

layoffs?

McCann: Cities and towns have been told by the state that they can now set tax rates and go ahead with business as usual. I would suspect within the next couple of weeks, that's what's going to happen. In the meantime, the pressure came to lay people off. It wasn't done. It sort of just postponed the crisis. It probably will get us into the summer, and then we'll see if the court accepts what they've done or if someone challenges it. And, it appears that two or more of the so-called "property rich" towns in New Hampshire are going to go to court and challenge it, saying that it's unfair to them.

EIR: Because they want to spend more?

McCann: Because they're going to make them spend more. Of course, the original plaintiffs haven't gone back to court, but their lead lawyers pretty much said they don't think this cuts it. So, it's just a question of when do they get to court and what's going to happen.

The thing that has now happened is something different than when we talked last. Republicans are saying one alternative to bringing the educational funding into balance would be to cut the operating budget by \$100 million. To give the \$100 million to the schools if they take \$100 million out of the state's budget, which, of course, a lot of people, including myself, don't think you can do. It's a pretty lean budget now.

That's one alternative. It's going to have an impact on the adoption of the state budget, because that battle is yet to be fought.

It's typical New Hampshire. They came up to the crisis and stepped back, but they didn't solve the problem, and the crisis can come back, probably June 30 if the budget isn't passed. That's going to be the next crisis date, because the state budget has to be passed by the end of this fiscal year. They gave themselves 45 days, in essence. Whether they'll do something, I don't know. I've talked to some legislators who are pretty discouraged that what has transpired doesn't really solve the problem in the long run, and then, more immediately, within hours of when the deal was agreed to, it became apparent. First, it started out being \$42 million in the red, and has grown to \$100 million or thereabouts since then. You can see that it wasn't well put together to start with.

Interview: Ulysses Jones, Jr.

Ulysses Jones, Jr. (D-Memphis) is a Tennessee State Representative and Chair of the State and Local Government Committee of the Tennessee House. He was interviewed on May 19 by Marianna Wertz.

Gore's computer-classrooms guru is gambler D.E. Shaw

A prime mover to have every classroom in America wired to the Internet is David E. Shaw, whose Wall Street firm, bearing his name, is one of the world's largest derivatives traders. Shaw, a major financial backer of Vice President Al Gore, has had some irregular dealings with Gore.

D.E. Shaw & Co. investment bank made headlines last year, when it became known that Shaw had sustained heavy losses on hedge-derivatives bets. The Oct. 15, 1998 *Wall Street Journal* reported that BankAmerica had taken "a \$372 million write-down due to a loan to D.E. Shaw & Co." BankAmerica had formed a strategic alliance with Shaw in March 1997. The losses that Shaw sustained, resulting in a \$372 million hit for BankAmerica, had been sustained during the summer, but the information was withheld until Oct. 13.

In late August 1998, Shaw and a group of Wall Street bankers, including speculator George Soros, met with Vice President Gore. The meeting followed the Aug. 17, 1998 Russian declaration of suspension of payment on debt and Russian Treasury securities, called GKOs. The Russian debt suspension sent the world financial markets into tur-

moil, causing large losses for Shaw. At the meeting with Gore, Shaw and others attempted to define for Gore a strategy whose effect would be to deploy U.S. policy to protect their assets. Only weeks before this meeting, around July 21, Shaw and seven members of his firm had poured \$40,000 into Friends of Al Gore, Jr., Inc., Gore's political action committee. This raised the issue of bribery on national security matters, an impeachable offense for Gore, and an action that raises all sorts of questions for Shaw.

Speculator Shaw is one of the leading New Age kooks on Wall Street. The offices of D.E. Shaw are located on the top two floors of a skyscraper in Manhattan. One magazine described the offices: "The walls have geometric patterns cut into them and lit up with different colors. Almost every stick of furniture is black." *Wired* magazine, a New Age publication, reported that the office "is meant to evoke the feeling of sitting inside a computer chip."

With this worldview, Shaw is attempting to wire all of America's classrooms into the Internet—an assault on the cognitive ability of children. Shaw serves on the President's Committee of Advisers on Science and Technology, and he has been chairman of the Panel on Educational Technology. From that position, he wrote a report that is the "blueprint . . . to wire every American classroom to the Internet," according to the January 1997 *Wired*.

