LAROUCHE'S SEVEN NECESSARY STEPS

Step Four: 'Honest Bailouts' For Bankrupt Cities, States

by Harley Schlanger

On Aug. 24, 2011, Lyndon LaRouche outlined a Seven-Step program as the only possible solution for the present threat of a global breakdown crisis. Having presented the overview in our Sept. 2 issue, and in-depth attention to Steps One, Two, and Three—the removal of Obama from office and reenactment of Glass-Steagall; the reinstatement of the Glass-Steagall standard; and the application of Alexander Hamilton's credit system—we now turn to Step Four: "Provide 'honest bailouts' for the bankrupt cities and states."

As LaRouche put it in that LPAC-TV presentation:

"We have to set up the national and state programs, in which you will have two things to consider. First of all, we have a bailout problem of a different type, an honest bailout problem. We have a lot of institutions that are broken down, that have to be repaired and put back into operation immediately. In other words, old things that are already on the agenda, have been removed temporarily from the agenda—firemen, policemen, schools, etc., etc. These things, which are state and national liabilities, must be covered with credit supplied by the Federal government use of this substitute for a bailout program."

As the Obama Administration has escalated the bailout of Wall Street and City of London banks, "investment" firms and insurance companies, channeling trillions of dollars to bankrupt financial institutions—which bankrupted themselves, due to their reckless speculative gambling, made "legitimate" with the final elimination of Glass-Steagall banking regulations in 1999—state and local governments have been confronted with ever-soaring deficits, and have resorted to brutal, increasingly deadly budget cutting to survive.

These governments have been placed in an impossible position. Their revenues, which come largely from income tax, sales and property taxes, and a variety of "user fees," have collapsed, due to the dismantling of the nation's physical economy, following the destruction of the manufacturing and agriculture sectors, and the disinvestment in infrastructure, over the last 40 years. This overall collapse has resulted in 25-30 million Americans becoming unemployed or underemployed, leaving families not only unable to contribute to the revenue base, but also increasingly dependent on aid from the state and Federal governments for basic survival, thus increasing the costs to government. With the Obama Administration's willful alliance with fanatically driven budget-cutting Republicans, the Federal share of income which states had come to depend on, has also dried up, and now, the last pittance of "stimulus funds" has disappeared.

Since state and local governments have limited legal ability to borrow, and most are legally bound by

Cities all around the U.S. have become increasingly unable to repair their crumbling infrastructure, a problem only Federal credit can address. Here, a street in San Diego, Calif., in 2006.

balanced budget laws, state and local officials have blindly engaged in non-stop budget cutting since the bubble popped in the Summer of 2007. As LaRouche has repeatedly warned, such austerity measures never work: not only is there not enough "waste" to cut, to achieve a balanced budget—despite the lying, ideologically based claims of the free market, anti-government quackademics, and think-tankers—but the cuts being adopted destroy the future potential to produce a growing level of real physical wealth, which is what is required to reverse the collapse!

Further, at a time when demands are growing on state and local governments to provide some minimal aid to the growing numbers of unemployed, homeless, sick, elderly, and poor, not only are the programs being cut, but the public employees who provide the aid are being laid off. There were over 120,000 layoffs of teachers, policemen, firemen, nurses, and aid workers nationally, immediately after the fiscal year ended on June 30, 2011, but hundreds of thousands more layoffs will be imposed, in deeper cuts, as the economy speeds toward a hyperinflationary implosion. According to the Center for Budget and Policy Priorities's July 28 report, 577,000 jobs have been eliminated from public-sector workforces of states and localities since August 2008.

Thus, the necessity for the fourth of LaRouche's "Seven Necessary Steps," that Federal funds be made available, immediately, to state and local governments, which is the only alternative to chaos in America's urban centers and rural communities.

