Budget deadlocks, emergency rule usher in new fiscal year

by H. Graham Lowry

Even as the Bush administration was declaring the "recession" officially over, chaos was enveloping state capitals across the country, in the scramble to cover huge budget deficits for the fiscal year which began July 1. Ten days later, nine states had still not reached final agreement on the combinations of tax hikes and spending cuts required, as revenues continue to plunge to depression levels.

Besides such emphatic proofs that the accelerating economic collapse has driven deficits out of control, and beyond even short-term forecasts, the resulting political confrontations are clearly moving in the direction of rule by decree. The governors of Maine and Connecticut, both of which failed to meet the budget deadline, declared an outright state of emergency and furloughed tens of thousands of public employees for a week without pay, shutting down all but essential functions and emergency services.

In state after state, chief executives have used the threat of mass firings, lost pay, shutdowns, and wholesale program cuts, attempting to bludgeon their legislatures into passing austerity measures which they had previously rejected. In California, under the threat of more than 22,000 layoffs of state employees, the legislature agreed to let Gov. Pete Wilson seize $1.6 billion from the state's public employee pension fund. The unions must also accept a 5% wage cut and two payless paydays a month to forestall 9,380 of those layoffs.

New Jersey's $14.7 billion budget, signed just before the July 1 deadline, left a gap which Gov. James Florio immediately began closing by laying off another 2,000 to 3,000 state workers. At least three times that many are being bumped to lower civil service classifications, at lower salaries. Another 1,300 workers were strong-armed into early retirement, at pension levels nearly 50% below the salaries they received while working for the state. Florio had repeatedly justified his budget cuts as necessary to protect the state's AAA credit rating, but Wall Street is still demanding more. On July 5, Standard and Poor's announced that it was dropping New Jersey's rating one notch.

New York City, scrambling to cover a $3 billion deficit, came in under the wire by increasing taxes by $735 million, cutting city services by $1.5 billion, and laying off 10,000 municipal employees. On July 1, the leaders of the two major municipal unions said they were willing to give back as much as $100 million in wages and other concessions, on the possibility that 4,300 of the layoffs could thus be averted.

Confrontation in Connecticut

Connecticut Gov. Lowell Weicker's declaration of an emergency on July 2 locked out 20,000 of the state's 48,000 employees. That same night, angry state workers took to the streets in protest, charging that the unpaid furlough violated Connecticut law. But at the same time, the state employee unions tentatively agreed to a $340 million package of wage and benefit concessions which Weicker had demanded, if a budget could be passed quickly and the workers recalled. They returned to their jobs July 8, and the state is operating on a temporary budget resolution through July 28.

But the legislature remained deadlocked over Weicker's demand for a state income tax to deal with a $2.8 billion deficit, out of a total budget of only $8 billion. He vetoed a last-minute sales tax increase passed by the legislature, saying that collapsing sales tax revenues are already the major factor in the state's revenue shortfall, which is currently running more than $100 million a month.

On top of that, the state still has a $940 million deficit from last year, which is being carried forward at a cost of $100,000 a day in interest alone. Weicker has announced that if the assembly wants to operate the state on two-week budgets, he will simply leave matters unresolved, and that if a budget is passed without an income tax, he will call the legislators back into session as soon as deficits appear.

Rule by decree was again the story in Maine. The emergency declared July 1 by Gov. John McKernan sent 10,000 "non-essential" workers home for a week, until the legislature passed a two-year, $3.2 billion budget with enough tax hikes and spending cuts to cover a projected $1.2 billion deficit. But McKernan then demanded a 35% cut in workers' compensation to offset $300 million in new taxes, giving the legislators only three days to knuckle under, or the new budget would be voided! They refused, and he shut down the state again on July 11.

Statewide strike threatened in California

In California, where the budget confrontation between the legislature and Gov. Pete Wilson also remained unresolved, the state employees' association on July 10 threatened to strike for the first time in its history. Leaders of the association charged Wilson with "union-busting," and announced that they were polling their members to determine whether there was support for a statewide strike after July 19, in opposition to contract concessions demanded by the governor. The 78,000-member union filed an unfair labor practice charge with the Public Employment Relations Board, accusing the state of failing to bargain in good faith.

"It is clear to us the state is not serious about bargaining," a spokesman said. "We anticipate that state negotiators will attempt to force us into an impasse at the bargaining table so that the governor can implement mandatory furloughs, wage cuts, and the elimination of merit salary adjustments without reaching an agreement." State workers' contracts expired July 1, and Wilson is also now demanding a revamping of workmen's compensation rules as part of the budget cuts. The unions have complained that Wilson sought to cut wages and alter work rules through the legislature, instead of negotiating with them in contract talks.

California's budget impasse centered on what kind of taxes should be enacted to close a $2 billion gap remaining in a deficit projected at a staggering $14.3 billion. A record $4.1 billion increase in sales taxes was approved June 28, in an overall $7.3 billion tax hike which will cost the average California family nearly $1,000 a year in additional levies, including taxes on almost every item purchased except food and prescription medicines.

Nearly $500 million was cut from state welfare payments, and $660 million was cut from pension benefits for teachers and other local school district employees. The state also dumped the costs for 15 mental health, drug and alcohol, and other health programs onto the counties—the biggest shift in state and county responsibilities in California history. With no budget in place, California failed to make a $160 million payment due to the counties July 10, and faced a series of payless paydays for state employees.

In Pennsylvania, 10,000 state employees went home without paychecks July 5, and another 9,700 were to go unpaid July 12, until a state judge ruled that the $23 million withheld had to be paid because the work was done prior to June 30, before the old budget expired. Hundreds of state workers rallied in the Capitol Rotunda on July 9, demanding their checks and chanting, "We will remember in November." Without a new budget by July 26, however, 100,000 would be left without their paychecks—nearly the entire state work force.

The Massachusetts legislature rebuffed Gov. William Weld's attempt to seize dictatorial powers over state spending, by rejecting a bill which would have created an Emergency Control Board by gubernatorial appointment, to cut the budget without legislative consent. But Weld used his power of line-item veto to further reduce spending in the draconian new budget by $80 million. He also eliminated the legislature's appropriation for the state workers' group insurance plan, because it did not include his demand that worker contributions be increased from 10% to 50%. Weld will submit his original scheme to the legislature again. He also terminated the state's General Relief program as of July 31, and is refiling his plan for one with vastly restricted eligibility. The state is already projecting a deficit for 1993 of $2 billion.

More woe for nation's cities

Besides these fiscal breakdowns at the state level, more and more of the nation's cities—like bankrupt Bridgeport, Connecticut—are reaching the point where no amount of juggling can maintain a working budget. The National League of Cities released its report on "City Fiscal Conditions in 1991" on July 8, presenting a grim picture of urban distress nationwide.

In a survey of 525 cities, including 94 of the nation's 183 cities with more than 100,000 population, the league found that over 70% of them will be even less able to meet their needs than last year. Over 60% already project deficits for this year, and more than a quarter of the cities expect shortfalls larger than 5% of their budgets—despite the fact that nearly 85% of them increased taxes and fees this year. Among the cities surveyed with more than 300,000 people, 62% imposed a hiring freeze; 55% laid off workers; and and 41% reduced municipal services.

New Orleans Mayor Sidney Barthelemy, the league's president, declared, "Bridgeport is a fire alarm," and added that other cities could soon join it in bankruptcy court. When Bridgeport filed for bankruptcy on June 8, its deficit was less than 5%.