Illinois declares 'technical' bankruptcy

by H. Graham Lowry

For depression-wracked state governments across the United States, a note of reality was sounded for the New Year when the Comptroller of the State of Illinois declared the state "technically, legally bankrupt." Illinois thus becomes the first to publicly acknowledge what is already true for nearly half the states in the Union: They are in the throes of financial collapse, and cannot function long unless prevailing economic policies are scrapped.

Ten years of budgetary austerity and fiscal chicanery in Illinois have only accelerated the disintegration of the state's once productive economy. Gov. Jim Edgar has decided to apply more of the same, in a futile attempt to "balance the budget" on the remains of a rapidly disappearing tax base.

Comptroller Dawn Clark Netsch reported Jan. 2 that as of Dec. 31, she had nearly $1 billion in bills sitting on her desk, against only $1.2 million in the General Revenue Fund. "If you can't pay your bills as they come due, I think you are technically, legally bankrupt," she said. "If that's true, I suppose, technically, we are right now. We are not paying our bills when they come due. When you are sitting on what amounts to almost a $1 billion cash flow backup, I think we are in very, very serious shape."

When the Illinois legislature reconvened Jan. 8, Governor Edgar scrapped his scheduled State of the State address to deliver an emergency budget message instead. Edgar demanded roughly $350 million in further cuts before the fiscal year ends June 30—about 7% of the funds left in appropriations. This comes on top of $1.5 billion in cuts imposed when the current budget was adopted, but does not even come close to the magnitude of the state's revenue collapse. As of Dec. 31, bills totaling $486.5 million, as well as $470 million in Medicaid and Medicare reimbursements, had not been paid—nor had $100 million in state employee health insurance claims.

Losing $50 million a day

With its tax base clobbered by the depression, Illinois's revenues have dropped so fast that its deficit is now growing at nearly $50 million every day. As recently as Dec. 16, Governor Edgar had put the *total* deficit at only "tens of millions" of dollars. The next day, he announced that it would reach $300-500 million by the end of this fiscal year! "The budget was balanced in July," Edgar declared on Dec. 17, "but unfortunately revenues have declined because the economy has declined." Netsch charged that both Edgar and the legislature grossly overestimated revenues for fiscal 1992.

Edgar, meanwhile, has asked the legislature to grant him extraordinary powers to impose cuts across the board. The General Assembly's two Democratic leaders announced on Jan. 8 that they were not prepared to cede that authority; and other lawmakers expressed fears that Edgar would make further cutbacks in education and welfare, as well as Medicaid—where the state is already far behind in reimbursing pharmacies and hospitals providing treatment for the poor. Edgar is also considering more layoffs of state employees.

More states on the brink

During December, one state after another reported an accelerating collapse in revenues. In California, which had already enacted record budget cuts and tax increases to cover a $14.5 billion deficit for this year, Comptroller Gray Davis projected an additional shortfall of $6.1 billion—which defines a crisis way beyond any budgetary solution. Just six weeks earlier, Republican Gov. Pete Wilson had put the deficit at $3 billion. Wilson had already called for a staggering 25% cut in welfare payments Dec. 9, which would require voter approval of a constitutional amendment later this year. The additional multibillion-dollar cuts would devastate education, health care, welfare, and the prison system, which account for more than 80% of the total budget.

New Jersey, which increased taxes by $2.8 billion last year, reported its deficit had already hit $700 million, with sales tax receipts lower than before the increase. New York State announced an additional deficit of $875 million, despite a $6.5 billion austerity package which Gov. Mario Cuomo said would make this year's budget "deficit-proof." Shortly after New York City's Mayor David Dinkins announced a further deficit of $210 million for the current fiscal year, the state's Financial Control Board on Dec. 13 upped the projection to $543 million.

In Virginia, which cut spending by more than $2 billion over the last two years, or nearly 16% of its total budget, this year's gap is now projected at $2.2 billion. Next year's is already at $1.6 billion. Gov. Douglas Wilder has told state agencies to prepare to cut their budgets by another 9%. In Maryland, where collapsing revenues have led to five rounds of further budget cuts totaling $1 billion in the last 15 months, Gov. William Donald Schaefer announced another $1 billion shortfall for the coming 18 months.

Washington State's Gov. Booth Gardner announced Dec. 16 an $890 million deficit for the 1991-93 biennial budget. He immediately put forth plans to cut spending by $560 million, eliminate 1,100 jobs, cancel scheduled pay raises for teachers and state workers, and impose deeper cuts in social service and health care programs.