Corporate bankruptcies set off local tax explosion

by John Hoefle and Anthony K. Wikrent

The Bush administration crisis-managers may have averted a full-scale financial blowout during April through direct manipulation of the markets via financial, political, and juridical means—but their administrative "fixes" have only made the situation worse: The treatment is exacerbating the disease. The reality of economic collapse is clearly evident in the disintegration of corporate profits being reported for the first quarter. That means layoffs, reduced funding of research and development, salary cuts, hiring freezes, and the myriad other actions—or lack of actions—that denote an economic depression. Particularly hard-hit are state and local governments, which are watching corporate tax collections shrivel.

So far this year, the United States has produced 25% fewer automobiles and trucks than it produced last year. The impact on companies that supply the automotive industry has been heavy. The American Iron and Steel Institute reported that overall shipments of steel to the auto industry, the largest consumer of steel, were down 27.9% in the first two months of the year. First quarter earnings at Inland Steel were 62% below those of the same period last year, with shipments of steel down 10%. USX Corp. announced that its first-profit dropped 41% to $176 million. Bethlehem Steel Corp.'s profit collapsed 68% to $21 million, with shipments of steel down 19%.

As for non-ferrous metal producers, profits at Amax, Inc., the largest U.S. producer of aluminum, plummeted 56.2% to $50 million, on a 5.3% decline in sales. Alcoa said its profit for the quarter dropped 46%, while Reynolds Metal Co. reported its profit had dropped 38%.

Champion International, the large maker of spark plugs and other automotive parts, said its profit dropped 38.5%. Profits at Goodyear Tire and Rubber sank 77.9% to $20.9 million for the first quarter, on a 27% collapse in original equipment sales to the auto makers.

Ford Motor Co. announced it was temporarily idling 2,700 workers on its Thunderbird and Cougar assembly lines for the sixth week so far this year, because of very slow sales. General Motors has announced a further reduction of its capacity: production at GM's Van Nuys, California plant is to be shifted to New Jersey in a few years. Chrysler is mooting the possibility of shutting one of its Jeep plants.

Since Jan. 1, the government estimates that the economy has shrunk by 89,000 manufacturing jobs.

Lower corporate profits translate directly into lower tax revenues. Layoffs mean less discretionary income to spend in workers' communities, hurting other businesses. The result is a spiral of collapse, as is seen in the bankruptcy of discount department store retailer Ames, the insolvency of the two largest convenience store chains, Southland Corp. (7-Eleven stores) and Circle K, and the mounting losses at the merchandising unit of Sears Roebuck, which lost $134 million on operations this past quarter.

All of which means that the tax base is shrinking. "Corporate revenues have gone to hell," exclaimed Georgeanne Meyer, chief economist of the Arizona Department of Revenue econometrics section. Arizona's corporate tax collections thus far are $98.4 million, 10.1% below the $109.4 million collected by the same time last year. "There is a terminal budget crisis in this state," Meyer added. "We expect a $50 million shortfall this year, and a $350 million shortfall next year."

Karl Felsen, director of New York State's Tax and Finance Department, told *EIR* that corporate tax receipts "look really miserable." The take from corporate taxes in New York is down 8% so far this year, with a shortfall of $113 million. "When you predicted growth in your revenue projection, that really hurts," Felsen noted. Many business organizations are blaming the drop in corporate tax collections on the 1986 federal tax reform. But Felsen disagrees: "We don't really know what's causing the decline," in tax collections, he said, ticking off other possible factors, including the 1987 stock market crash, and a massive increase in interest payment deductions because of leveraged buyouts over the past few years.

California has seen its corporate tax receipts drop about $250 million or 4.5-5% so far this year. Personal income tax collections are down about 4%. In Hawaii, corporate tax receipts are down about $8 million, or 10-11% below last year.

