forecast.

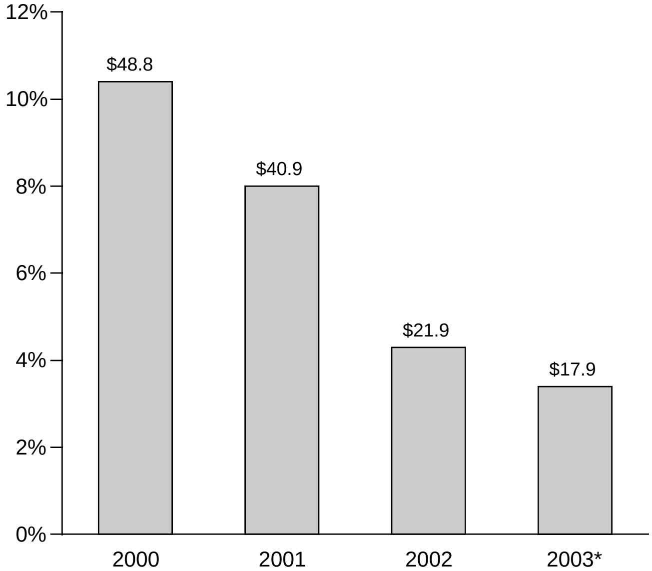
For all 41 reporting states, the national average decline of PIT revenue entering states' coffers, from 2001 to 2002, was 12%. States with greater declines than the national average were: California (–25.6%), Massachusetts (–18.5%), Vermont (–16.6%), New York (–14.3%), New Jersey (–13.8%), and Connecticut (–13.7%). The Rockefeller Institute of Government's Fiscal Studies Program, which compiled and analyzed this data, also noted that only six states had positive PIT revenue growth in this period, and none with "more than 2.6%, barely enough to keep pace with inflation" (see *EIR*, May 19, showing the degree of this understatement of the *real* inflation rate).

Vanishing PIT income to states also reflects the accelerating rate of unemployment, with officially more than 3.3 million people laid off since November 2000. National unemployment, officially, now stands at 8.786 million, having grown by 341,000 in April. If we look at state revenue on a per capita basis, the depth of the ongoing economic depression is clear. **Figure 2** shows that Fiscal Year 2002's huge 7.4% fall in real per capita state tax revenue was more than twice the fall in the most recent recessions of 1980-82 and 1990-91, when the declines were 3% and 3.5%, respectively. Contrary to officialdom, the economy is not in a cyclical collapse, but rather, as LaRouche has demonstrated, at a systemic end point.

State budget cuts are impacting every aspect of our lives, from healthcare to public safety to education. In April and May, tens of thousands of citizens took to the streets to protest the cuts. In New York, where the state deficit is $12 billion, 20,000-40,000 educators and other citizens rallied at the capitol to demand more monies for schools, and 40,000 healthcare workers rallied to halt Medicaid cuts which would, over two years, cut $1 billion from hospital payments. In Massachusetts and Texas, wheelchair-bound citizens protested in their state capitols against healthcare cuts which would affect 8,000 and 90,000, respectively. In South Carolina, several thousand teachers went to the statehouse to protest public school cuts which would eliminate 6,600 teaching jobs. "Stop building prisons and start building schools," was one teacher's plea.

Thousands of state and local government workers lost their jobs in Fiscal 2002, and in 2003 layoffs have accelerated, with roughly 50,000 announced in April alone. More layoffs are a significant part of plans for FY 2004 budgets. Connecti-

FIGURE 3
States' Total Reserve Balances Plummet as Percent of Total Expenditures
(Percentage of Expenditures in $ Billions)



* Estimated

Sources: National Association of State Budget Officers; Center on Budget and Policy Priorities.

cut has cut 5,300 jobs; Louisiana eliminated 4,300 positions, 3,700 of them in the Department of Health and Hospitals; Michigan expects widespread layoffs, without labor concessions; and Wisconsin slashed 2,000 jobs. Cost-of-living adjustments and state contributions to pension funds are either frozen, or cut outright in many states.

Just as cutting the life-blood out of the services which states provide for their citizens is a dead-end, so too is draining their reserve funds. **Figure 3** shows that to stay afloat from Fiscal Years 2000 to 2003, states have drawn down their total reserve balances by a whopping 60%. Total reserve balances are comprised of two parts, year-end general fund balances, and rainy day fund balances. These have plunged from $48.8 billion in 2000 to an estimated $17.9 billion in 2003, according to the Center on Budget and Policy Priorities (CBPP), which compiled and compared the data. Figure 3 measures total reserve balances as against budgeted expenditures. So at the end of Fiscal Year 2000, these reserves for all states were 10.4% of expenditures; in FY 2001, they were 8%; then they plummetted to 4.3% in FY 2002, and are optimistically estimated at 3.4% for FY 2003.

The year after LaRouche's warning, 16 states covered a third or more of their 2002 deficits with rainy day fund withdrawals, causing, according to the CBPP, the plunge from $40.9 billion in 2001 to $21.9 billion in 2002. By mid-May 2003, the 2003 total reserves balance for states stood at $18 billion—a sum, in light of continued revenue shortfalls, which is likely to vanish quickly. Of the remaining $18 billion reserves, CBPP reports they are "heavily concentrated in a few states. In fact five states hold over half" the remainder—Florida, California, Alaska, Georgia, and Texas.

Genocide or LaRouche's Solution

The austerity alternative to LaRouche's policy? It is a banker's fascism, announced in the *Wall Street Journal* on May 9 by a group led by Lazard Frères banker Felix Royatyn, a 30-year opponent of LaRouche. Taking New York City's extreme revenue crisis as their example, Rohatyn's group called for a) unelected financial board control of city finances; b) "a two-year freeze on hiring, wages, and benefits"; and c) a "blueprint for reducing the municipal workforce." In New York, they demand 8,500 more municipal layoffs, dumping health insurance costs for the employees to pay themselves, and privatizing the city's services.

The hard-core fiscal austerity crowd of the Mont Pelerin Society persuasion, who push an agenda of Bush's tax cuts and no aid to states, espouse the "let em die," solution for budget crises. Leading this pack is the American Legislative Exchange Council (ALEC), a hotbed of Mont Pelerinite free-trade fascists who promote downsizing and privatizing government. Right-wing ideologue and president of Americans for Tax Reform, Grover Norquist, was explicit in telling the *New York Times* his solution for the states: "I hope a state goes bankrupt. I hope a state has real troubles . . . so that the other 49" will face a total crisis. "We need a state to be a bad example, so that the others will make the serious decisions they need to get out of this mess."

On the other side of the spectrum, the U.S. Senate, against Bush's wishes, has proposed a $20 billion aid package for the states, hardly enough to sneeze at, as it would cover less than one-quarter of the FY 2003 year-end deficit plus the FY 2004 deficits.

The current and proposed cuts will cost lives, jobs, and the future well-being of America. The alternative: Adopt Lyndon LaRouche's call for New Bretton Woods monetary system and a U.S. "Super-TVA" policy of infrastructure-building, jobs-creating recovery measures. The method of FDR, applied today by LaRouche's leadership, is the only real solution "on the debate table."