The Principles Involved

The idea of local economies sustaining themselves has tremendous popularity these days, especially because of the abuses of Federal regulatory power in areas such as environmental law, for example. But the overriding reality must be faced: *Consonant with our Constitution, only the Federal government can create credit.* Therefore, the credit-creating power of the Federal government is essential to providing the necessary financial support for local economies, either through direct grants, or through providing necessary productive employment.

The closest thing to a model for this Federal government behavior can be found in the Franklin Roosevelt Administration's Federal Emergency Relief Act (FERA) of May 12, 1933, which applied FDR's state program of the same name to providing aid to the cities and states (see box). Unlike the standard Keynesian theory mouthed today—"We want to put more money in consumers' hands so that they can spend"—the idea of FERA was to provide for absolutely necessary services for the population—from individual needs, such as food and shelter, to the needs of the community, such as fire, police, and sanitation.

The second principle also stems from our Constitution, as stated clearly in its statement of purpose, the Preamble, specifically in that Preamble's commitment to the general welfare: that *no section of the population of the United States must be allowed to be destroyed by* *so-called economic forces.* We have a responsibility as a nation to care for our people, as FDR so eloquently put it in many of his Fireside Chats—his radio addresses to the American people during the Great Depression.

It was FDR's conception, and it should be ours today, that the direct bailouts needed by the cities and states should be emergency measures, not long-term. The realization of that concept depends upon the assumption that the overall credit policy of the Federal government would result in the massive increase of productive employment, at higher and higher levels of science and technology, and therefore, in an increased revenue flow, through reasonable taxes, into the coffers of the cities and states. Healthy people *want* to work, and they should be given the opportunity to contribute to society by their work. And if they are working, they will increase the productivity, and real wealth, of the society as a whole.

In the immediate future, however, as in the 1930s, cash bailouts are going to be necessary to bring the states and cities back up to a level of livable functioning, to provide education for the children, and to sustain social life while the productive economy is set into motion. Tax increases and budget cuts won't work.

California: What Not To Do!

The once-"Golden State" of California offers one example of the insanity of budget-cutting austerity, as the state has cut billions of dollars in spending over the last decade, and yet still faces a growing crisis in the coming fiscal year. Under the former Governator, Arnold Schwarzenegger, nearly $100 billion in cuts were enacted between 2005 and 2011, hitting especially hard health care, education, police and fire protection, and other social services. Still, the former steroid-popping body-builder left a $26 billion-plus

FERA: Aiding the Cities And States, FDR-Style

The current crisis of local revenues, and resulting disastrous poverty, in American cities and states, is only comparable to the situation which faced President Franklin Delano Roosevelt when he took office in March 1933. After initial measures to bring banking under control, and begin to address youth unemployment with the Civilian Conservation Corps, FDR rammed through the Federal Emergency Relief Act (FERA) on May 12.

The key was speedy, non-bureaucratic action. The bill called for the establishment of one Federal Relief Administrator who would cut through the bureaucracy to get aid immediately to those millions in need. FDR gave the job to the man who performed a similar function for him during his governorship of New York State, Harry Hopkins.

Hopkins immediately communicated with all the state governors, telling them to set up state agencies; he began to review requests, and send off the money—reputedly $5 million in the first two hours. The first objective was to bring families back from the edge of starvation, put clothes on their backs, and give them shelter.

While half of the FERA funds were supposed to be dispersed as matching funds for what the states had previously spent, half was for outright grants. Hopkins concentrated on getting the money where it was needed. But his major concern was to move immediately from cash relief to providing jobs. By June, FDR, who shared Hopkins' objective, convened a conference at the White House to outline the kind of local projects he envisioned being funded by FERA funds.

From this time on, until FERA was effectively replaced by other public works programs, its monies poured into the funding of local and state jobs—teachers, road building and street repair, parks, and so forth. According to author Nick Taylor, FERA ultimately put some 2 million people to work, mostly in local road repair, but also tens of thousands of teachers, and other public servants.

Is this not precisely the kind of support our states and cities need today?

