Maryland economy is in 'free fall'

by Lawrence Freeman

The economy of the state of Maryland, previously reputed to be "recession proof," has been in a "free fall" as new growing budget deficit figures have been released almost quarterly for the last year. The administration of Gov. William Donald Schaefer has admitted being caught totally by surprise, like Gov. Douglas Wilder, whose state of Virginia borders Washington, D.C. from the south, while Maryland borders it to the north. Like Maryland's southern neighbor, Schaefer has responded to the crisis with brutal cuts in every essential state service provided to maintain living standards, especially targeting the poor.

The budget deficit for Maryland, its first in history, stands at $450 million, but that could go up at any point, as it has over the last year. In early 1990, shortly after Virginia's Wilder announced a budget deficit of $1.4 billion (which has since grown to $1.9 billion), Maryland announced its first budget deficit of some $180 million. Since then, Maryland's deficit climbed to $250 million, then $320 million, until it reached its current level of $450 million.

The angry mood of the electorate expressed itself in November when the entrenched Democratic county executives from Baltimore and Howard Counties were voted out, and Schaefer's previous overwhelming majority was cut to 60% in his reelection against an unknown Republican opponent.

Yes folks, we are in a depression

Governor Schaefer told a gathering of incoming state legislators in December, "We are facing the most difficult decisions in the history of Maryland. . . . We are in a recession. It is going to be absolutely devastating." Delegate Timothy Maloney from Beltsville, chairman of the legislature's capital budget subcommittee, stated, "The issue is how we cope with the recession, how do we pick our priorities when spending is down." Even though Maryland politicians had been timid to even say the word "recession," Irving Kidwell, a local developer and banker from Prince George's County, was blunt. He said last year, "Everything is going to hell. . . . This is the longest downturn we've had since the Great Depression of 1929. We've been in a recession for a year, I think we're headed toward depression."

Schaefer and the entire state legislature will be voting in this session to implement the most brutal cuts in essential social services that anyone in the state has ever experienced. Moreover, Maryland plans to stick a 5¢ per gallon gasoline tax on top of the recent federal gasoline tax and higher gas prices.

In early November, when the budget deficit was estimated to be only $180 million and Schaefer was hoping to head off a full-scale budget disaster, he initiated cuts which will have the follow results:

• Eliminate assistance in filling prescriptions to 14,000 poor people. • Eliminate assistance programs to 3,000 disabled who require home care. • Trim $13.6 million from the amount the state pays hospitals and nursing homes for the poor. • Cut $38 million from the budget of the state university system. • Cut all state agencies and departments by 1-6%.

At that time Governor Schaefer commented, "Everything that is cut is going to hurt." Lynda Meade, a spokesman for the Maryland Alliance for the Poor, responded sympathetically to the need for cuts saying, "But when times are tough, often those who are the most vulnerable and the poorest feel the effects. I hope the department looks for ways to absorb people into other type of programs." With every program being savaged, including state aid to the 23 local county subdivisions of the state, it is not likely that these people will find any help to maintain their daily existence.

In December, Governor Schaefer proposed to lay off 1,800 state workers and cut $127 million in state spending, which would have wiped out the life-saving Kidney Disease Program. After demonstrations and protests, the administration backed away from that plan. At that time the budget deficit was estimated at $315 million.

Second round of cuts

Now only a few months later, with the budget deficit more than $100 million larger, a more far-reaching plan of spending cuts and work changes is being proposed. Immediately targeted in the new round is the standard of living of those newly laid-off workers who need welfare assistance, and state workers.

According to a new plan endorsed by Schaefer, Maryland's welfare program will be closed to any new people for the remainder of the fiscal year, because too many people are qualifying under existing rules and the state can't afford to support them. Also endorsed are tougher eligibility standards in the state's disability payment program. These cuts would place a cap of 21,500 on the number of people who would be allowed to be on assistance at any one time. The new criteria for disability would require that new people added would have to have a disability that is expected to last for six months, not the previous standard of 30 days. Further, the agency's Judicare program, which has served 2,000 rural poor in 12 counties each year by paying for minimum legal costs, would be eliminated.

The state is proposing new plans to reduce the living standard of state workers, which they hope will not produce the protests that last year's aborted attempt to lay off 1,800 did. State employees, who are already 15-20% behind the pay scale of federal workers, are being asked to accept the following: ● The addition of 4.5 hours to the work week for no extra pay, which according to union leaders is the equivalent of an 11% pay cut. ● Cancellation of annual step raises. ● No cost of living increase for this year; these have averaged 4% in recent years. ● Elimination of overtime pay, which in some cases is sufficient to avoid having to take a second job. ● The loss of a $5 payment for medical insurance, and consideration of further reductions in state contributions to health insurance payments.