—Richard Freeman

EIR: I'm writing up a rundown on various state budget crises that are affecting education and other aspects. I understand that there is a \$365 million deficit and you might be preparing to lay off up to 2,000 state employees and cut millions of dollars out of education. Is that the case?

Jones: Right now, everything is still uncertain. That is a possibility. It's on the floor. One of the concerns that the Governor has stated is, that he will not cut education, that the legislators will have to do it. At this point, we found out today that the \$365 million has been inflated to around \$440 million. With our budget, 52% of the budget goes to education. So, when you're talking about starting to cut, that's going to be one of the areas that they're looking to cut.

The State of Tennessee has just gotten to where we were number 47 or 48 in funding education, [for grades] K-12. Now we're number 49 in the nation.

EIR: What state is below you, Mississippi?

Jones: Arkansas.

EIR: That's Gore and Clinton! Why is there such a deficit?

Jones: The reason there's such a deficit is because this state has a very antiquated system of taxing. It's a very regressive tax. It's a sales tax. Most of the eight or nine states that border Tennessee, their sales taxes are either lower than ours, all except Mississippi, or they don't have any at all. Georgia doesn't have any sales tax on food, or Kentucky or North Carolina. The only way we fund our state is through a sales tax, fees, and we do have a slight, 10%, of what we call a hauled income tax, which is on investments and certain other areas of funding. But, we don't have a state income tax, nor do we have gaming in this state.

EIR: So, it's a very regressive tax.

Jones: Very regressive. We're one of only nine states that don't have an income tax. We're one of only three that don't have gaming. We had one state, Alabama, which is now planning on having gaming, so if they get it, we'll be one of only two states.

EIR: Many states that have adopted gaming are now having second thoughts about it because of its effect on the morality in the state and the moving in of organized crime.

Jones: To a point they do, but we look down the road in Mississippi. Take, for instance, Tunica, which is next to Memphis. In 1991, Tunica was the poorest county in the United States. Now it's one of the richest counties in the United States.

EIR: It's true, and you have five states on your borders, so you're competing with all of those states. But the question facing you is, and I don't know if this is in the debate: Can you find a source of income for the state that is not based on speculation or gambling?

Jones: Right. That's our concern right now. The concern that

we have is, we should have done something earlier. If we would have passed any type of gaming, and we had passed a lottery, that money was going to be earmarked for higher education. . . . We are in such bad financial shape, a lot of people, 75% of those in the state think that if we had a lottery, that our problems would go away. Well, that's not true. Because, if we had a lottery, the most that we probably would raise, our projection is about \$225 million. With a deficit of about \$440 million, it still would leave us a deficit of \$215 million.

EIR: A lottery is also a hidden tax on the poor.

Jones: Yes, it is.

EIR: So, as opposed to an income tax, this is another regressive tax.

Jones: Right, but what we're looking at, hopefully, is an income tax. What they have proposed now is \$10,000 per individual family: \$2,500 for an exemption for each person in the household, which I think is low. I would like to see a \$20,000 per family tax exemption, and \$4,000 per dependent.

But what happens now is we're looking at cutting K-12. We just got to the point last year where we were fully funding K-12. Higher education is already in a mess. We have not been funding higher education properly about the last 12 years.

Dale Computers is talking about moving to the state, high-tech industry like that moving to the state, and we're not putting enough money or attention on education, on higher education. We're going to end up with a black eye in this state, and probably have industry looking somewhere else, saying don't go to Tennessee because their workforce is not educated and they don't believe in having an educated state.

EIR: How is the financing for prisons?

Jones: That's the only thing that's going good!

EIR: I saw in the press there today that there's a proposal to put a tax on coffins. It occurred to me that if Al Gore is elected, it would make a lot of money if his policies go through.

Jones: They're trying to tax everything they possibly can right here without looking at a tax that's going to be what we call very elastic. Right now, with the sales tax, we don't have that much elasticity in trying to determine how we're going to pay individuals, how we can project growth of the state. We can't do that.

EIR: What do you think is going to happen?

