Budget crises deepen as revenues collapse

by H. Graham Lowry

The state and local budget crises which erupted with record intensity after the Nov. 6 elections are now blowing completely out of control. Where fictitious revenue projections once camouflaged the effects of a depression already in progress, not a week goes by now without some dizzying new deficit revision. Waves of business failures, massive layoffs, and plummeting sales are simply wiping out the tax base.

In New York State, where Gov. Mario Cuomo ordered the legislature into emergency session Dec. 10 to chop another $1 billion from the current budget, the immediate casualty was New York City. Barely a month before, Mayor David Dinkins announced a new hole in this year's revenues of $388 million. On Dec. 10, his aides produced figures projecting the loss of another $250 million, including $180 million less from the state as a result of Cuomo's latest cuts. Dinkins declared, "We will meet the $250 million plan with further action, be it harsh." Pressed for details, Dinkins replied, "More pain."

A previous austerity plan called for closing firehouses, reducing garbage collections, and slashing funding for senior citizen centers, food pantries, nutrition programs, and day care centers, as well as delaying bridge inspection and repairs and park and playground maintenance. But that package was designed to yield only $40 million in cuts. City officials announced Dec. 11 that 15,000 municipal jobs would be eliminated by the end of the fiscal year next June 30.

This latest deficit revision includes at least a $70 million shortfall in property, sales, and mortgage recording taxes through the end of November. Some aides project a further $100 million drop in property tax receipts, and another $50 million fall-off in sales tax revenue. The ongoing disintegration of the New York City tax base since the October 1987 stock market crash has now pushed the number of jobs lost each month to 7,000. Office vacancy rates in the financial district have shot up to 23% for primary buildings and over 30% for secondary ones. The city's anticipated revenues, to meet its current budget of $28 billion, have now been revised downward a total of $638 million in the last month. Prior to that, another $1.8 billion shortfall had been incurred since late 1989.

More pain promised in Maryland

Following his reelection, Maryland Gov. William Donald Schaefer revealed a $180 million budget deficit for the current fiscal year. By Dec. 6, the figure had risen to $423 million, as revenues from sales and income taxes continued to plunge. "We are facing the most difficult decisions in the history of Maryland," Schaefer told a group of newly elected legislators. "We are in a recession. It's going to be absolutely devastating." Asked how he would solve the crisis, Schaefer replied, "We are going to do some things that are going to be very painful. It's something we can manage, but it will be painful managing it."

Schaefer promptly announced plans to lay off up to 1,800 state workers on Jan. 1. Two days later, he suspended road construction projects, including some already under way, following disclosure that the state's transportation trust fund faces a deficit of more than $200 million over the next two years. The shortfall reflects the collapse of receipts from gas taxes, motor vehicle fees, and corporate income taxes.

State employees are outraged over the planned mass layoffs. William Hudson, Jr., president of American Federation of State, County, and Municipal Employees Council 92 representing about 10,000 state workers, told a union meeting Dec. 10, "They are not laying off 1,800 employees. They are firing them." The state attorney general has declared that job protection provisions in the contract do not apply to budget cuts.

Business failures triple

Massachusetts residents were stunned to learn Nov. 20 that another $500 million deficit had been discovered for this year, but that figure may soar much higher. A Dun and Bradstreet survey reveals that 1,426 businesses failed in the state during the first nine months of 1990, more than triple the number during the same period last year. The rate is now the highest in the nation, and exceeds those of the "Rust Belt" in the early 1980s and of Texas in 1986. For "post-industrial" New England, this year's rates also increased by 162% in New Hampshire, 163% in Rhode Island, and 154% in Connecticut.

The official Massachusetts unemployment rate hit a seven-year high in November, increasing more than 50% from a year ago. The state's unemployment fund is expected to run out of money by late winter, unless the employer tax is doubled or benefits are cut by one-third. The governor declared Dec. 9 that he will not honor a new contract for 27,000 state workers negotiated in November, because there is no money to pay for their first wage increase since 1988.

A state Senate committee report released Dec. 6 concludes that the cities and towns, already stripped of much of their state aid, cannot maintain basic services without overriding legal caps on property taxes. "The fiscal position of our cities and towns continues to worsen," said the committee chairman, "and there is no easy solution in sight."