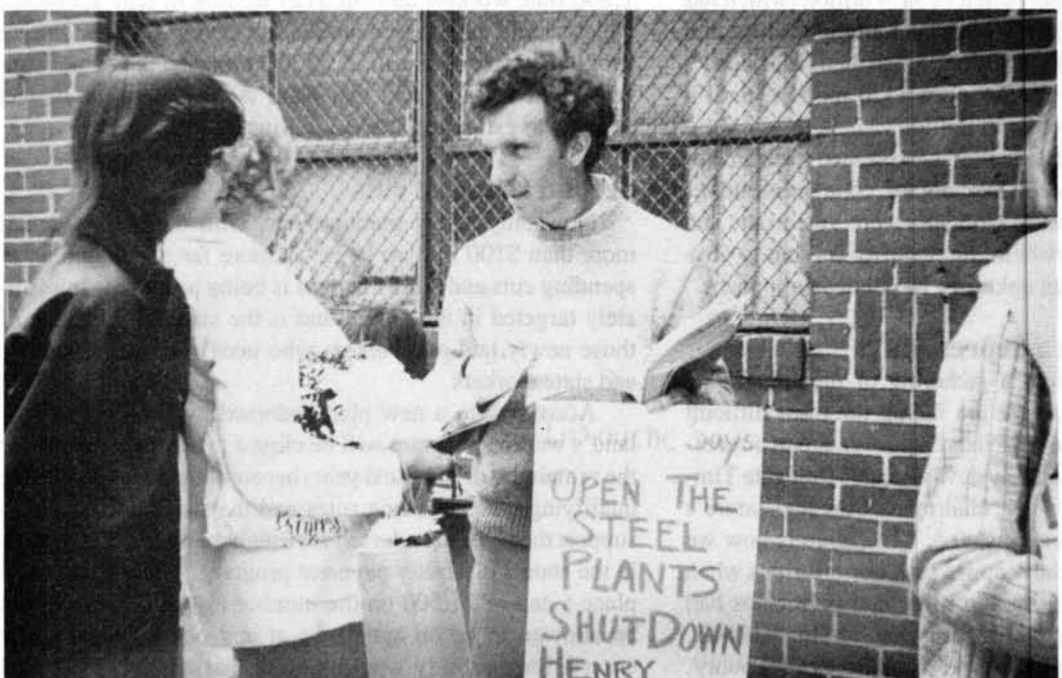
Some calculate that these proposals could gouge as much as 13.5% from weekly income. This does not even take into consideration new hardships that would result from forced no-pay overtime, such as child care scheduling, second jobs, and the like.

'Service economy' led to bulging deficits

In its simplest form, the reason for the sudden rise in the budget deficits, is the biggest loss of revenues in the state's history. Louis L. Goldstein, comptroller of the state for over 20 years, said, "Growth in our major revenue sources is at unprecedented low rates, due to adverse economic conditions in the nation and the state." Goldstein said, "I've been around since 1938. For the first time, I have seen the numbers just drop off very quickly."

There is really no mystery in this. The state's financial and political elite decided over a generation ago to impose on Maryland their post-industrial utopian fantasy. This led to destroying the complex of industrial firms enveloping the port of Baltimore, and replacing them with more hotels, more insurance companies, shopping plazas, and entertainment extravaganzas. As anyone merely acquainted with ABCs of economics knows—and as candidates associated with Lyndon LaRouche repeatedly warned in their campaigns for public office in Maryland over the past 20 years—this produced an increase in poverty, as skill and pay levels previously required for productive labor were eliminated in favor of bus boys, parking lot attendants, and other unskilled labor. Maryland has been transformed from a once-proud industrial state into a service-vectored economy, which is axiomatically a revenue-losing system, because there is a shrinking base of personal and corporate income to tax.

The inherent weaknesses in this post-industrial economy have manifested themselves in the 1990-91 budget crisis. Moreover, all the "solutions" proposed will merely worsen the problem, as they contribute to its root cause by reducing incomes still further.



The National Democratic Policy Committee pushed for a shift in economic policy, as in this 1984 rally in Baltimore; Maryland elites did not listen, and the ballooning deficits show the results of their folly.