—*Nancy Spannaus*

LPACTV

Hundreds of thousands of vital city and state workers have been laid off or had their incomes slashed since 2007, as the revenue streams for their functioning have collapsed. Here, protests to support collective bargaining for state workers in Michigan in February 2011.

deficit to his successor, the recycled Gov. Jerry Brown.

For his part, Brown cut close to $15 billion from the 2011-12 budget, then proclaimed that, since the state was beginning an economic recovery, future deficits would be easily controlled by "competent fiscal management." However, a short-term spike in revenue, largely due to capital gains tax increases from the speculative jump in stock prices in 2010-11, disappeared as rapidly as it had appeared, and the state is now facing a growing deficit, despite cuts that have sliced into bone.

Over the last decade, the state has seen a shrinkage of revenue of close to 30%!

Austerity Equals Murder

Programs which insured poor children have been cut, taking away dental plans, and sight and hearing tests for pre-schoolers; programs which provided work for welfare recipients, and daycare for their children so they could work, have been slashed; home services, to enable the handicapped and the elderly to stay in their homes, have been cut, with no provisions to aid their relocation to long-term care facilities; and state funds for neighborhood health clinics and rehabilitation centers have been cut dramatically. Doctors' and nurses' associations have denounced the cuts to health care, saying that these have already led to many unnecessary deaths, and will accelerate death rates among the poor, the sick, and the elderly.

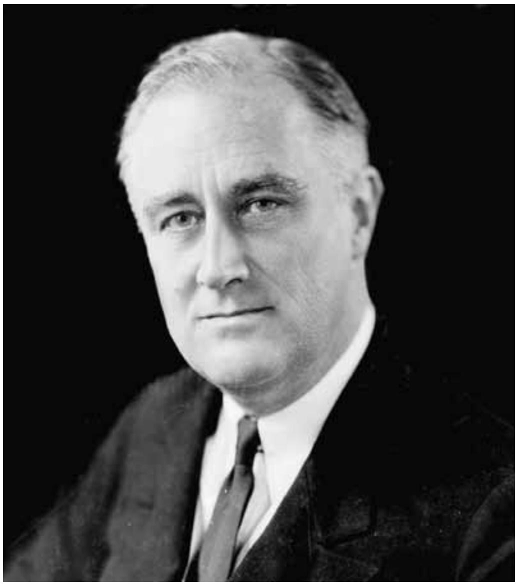
The crisis is worsened by one of the "short-term" moves used by Brown, to transfer funds from the cities to the state, with a vague future promise of repayment. Thus, the cuts in state programs have been magnified by the inability of cities to compensate, which threatens a further implosion. For example, the City of Oakland, which reduced the size of its police department, has seen a jump in crime. Los Angeles has laid off teachers, closed neighborhood health clinics and parks, and cut back hours for libraries. The city of Vallejo, which filed bankruptcy in 2008, has been abandoned by many of its citizens, as its neighborhoods are filled with empty and foreclosed homes, while the reduction of its police force from 158 to 90 has led to a significant increase in drug sales and prostitution.

Even the once-wealthy Orange County is facing chaos. The *Orange County Register* reported in mid-September"Spiraling public safety costs and plummeting revenues have pushed Orange County cities to the brink," with Costa Mesa "outsourcing" half the jobs at City Hall, while Stanton is calling for "volunteers" to reopen its police department. The city of Anaheim just announced a $5 million cut in police and fire protection, joining larger cities, such as Los Angeles and San Diego, in closing fire stations on a rotating basis, threatening the lives of its citizens in areas annually hit with devastating forest and brush fires. This, on top of the 30% reduction in state funds for

Forest Services, that are allocated mainly in managing wild fires.

