Cities in Fiscal Crisis: No Way Out Without LaRouche's Policies

by Carl Osgood

Oct. 15—All across America, city officials are trying to balance their budgets amidst the collapse of the greatest financial bubble in human history, a bubble that was the result of the criminal nature of the financial markets, particularly in the era of securitization of mortgages and other debt instruments for the benefit of the derivatives markets. As the bubble blows out, the derivatives moguls expect everyone, from homeowners to governments at all levels, to compensate them for their failed swindles. If the swindlers are allowed to prevail, the result will be a disintegration into a Dark Age that will wipe out a major portion of the human race and leave the desperate survivors living in hellish conditions not seen since the New Dark Age of the 14th Century—a disintegration we can already see in process. And yet, even as the very means of their existence is pulled out from under them, city officials continue to try to balance their budgets, in complete defiance of reality.

Only the Federal government, under Article I of the U.S. Constitution, has the power to create credit, and then deploy that credit into the kinds of physical economic activities that are required to sustain the population at every level. No other level of government can take the action that is required. Aside from a few platitudes about preventing teacher layoffs, President Obama has completely failed to recognize the plight of cities, counties, and towns that are sacrificing essential services to satisfy the balanced-budget beast. Congress needs to take immediate action to stem this decline, starting with the restoration of the 1933 Glass-Steagall Act, to separate legitimate banking functions from gambling, and then, once that is done, Congress can enact emergency aid to state and local governments to prevent the collapse of essential services.

Lyndon LaRouche pointed the way out of the collapse, when he proposed his Homeowners and Bank Protection Act (HBPA) in August of 2007, when the mortgage bubble began to blow. The HBPA would have frozen all home foreclosure actions, allowing families to stay in their homes, while the banking system was reorganized along Glass-Steagall lines, to deflate the bubble and write off the speculative assets that created the bubble in the first place. More than 150 local and and state jurisdictions passed resolutions calling on the U.S. Congress to pass the HBPA. Instead of acting on this demand, however, the leaders of Congress, including, among others, House Financial Services Committee chair Rep. Barney Frank (D-Mass.), sabotaged any consideration of the HBPA and went with the bailout plan of President George W. Bush's Treasury Secretary Henry Paulson, a bailout plan which has been continued and expanded by the Obama Administration.

The Consequences: City Budgets Unravel

City, county, and town governments, as a result, have been left with only one option: to plunge into the hellhole of de facto, if not formal, bankruptcy. And that tragedy is playing out all across the country, as local governments make cuts to every essential service, from public safety, to social safety net programs, to sanitation, to street and water pipe repairs, all in pursuit of the unreachable holy grail: a "balanced budget."

A report released Oct. 6 by the National League of Cities (NLC) documents the depth of the municipal fiscal collapse. Nearly 9 in 10 of the 338 city finance officers surveyed, reported that their cities are less able to meet fiscal needs in 2010, than they had been in 2009, a percentage almost unchanged from the 2009 report. They report declining revenues and spending cutbacks in response to the economic crisis, and, for the first time in the 25-year history of the NLC survey, *both* property tax revenues and sales tax revenues declined in 2010.

Overall, general fund revenues declined 2.5% in 2009 over 2008, and city finance officers project that for 2010, that decline will be 3.2%. "The declines in 2010 represent the largest downturn in revenues and cutbacks in spending in the history of the NLC's survey, with revenues declining for the fourth year in a row," the report states. The most common cuts that cities are making are in their personnel budgets, with 79% report-

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The economic unravelling of our state and local governments could have been avoided altogether, had LaRouche's Homeowners and Bank Protection Act of 2007, endoresed by hundreds of jurisdictions across the country, been implemented at the time. Here, the LaRouche Youth Movement organizes for the HBPA in Washington, D.C., October 2007.

ing measures like hiring freezes, wage and benefit cuts, and layoffs; 69% reported delaying or canceling capital infrastructure projects; and 44% made cuts in services other than public safety and human social services; 25% reported cuts in public safety, and 17% in human services. More cities reported making cuts in each area of government activity in 2010, than they did in 2009.

Instead of demanding the policies that will solve the crisis, cities and towns all over America are, instead, committing hara kiri. The ideological straitjacket of budgeting means that city finance officials are left with some combination of tax increases and spending cuts when it comes to working out their budgets. A number of cities, such as San Diego, Calif., and Tucson, Ariz., among others, actually have sales tax increases on the ballot in November, and numerous other towns and counties have property tax rate increases on the ballot.

Conversely, there are also anti-tax measures on a number of state ballots, including the one in Massachusetts, which would slash the state sales tax rate from 6.5% to 3%. A number of mayors in the state have stepped forward to warn of the devastating consequences that these measure would have on municipalities, since one effect of the tax cut, were it to pass, would be a slashing of state aid to cities and towns, by about $2 billion. With the options of raising revenues extremely limited, therefore, city finance officials are left with reducing spending to levels that meet the reduced revenues, and everything is on the table, regardless of the impact, including police and fire protection, public health, social safety nets, libraries, public works, and sanitation.

