The oil belt leads the nation down

The toll from the collapse in the oil price is only beginning to show up in the Texas economic disaster.

International crude oil prices fell sharply July 8, with trades confirmed as low as $5.50 a barrel for Kuwaiti crude. Saudi Arabian Light, once OPEC's benchmark crude, traded at $8 a barrel. Normally both the Kuwaiti and the Saudi Arabian light are sold for about the same price as U.S. grades. North Sea Brent traded at $9.60 and $9.80 a barrel, and closed July 9 at $9.65 per barrel. Significantly, the North Sea price did not move in response to a report of slightly lower U.S. gasoline inventories, released July 9 by the American Petroleum Institute.

EIR's forecast of oil well below $10 per barrel during the summer appears to be borne out. The consequences for America's oil belt—which do not yet reflect the latest ratchet-decline of oil prices—already amount to a disintegration of that region's economic and social fabric.

The Texas unemployment rate hit a record 10.5% in June, breaking the record of 9.6% set the previous month. Texas has the highest rate among the 11 most populous states, followed by Michigan, with 9.4%. Due to the collapse of oil prices, "every sector is showing some sign of weakening," according to Bryan Richey, regional commissioner of the Bureau of Labor Statistics in Dallas; he said the problems in Texas are "deep-seated and pervasive," and appear to be "outside of the immediate control of anyone." Richey cited troubles in energy and agriculture, and troubles along the Mexican border, as the principal factors in the slowdown. "It's a very dynamic set of circumstances," he said. "What we're seeing here is a set of problems affecting the state's economy, and they're growing. It doesn't just end in the oil patch. It goes beyond that point." The unemployment rate for Houston hit a record 10.7% in June.

Texas State Comptroller Bob Bullock, who recently forced a special legislative session with his estimate that the state's budget deficit would reach $2.3 billion, has now predicted that the deficit will be "substantially higher" than that figure. "A skyrocketing unemployment rate will be one key factor moving the state's budget deficit well above the current $2.3 billion," Bullock said. "Workers without jobs and paychecks reduce economic activity and taxes." Bullock said, "We expect to finish a new revenue estimate before Aug. 1, and, frankly, none of the indicators contain an ounce of good news. I'm not going to second-guess the exact number we'll be facing at the end of the month, but with deteriorating conditions in the Texas economy, it will be substantially higher than the current estimate."

Bullock also reported the first week in July: "We see a small net out-migration of Texas to other states this year. . . . Obviously, when there are no jobs, people will not stay here, and today there are no jobs if you look at the overall picture."

Earlier, *EIR* reported that the lending collapse of Texas banks had been large enough to outweigh all other increases in lending nationally, producing the first absolute decline in bank lending since 1974, and the second since the close of World War II. The collapse of municipal budgets in the oil-belt, in turn, merely leads the contraction of municipal revenues across the country.

A 660-city survey by the National League of Cities (NLC) reveals that more than half the cities and towns across the country expect to end their budget year in the red. "Wherever you care to look, it is clear that the belt has been tightened to its limit as far as municipal budgets are concerned. It's no longer a matter of cutting corners or trimming fat—the knife is now cutting the bone and slicing into the vital muscle and sinews that make our cities work," says NLC executive director Alan Beals.

Texas and Louisiana cities, he adds, face an extra burden from the oil price collapse, and have been forced to take drastic actions to stay in the black. He cited Houston's 3% employee pay cut, a similar 1-5% cut in Dallas, and the prospect of 1,000 city-employee layoffs in New Orleans. Before the cuts, he said, Houston was facing a $76 million shortfall and Dallas a $47 million shortfall. The austerity cuts are "the only flexibility these cities have," he said.

The city of Houston ended its fiscal year by laying off the first 81 of up to 770 city employees; 150 people were scheduled to be laid off June 30, but 66 found jobs elsewhere on the city payroll. Some city-licensed vocational nurses will now be court clerks, while other employees will become police dispatchers, airport laborers, or water and sewer workers. Houston Mayor Kathy Whitmire still plans to lay off 403 people by Aug. 30, but has postponed the remaining 367 layoffs until the City Council approves a budget.