Jones: Some of the proposals coming out are very regressive. If we don't make a move sometime soon, I think we're going to see the state default. We cannot, by Constitution. We've got to have a balanced budget. So, the word has been that we lay off 2,000. Now they're talking about even more massive layoffs and cuts of that sort. I for one will not vote for a layoff or another sales tax. I just don't think it's fair. What they're talking about doing as well, is, probably, let's

go through with the cuts, and we're going to see how it's going to do for about the next four or five months. Then we'll come back in October or November and have another special session, and then pass it on to 2000.

I can tell you that that is not going to happen. The reason it's not going to happen: We run every two years. The best time for us to pass any type of tax reform is now. That way we can go out and we can take the bumps and the bruises and it gives us time to explain to our constituents what's going on and why we had to impose a state income tax. But, for them to come back and talk about a tax in November, and to come back into session in January, get out in May, and then come out and run on that in June—it's not going to happen.

Interview: Joe Towns, Jr.

Joe Towns, Jr. (D-Memphis) is a Tennessee State Representative and member of the Education Committee. He was interviewed by Marianna Wertz on May 19.

EIR: I understand that you are voting today on seven different proposals. Is that right?

Towns: It hasn't come to the House floor yet, but they are thinking that they are going to get on the floor either tomorrow or next week.

EIR: I understand that you are facing the possibility of such a large deficit that you might have to lay off 2,000 state employees or cut \$40 million out of kindergarten through 12th grade education.

Towns: Yes, that is accurate. That is what has been suggested that we do in terms of cuts, but I'm not going to support any cuts that would cut into education or health care. While there may be others that might, I am not going to support those kinds of cuts.

EIR: How do you think this can be solved short of doing those cuts?

Towns: You have one of two ways it can be solved. You can fix the structural problem, which is something that the Governor has been trying to do. Or, they could rely on additional taxing of services, a sales tax, which is what we have done in the past—which to me is a temporary approach. It's not going to give us the kind of relief that we need, because there's no elasticity in the budget during economic lean times, or even during economic prosperity it does not work—just basing your revenue generation on taxing services or products does not work.

EIR: What did you mean by the structural problem?

Towns: The structural problem basically means that the tax system is structurally not competitive for the 21st century. That means you have to look at changing the way we tax,

which basically will have to go toward an income tax. Closing some loopholes.

EIR: Tennessee is one of only nine states with no income tax, is that correct?

Towns: That's correct. Just in my personal opinion, Tennessee has to reckon with whether it's going to come into the 21st century, or it's going to continue to use a regressive tax system that penalizes poor people and the middle class more than anybody, by generating 60-70% of its revenue based on sales taxes. That really should be unconscionable and unpardonable at this point in time.

Tennessee also has to decide whether or not it's going to begin to compete. When I say compete, I don't mean exist, because I think the state has existed and has been able to kind of chug along, but it's not competed at any real stage. When I say compete, I basically mean that we begin to infuse the kind of capital into our institutions, our academic institutions, which will make them world-class and thereby able to compete on a national and an international level by attracting the kinds of students, the kinds of teachers, the kind of faculty members that we want, and be able to retain them, to compete with the rest of the market. We're losing a lot of people now.

I think also that we have to look at Tennessee and decide whether we're going to continue to embrace the hypocrisy that we frequently see, where many people who are legislators say that they are against gambling but don't allow the people of the state to decide whether we will have pari-mutuel betting [at race tracks] in the state. If people want a referendum on it, we can't be hypocritical and deny them the right to decide that. I think Tennesseans want a public referendum.

EIR: The Senate has not passed a budget, right?

Towns: That's correct.

EIR: Has there been a decision not to have an income tax?

Towns: For the most part, but it's not absolutely conclusive that there won't be one. I think we could have passed it in the House a couple of weeks ago, during the special session, but there was a problem in the Senate. There were one or two votes in the Senate that were needed to pass the bill.

EIR: Are the forces that are opposed to an income tax mainly Republican business interests?

Towns: I don't think it's Republican business interests. I think it's more rural legislators who have made a premature commitment in their districts that they would not vote for an income tax. These commitments were to be based upon what was going on at that particular time. You have to revise anything you say. A commitment like that is unthinkable, a life-long commitment like that. So, what they're doing is protecting their own careers. They're trying to protect their careers by honoring something that will keep them elected. But, it's not considering the children of the state and the elderly, they're not concerned about them.