But the Bond Markets Are Protected

And yet, cities' bond ratings are not expected to fall a great deal on average. Why is this? Because city officials have proven they are willing to do "whatever it takes" to balance their budgets! This was made clear during a conference call on Oct. 6, by officials of the National League of Cities, releasing the above-described report.

During the discussion, the NLC's research director Christopher Hoene assured reporters that municipal defaults and bankruptcies would not be a major problem. "Most places are balancing their budgets through cuts and other sorts of actions," he said. Hoene's co-author, Dr. Michael Pagano, Dean of the College of Urban Planning and Public Affairs at the University of Illinois in Chicago, in response to a question on whether downgrades of city bond ratings should be expected, said that, indeed, there will be more rating downgrades, but, as a result of the underlying economy, not as a result of failures on the part of city officials. "Cities are doing what they should be doing as corporations, which is balancing their budgets," he said.

Of course, the budget cuts that cities are taking, have consequences for life and limb, especially cuts to public safety services. This reporter pointed out that he was aware of at least two cases, in San Diego and in Philadelphia, where lives lost were blamed on cuts to fire department services, and crime rates have soared in cities where there have been substantial reductions in police departments. How do the "benefits" of balancing the budget stack up against the very real increased risk to lives and property?

Pagano replied that it's time to "rethink the social compact," rather than suggest that maybe it's the national economic policy that needs to be addressed. He argued that the reason cities are making such cuts is that these services can't be afforded at the current tax rate, and the current willingness of citizens to pay for them. The principle that has to be included, he argued, is that these kinds of services "are not free," and if citizens are not willing to pony up for the full costs, then cuts have to be made somewhere. "That they come in public safety and elsewhere is part of the decision-making process," he said. "If this is so valuable, we need to engage in a renegotiation of the social compact."

No Local Solution

While there is hardly any part of the country which is untouched by the crisis, the state of New Jersey is perhaps the poster child for sacrificing public safety and other government services on the altar of the balanced budget. New Jersey Gov. Chris Christie's budget slashed over $800 million from state aid to education, another $460 million from state aid to municipalities, and then imposed a 2% cap on property tax increases. These budget measures plunged cities and towns, already weakened by the global financial collapse, deeper into crisis.

On Sept. 24, the New Jersey Civil Service Commission approved a layoff plan submitted to it last month by Newark Mayor Cory Booker, and the city—New Jersey's largest, with over 300,000 inhabitants—immediately sent out notices to 2,200, or roughly half, of its employees that they might be facing layoffs. Within a week, 700-800 city employees—close to 20% of the city workforce—were scheduled to receive their pink slips, as layoff plans were finalized. The layoffs include 167 police officers (twice the number in Oakland, Calif., last July, that caused a crisis in that city); about 90 firefighters; and some 400 sanitation workers, whose jobs are being privatized. All of this, plus a property tax increase of 31%, is supposed to yield $110 million for the city over the next two years.

This will have no effect, however, on the still-to-be-adopted 2010 budget, which is still in deficit by $83 million. This week, Newark city officials made it known that the layoffs of 165 police officers, all recruits hired within the last three years, would be announced in the next two weeks, to take effect in November.

However, this level of destruction is still not enough for the bankers' hit men. A task force of economists, commissioned by the Newark city council in August, announced Sept. 28 that the city is *still* spending beyond its means, despite the measures it is taking. The task force recommended a number of scenarios, that included 1,175-1,964 layoffs, and a 17% to 40% increase in city property taxes; otherwise, the city will face a $106 million deficit in 2011. The recommendations particularly target the police force, which the task force claimed is soaking up too much of city spending.

At the opposite end of the urban scale is Mingo Junction, Ohio, a small village about 20 miles north of Wheeling, W.V. On Sept. 22, seven of the town's eight police officers were laid off due to a lack of cash to pay them. According to news reports, at least one local business closed its doors as a result, because of worries about the crime rate. On Oct. 13, news reports indicated that local citizens were taking matters into their own hands to keep the streets clear of trouble.

Such measures will not solve the problems of Newark, Mingo Junction, or any other U.S. city. No local- or the state-level measures can solve the problems of city budgets. In November 2007, as the foreclosure crisis began to hit, Newark became one of 150 cities backing LaRouche's HBPA, when the city council passed a resolution that recognized the national scope of the crisis, and the Federal government's historical role in protecting the banking system and home ownership, and that called on Congress to pass legislation containing the measures called for in the HBPA. Only national action of this type, beginning with the restoration of Glass-Steagall, will address the crisis faced by Newark and every other city in America.