As for education, on which the future depends, even the present education system, with its poor quality, is being savagely reduced. From kindergarten through high school, cuts have hit teachers, and the maintenance of school facilities. The once-famous California state college and university system, which was key to innovations, ranging from space exploration to the development of the most efficient delivery of power and water to a growing population, to the transformation of desert to the most productive farmland in the world, is being irreversibly damaged, as faculty leave, incoming student numbers are reduced, plant and equipment are left to the ravages of age, and tuition costs are hiked annually by as much as 10-16%, even while the availability of grants and loans is slashed.

In short, without an infusion of Federal funds, California is plunging into chaos, with no hope for a better future.



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President Franklin Delano Roosevelt

It's Not Just Kookifornia

While some would like to say that California is a special case of overspending do-gooders trying to use government to solve every problem, reality is that what has happened in California is happening, with similar results, to every state and local government.

Take the late July overview of the Center for Budget and Policy Priorities, on budget cuts planned in the new fiscal year in certain areas, due to revenue shortfalls.

• 30% cuts to health care and Medicaid: Huge new FY2012 cuts are being made in at least 20 states, coming on top of two years of cuts in all 50. Arizona and Washington have both frozen enrollment in parts of their Medicaid program, denying, in the case of Arizona, coverage to 100,000 persons.

• 30% from public education: Both pre-K and K-12 education funding, and also higher education funding, are being cut deeply by states. Thousands of teachers' jobs are gone. Florida's cuts led to 15% tuition hikes to colleges, for a total hike of 52% since 2009.

• 40% to all other functions: Cuts to state allocations for such basics as firefighting, public-health measures, police; and in Virginia, paying for burial of the indigent. For many localities, state funding normally constitutes over 30% of their revenue. Now it's not there.

The same is true of local governments. "Risk-management" programs sold to desperate officials in cities such as Harrisburg, Pa., and Jefferson County (Birmingham), Ala., have brought these cities to bankruptcy. Harrisburg, with a debt of over $310 million, due to costs associated with an incinerator system, has been debating whether to file for bankruptcy, or be taken over by the state.

As for Jefferson County, a scam run by a JPMorgan-led consortium convinced the county to purchase "interest-rate swaps," to protect against an uncertain credit market, in financing a necessary upgrade of the county's sewage system. (There are many other cities, large and small, which have been victimized by such operations run by JPMorgan, Goldman Sachs, Morgan Stanley, and others.) Following the collapse of 2008, and the credit squeeze on everything except bailouts for the biggest speculators, the debt owed by the county on these swaps ballooned, leading to a 400% jump in the costs of sewer rates to citizens there. A deal worked out by JPMorgan, to avoid a declaration of bankruptcy by the county, led one County Commissioner to say that many people will not be able to afford the higher costs, and that it is wrong to do it this way, as "they are balancing that debt on the backs of the poor."

Local and state officials have responded impotently to the demands of their creditors, accepting what they believe are unchangeable circumstances. Since California, and most other states, must have a balanced budget, and the ability to borrow is limited to ballot referendums, the budget battles have been waged under the false axiom that the tools available to governments to deal with budget crises are limited to either raising taxes or cutting spending—which avoids the fight for the real solution.

Instead of backing LaRouche's leadership, in getting Obama out, and Glass-Steagall in, as necessary preconditions for the uttering of Federal credit for great projects such as NAWAPA (North American Water and Power Alliance), which will increase jobs, and produce new physical wealth—which is the only way out of this crisis—cowardly state and local officials have been reduced to whining, complaining, and murderous budget cutting, while the bailout of the criminals, whose speculative appetites are responsible for the breakdown of the Trans-Atlantic economy in the first place, continues, at an accelerating rate.

For a small percentage of the cost of the bailouts, the Federal government could make payments to state and local governments, to protect essential, life-saving programs from being cut. Further, funds applied to state and local governments for necessary improvements in upgrading the overall economic platform—i.e., investments in so-called infrastructure—would enable states to benefit immediately from such projects as NAWAPA, establishment of improved power production, and a grid of high-speed rail transport.