An analyst at the Taxation Department of Ohio told *EIR* that corporate tax collections "are much lower than we thought," and explained that his department has revised its projection of total collections from corporations downwards to $83.4 million. Based on the shortfall being seen now, fiscal year 1991 projections have been revised down to $48.5 million.

New York pension funds looted

New York State is adding a 10% or 15% surcharge on to corporate tax liabilities in order to raise additional funds to cover its budget deficit. The state has racked up a $528 million shortfall in personal and business income taxes in March alone, and faces a $1.8 billion budget deficit. In a blatant example of how the present economic and financial crisis is destroying the basis of survival in the future, Gov. Mario Cuomo has responded by "assuming" the state employee pension fund will earn a higher rate of return, and that the rate of inflation will be lower, reducing the state's liability to the pension fund. Cuomo "saved" $325 million with these accounting gimmicks last year, and wants to "save" another $200 million this year.

"This is robbery, pure and simple," Joe McDermott, president of the New York State's International Service Employees Union told the *New York Times* April 22. "They're using the pension funds as a piggy bank that they can turn over when they get into a jam."

New York City alone is facing a $1 billion shortfall for the current fiscal year, and $2 billion next year. City officials cited a shortfall in business tax receipts, which they blamed on the recent strong-arming by federal regulators to force the banks to write off more of their troubled loans, particularly in real estate. Mayor David Dinkins proclaimed that he will "cut to the very marrow of city services" to deal with the situation. Dinkins's statement came just one month after former Mayor Ed Koch finally denounced Lazard Frères banker Felix Rohatyn for attempting to assume near-totalitarian control of the city's purse strings on behalf of "Big Mac," the committee of Wall Street financiers that was given control of the city's finances during the credit crisis of 1975, and methodically dismantled public services, making New York the hellhole it is today.

In Texas, the state legislature is at an impasse over how to raise $550 million to prevent the state's schools from shutting down on May 1. In the Fort Worth-Tarrant County area, 240 people were turned away from one public health clinic in the last week of February alone, because of overcrowding and a staff shortage, resulting from a hiring freeze implemented in January. Program Director Lois Kantor told reporters that it "takes much longer to diagnose and treat patients today" because their diseases are "more complex, and often they suffer from multiple infections"—a sure sign that the public health system has already collapsed catastrophically.

Depression's vicious cycle

So, how are the federal, state and local governments to pay for the services which they are required to provide? They have three general options: 1) cut services, 2) raise taxes, or 3) borrow money. Given the extent of the crisis, they generally try a combination of the three. But many state and local governments, unlike the federal government, have balanced-budget requirements which prohibit them from operating in the red and which greatly restrict their ability to borrow.

The rub is, that in a depression, such as now, the population requires *increasing* levels of government services. Governments must provide food, shelter, clothing, and medical care for rapidly increasing numbers of dispossessed people. Without such support, many people will either die, or live in misery, generating the type of biological holocaust glimpsed in Fort Worth. Furthermore, if essential infrastructure projects are abandoned due to lack of money, then the future potential for growth of the economy is reduced, and the depression is prolonged. Thus, cuts in government services during depressions are cannibalistic in nature, and only serve to weaken and kill the population, and to deepen the crisis.

However, at the same time, the amount of money the average person has to cover expenses is sharply reduced. Discretionary income is collapsing, and most people haven't the funds to cover all the necessities. They perform budgetary triage, letting the "lesser" necessities slide.

And the United States has now reached the point where we as a nation can no longer attract sources of credit, let alone generate them ourselves. The financial markets are drying up, as monetary and financial assets disappear into the deflationary vortex. Everybody is trying to borrow to cover their losses, while the actual wealth-producing sectors of the economy evaporate. Fewer and fewer real dollars are available to cover the pseudo-dollars which were used to fuel the speculative bubble. There just isn't enough to go around, and state and local governments are low down on the totem pole.

The only answer is to rid ourselves of the insane usury of Wall Street and London, and begin producing again the physical goods needed for our mortal existence and that of our children.