All forms of revenues fell in Maryland in the last year. Property transfer taxes are down 22%, corporate income taxes fell 22%, and personal income is growing at the slowest rate in 20 years. Thanks to a lower rate of savings and the drop in the inflated property values which had been the basis for the majority of bank loans, the Maryland banking system is only slightly behind the state of decay that is now hitting New England. Bankruptcy filings for Maryland were up 23% in the first quarter of 1990 over 1989. In Baltimore they were up 32% in the same period: from 1,030 in the first quarter in 1989 to 1,346 in the same period in 1990.

Homelessness

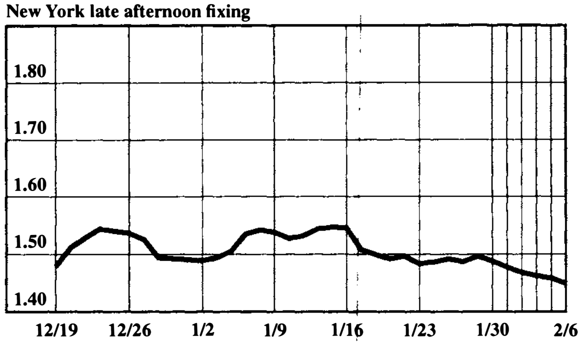
The rate of bankruptcies and layoffs is forcing a huge increase in the number of people seeking shelter. In 1990, 50,000 homeless people were turned away from shelters, a 20% increase. The number of people seeking shelter has doubled in the last five years. Increasingly, those looking for shelter are families whose breadwinners have lost their jobs. Almost 60% of those turned away nightly from shelters are families, compared to 25% two to three years ago. Maryland's program for the homeless was seeking an increase of $2.3 million from the state, of which $1.8 million was to go for 500 additional beds. With all state agencies already cut back by an average of 5%, there is little likelihood of more assistance as the ranks of the homeless grow. The November jobless rate rose 5.3% in the state—the highest level in six years—an increase of 2.1% over last year. Things look even bleaker in the biggest city, Baltimore, with an unemployment rate of 8.2%.

Many accuse Schaefer of deliberately overestimating future revenue so the budget deficit does not soar to new heights. Here is a clear example of the problem of not knowing, or not wanting to know, how bad things are. In the first three weeks of October 1990, the budget deficit grew from $249 million to $322 million. How did the deficit grow $73 million in such a short time? The lower estimate was based on individual tax revenue declining by $52 million. In this scenario, retail sales taxes would be off by $55 million and corporate income taxes would be down by $17 million. But the revised estimates were much worse. The new figures showed individual income taxes down by $108 million, sales taxes off by $75 million, and corporate taxes dipping by $33 million.

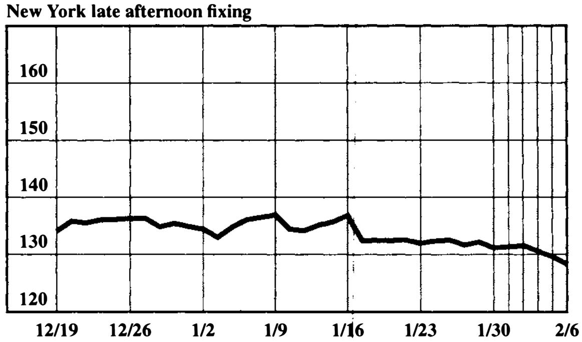
That was back in late October, when the deficit was refigured to be $322 million. By January, it was estimated to be between $423 and $450 million. What will it be by next month, by the summer, or by next year? No one is willing to say, and given the poor level of understanding of the science of economics, maybe no one in the government truly knows. But we know one thing for sure: If we keep following the same stupid economic policies we have for the last 20 years, no one's standard of living will be secure as we head deeper into this depression.

Currency Rates

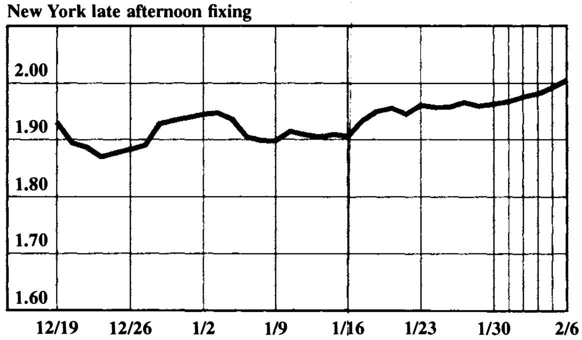
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing