No recovery in sight in state capitals

by H. Graham Lowry

Those who are seeing a recovery in the United States may be inhaling something worth noting, but they are certainly not looking at the simple evidence openly displayed in state capitals across the country. Even with wildly optimistic forecasts of economic growth rates, more and more states are projecting deficits of a billion dollars and up for the coming fiscal year.

As usual in recent years, the economic mudslide into deeper depression is most dramatic in California, where Gov. Pete Wilson announced another round of massive spending cuts on Jan. 8, to cover an estimated $7.5 billion shortfall for the fiscal year beginning July 1. This time, however, Wilson projects an absolute decline in state revenues and the loss of another 100,000 jobs—on top of more than 800,000 jobs lost since mid-1990.

Wilson submitted a budget that cuts overall spending by 11%, reduces executive agency budgets by 15% across the board, imposes 10% cuts in spending for the state's universities, eliminates a number of agencies outright, curtails health care for the poor, and slashes welfare assistance by more than 19%. The $514 million welfare cut includes an immediate 4.2% reduction in benefits, to be followed by an additional 15% for any family with one able-bodied adult who remains on welfare more than six months. Beyond the cuts for next year, Wilson wants another $2 billion in cuts by March 1 to cover the current budget's widening deficit, which is likely to increase severalfold by June 30. State revenues in December, expected to run 8% higher than a year ago, came in only 4% above the earlier level.

Fighting over a shrinking pie

At a legislative hearing on Jan. 6, California Treasurer Kathleen Brown reported on the growing squeeze on cities, counties, and special districts, unable to make up for state cutbacks because of Proposition 13, the 1978 local property tax cap still on the books. "The financial community—including the rating agencies, underwriters, and municipal bond insurance firms—now perceive state and local government in California as locked in competition with Sacramento for a shrinking pool of tax revenue," Brown declared.

At three commission hearings last month, Brown said, 51 witnesses warned that conditions for local governments would be even worse than last year, when the state diverted $1.3 billion in local tax revenues from local entities to public schools. Brown said the phenomenon was described "by one witness as 'intergovernmental cannibalism.' It's a reality. There's no pretending otherwise." Under Wilson's plan, the problem will intensify.

Unable to eliminate a state law guaranteeing 40% of the general fund for public schools, Wilson has proposed to cut local aid by $2.6 billion and transfer the money to the school budget—simply taking from one account to cover another. This will leave the cities and counties the "choice," he said, of cutting services or passing local sales tax increases. Local officials swarmed into Sacramento last year, warning that any further reductions in local aid would threaten even basic police and fire protection.

As bad as they are, Wilson's cuts are likely to go much deeper. If the $2 billion reduction he has demanded by March 1 is not made, he said in his budget message, he will have to cut $500 million more. If the federal government does not buy his novel claim that it should pay for immigrants' welfare, health care, and imprisonment costs, he will need another $1.45 billion. If public school systems do not "repay" more than $1 billion from last year's appropriation, further cuts will be required to cover that.

To top it all, State Controller Gray Davis, in a report on Jan. 7, warned that California will run out of cash by early May and cannot repay Wall Street loans unless it borrows another $2.5 billion. The state must cough up $4.5 billion to cover short-term revenue anticipation notes coming due between April 25 and May 15.

'Gloom' in Texas

The state of Texas, already up against a major crisis in public school funding, is also staring at a deficit of up to $5 billion for its next biennial budget beginning Sept. 1. State Comptroller John Sharp projected that modest figure in his 1994-95 Biennial Revenue Estimate, released on Jan. 11, on the basis of the extraordinary expectation that personal income will grow by 7% annually! That big a deficit with such a bountiful future is an unlikely combination, and it is the deficit which is most likely to grow. Stark declared it "a gloomy picture. . . . It's not a good time to be a member of the Legislature. The hardest thing to do in government is to cut."

Continuing the nation's ruinous economic policies will make sure that Texas is not alone. In Indiana, where tax revenues have fallen more than $1 billion short in the past two years, state officials are seeking to make cuts of $800 million in Medicaid alone in each of the next two years. Oregon recently projected a deficit of over $1 billion for the coming fiscal year. Last month, Ohio temporarily sidestepped a major budget crisis by passing a $1 billion tax increase. The list goes on and on, just like the forecasts of recovery.