U.S. States, Cities Blow Out; No Recourse but Glass-Steagall

by EIR Economics Staff

Jan. 7—The 50 states and 90,000 other non-Federal government entities of the United States are now unable to maintain any pretense of functioning and paying up on financial claims, and are experiencing, instead, a process of disintegration of horrific proportions. While many pundits are presenting these situations as financial crises, the reality is that they represent a physical-economic collapse which is the lawful result of more than 40 years of a post-industrial paradigm, and the looting of living standards by the imperial monetarist system.

EIRNS/Steve Carr

The leading cause of the devastating devolution of U.S. cities and states is the deliberate de-industrialization of the country. Here, a closed lead mine near St. Louis, Missouri.

The only solution to these individual crises lies in the Constitutional powers of the Federal government, which must immediately do two things. First, it must cancel trillions of dollars of phony toxic debt, which is clogging up and oppressing our financial system; the way to do this is through re-implementation of Franklin Delano Roosevelt's 1933 Glass-Steagall law (repealed in 1999), which imposed a ruthless separation between commercial banking and investment (speculative) banking—leaving the latter to hang out to dry. This law was firmly rooted in the U.S. Constitution.

Second, the Congress must take another leaf from FDR's book and provide the billions of dollars required to staunch the bleeding in the cities and states, permitting them to maintain the basic health, public safety, and social services that are required for a thriving citizenry. Having implemented Glass-Steagall, and eliminated illegitimate obligations of either commercial banks or Federal and state government, such action will be possible.

Short of these actions, which are the leading themes of the LaRouche Political Action Committee and the six LaRouche Democratic Congressional candidates, there is no hope for the U.S. population. The mass of unemployment, homelessness, and starvation may be less visible today than it was in the 1930s, but it is at the same levels, or worse. Today, it is just coated with a blanket of Federal Reserve "funny money," which maintains illusions, but not life.

LPAC-TV

Homelessness is rampant throughout the United States, including among youth who have essentially been abandoned by their parents. Here, three homeless teens in Los Angeles, considered the homeless capital of the country, speak to LaRouchePAC TV in September 2010.

To begin to understand and deal with this crisis, it is crucial to take an overview of the nation, not deal with it state by state.

A National Snapshot

The following is a snapshot of the crisis, as of the first week of the new year.

To be exact: In the 2002 Census of Governments, the Bureau of the Census identified a total of 87,525 local governments. Separated into the five categories used by the Bureau of Census, there are:

19,429 municipal governments;
16,504 town or township governments;
3,034 county governments;
13,506 school districts; and
35,052 special district governments.

All of these are in varying states of crisis.

In the lead of insolvency are California and New York, by sheer size and significance; and Illinois, due to the length of its backlog of unpaid obligations, and also its significance; and New Jersey.

As a region, the **Great Lakes States** stand out, for the scale and severity of the collapse of their industrial base, and state and local government viability. Michigan, for example, had a net loss of 60,000 people between 2000 and 2010, the first population loss in its history of statehood.

But all states are distinguished by various extreme fiscal impossibilities and breakdown, including the few so-called "boom" states, such as North Dakota (shale-oil), and even Pennsylvania, with its Marcellus shale-gas "boom."

Some parameters:

The combined annual state and municipal expenditure in recent years has been in the range of $3.016 trillion, which, in money terms, stands for a completely inadequate level of functioning. Still, as the economic base and revenues have eroded, states have rushed to cut even this spending on vital functions.

Moreover, certain Federal programs that acted as props to state spending, are expiring. In particular: the so-called Stimulus Law, the financing of which expires June 30, 2011 (it was extended to then); the H1N1 preparedness funding (which went to local public health operations); and some others.

States' Vital Expenditures, Revenue

The largest categories of state expenditure in recent decades are education and Medicaid; and secondly, pension funding. In 2009, these three categories together accounted for 46% of combined state and local expenditure. The Congressional Budget Office (CBO) issued a report in December 2010, on the scale and intent of cuts underway in these core categories, and other state functions.

Education. In 2010, some 40 states cut spending for K-12 education; and 31 governors proposed cutting it in 2011. In some states, such as Hawaii, local recourse was to cut school days, from five a week, down to four.

EIRNS/Steve Carr

The collapse of U.S. urban infrastructure is reflected in the state of the water system. There are an estimate 660 water main breaks a day, due to old and unrepaired pipes. Here, a main spews water in Washington, D.C.

The revenues of the U.S. states fell 30.8% from 2008 to 2009, by about $0.5 trillion, to $1.1 trillion, stated the Bureau of the Census in its Jan. 5 press release, on the results of its Census of Government.

The biggest factor in the fall in state revenue, was the huge losses suffered by the state pensions funds during the crash. Otherwise, state general revenues overall, which include taxes, fell by only 1.4%. This, in turn, was because there was an increase of Federal grants by 12.9%, up to $477.7 billion, which largely compensated for an 8.5% decline in aggregate state taxes collected, from $781.6 billion in 2008, down to $715.1 billion in 2009. Federal grants comprised almost one third of state general revenue in 2009. June 30, 2011 marks the end of the stimulus funding program, and other Federal sources are likewise drying up.

States' Capital Budget, Infrastructure

The decrepit condition of the physical infrastructure of the nation speaks for itself, about lack of expenditures for maintenance and productive activity. Each state, county, and municipality has lists of overdue, unfunded maintenance work, and shelved projects. The American Society of Civil Engineers (ASCE) 2009 estimate—low, compared to the actual need for expansion—is for a minimum of $2.2 trillion worth of work to be done on state and local infrastructure over the next four years. None of this is underway.

It is not in the purview of this brief report to describe each category individually—from sewer systems to road repairs. But take one representative example, water.

Nationwide there are about 52,000 separate community water systems, ranging in size from those serving 25 people, up to multi-millions of users, such as the wholesale water district in Massachusetts, or the huge Metropolitan Water District of Southern California. There are also 21,400 not-for-profit non-community water systems, such as those for universities, hospitals, and churches. These are in various states of financial trouble, and poor physical condition. There are now an estimated 240,000 water main breaks a year, over 660 a day. Of the 700,000 miles of pipes in use, more than half will be in poor or very

In other states, schools have been shut down, with students consolidated in fewer buildings, etc.

Medicaid. There are close to 50 million people now enrolled (as of December 2009, the number was 48,569,600). At that time, almost 25% of Medicaid enrollees lived in two states—California (6,926,800) and New York (4,623,800).

Spending on Medicaid in New York State in 2009—Federal, state, and local funding combined—was over $50 billion. Spending for Medicaid is more than a third of the state's annual expenditures.

Given the rate of revenue decline, state and local governments can't shrink their functions fast enough to keep up an accounting deception of "balance," and are in a downward spiral to catastrophe. Illinois has a long list of vendors not paid; California has resorted to issuing IOUs at different times.

poor condition by 2016 (according to the Environmental Protection Agency review).

States' Debts and Obligations

The bonded indebtedness of states and municipalities is estimated at $2.8 trillions; this does not include other obligations, especially pension fund payments due.

Some $500 billion, within the $2.8 trillion, is related to "interest rate management" collateralized debt obligations (CDOs) and other such looting "products," foisted on states and localities. So far, $4 billion has been paid up in recent years by municipalities, *to exit* their contracts with JP Morgan, Bank of Canada, Goldmas Sachs, and other vulture operations, which marketed the interest-rate deals.

The level of unfunded pension obligations is in the range of $3-3.5 trillion, for both states and local entities.

An amount of $530 billion is also outstanding for state and local obligations to health-care benefits, going forward into the next few years, according to estimates by the U.S. Government Accountability Office. New York alone has a $200 billion unfunded liability for retirees' health-care benefits.

Localities Face Shutdown

States have typically provided critical funding to their localities for such functions as education, firefighting services, public health, and police. In 2008, for example, states provided 30% of the revenue of municipalities. But, in 2010, at least 22 states reduced aid to local governments, and 20 states have proposed additional cuts in 2011 (CBO, December 2010). For instance, Michigan is in no position to aid Hamtramck, which, as of 2011, is continuing to operate on a month-to-month basis, facing shutdown entirely by March. Dozens of other incorporated localities are on the same pathway.

Local governments have reduced their workforces by 241,000 employees, or 1.7%, between December 2007 and November 2010. (This CBO calculation is based on Department of Labor unemployment reports.)

In response to falling revenues, local governments reduced spending by 0.6% in 2008 and 1.9% in 2009. Cuts continue in 2010. The National League of Cities reported that more than 90% of cities responding to their survey stated their expection to cut spending further in 2010-11. The end phase of this process is now at hand.