State Budget Crises Escalate into Disaster

by Richard and Mary Jane Freeman

The United States is now experiencing a crisis of state budget deficits, which has already engulfed 14 states, and could spread to as many as 25 by the end of June and all states by the end of this year. The crisis threatens the U.S. financial system, and severely endangers the states' populations.

For the last decade, state governments have steadily built up large yearly budget surpluses. They then plowed these surpluses into sizable "ending balances," i.e., balances of surplus funds, above immediate operating expenses, that can be used for "rainy days."

The states achieved these surpluses through taxation on the speculative and/or non-productive side of the economy: the U.S. stock market bubble and the Information Age "New Economy." In the mid-1960s, the City of London-Wall Street financier oligarchy imposed a "post-industrial society" policy upon the United States, which, while withering production in manufacturing and agriculture, built up a huge cancerous speculative bubble, further sucking the life-blood out of the physical economy.

As long as the non-productive, speculative side of the economy grew—and it did—the states acted as if they had tapped into a gold mine, in the form of increased tax revenues. Many state officials boasted that the states had entered an era of "permanent budget surpluses," and that the era of struggling to balance their budgets was over (48 out of the 50 states have laws requiring them to balance their budgets each year). Within the past 12 months, many state officials have begun to realize that their firmly held beliefs were delusions, and are beginning to panic. The U.S. stock market is disintegrating and the "New Economy" is blowing apart, which has cut the floor out from under state tax revenues.

That bubble blowout is deadly for the states, but a further, parallel development has turned the states' disaster into a nightmare. The productive U.S. physical economy—the other side of the U.S. economy—is also blowing apart. This side of the economy, which comprises manufacturing, agriculture, construction, transportation, and public utilities, supports human existence. Its breakdown causes a large reduction of states' tax revenues. A North Carolina state budget official reports that the manufacturing sector has "taken a big hit" this year, which will reduce revenues. As Iowa State Rep. Steve Falck (D) exclaimed of that state's multimillion-dollar revenue shortfall, which requires severe budget cuts, "This isn't belt-tightening. This is the Texas Chainsaw Massacre."

The combined loss of tax revenues from the speculative and productive sides of the economy is sizable, and losses are growing at an accelerating rate. Whereas during temporary state budget crises, revenue shortfalls might equal 0.5 to 1% of state expenditures, today, in many instances, they are 2-5% of state expenditures, and could soon be several times that. States cannot function under such circumstances.

Vital Programs Are Slashed

In conjunction with the U.S. government, state governments are called upon to fulfill certain vital functions to promote the General Welfare, especially with regard to provision of several forms of basic infrastructure—transportation, water management, education, and health and hospital services. But, as a result of the budget crises, state governments are slashing vital programs, ranging from cuts in Medicaid, the program providing medical assistance to the poor, elderly, and sick; to halting school construction or cancelling classes at state-funded colleges; to cutting back transportation projects, and so forth.

The reality is that the budget crises are caused by the biggest global financial-economic disintegration in 300 years. Lyndon LaRouche stated on March 21 (see box) that state legislators and others must broaden their horizons, and address this problem on a national and international level. States cannot solve these crises and defend their populations, on a local basis. If state leaders fail to grasp this, their states will be destroyed as part of the general collapse.

We will look at the quickening pace of budget crises and harsh austerity, and then at how the state budget process has been transformed over 30 years, based on fatally flawed assumptions and policy decisions which created this mess—and portends a far worse crisis.

The unfolding of events in 14 states (see *Documentation*) shows the scope and ferocity of the budget crises. Budget cuts are being imposed across the country, from Arkansas, where Gov. Don Siegelman is cutting funds to state universities, colleges, and museums by 11.2%; to Iowa, where there is a state freeze on some contracts, equipment, supplies, vehicle purchases, and travel; to Ohio, where Gov. Robert Taft imposed cuts of 3-5% on several state agencies; to North Carolina, where in response to a $791 million shortfall, Gov. Mike Easley has invoked emergency powers and ordered no new construction, repair, or renovations of most state infrastructure.

Growing Addiction to Speculation

To understand the problem, we must look at how states became increasingly dependent on taxation of speculative and non-productive economic activity, as opposed to the activity of the real physical economy. In particular, we exam-

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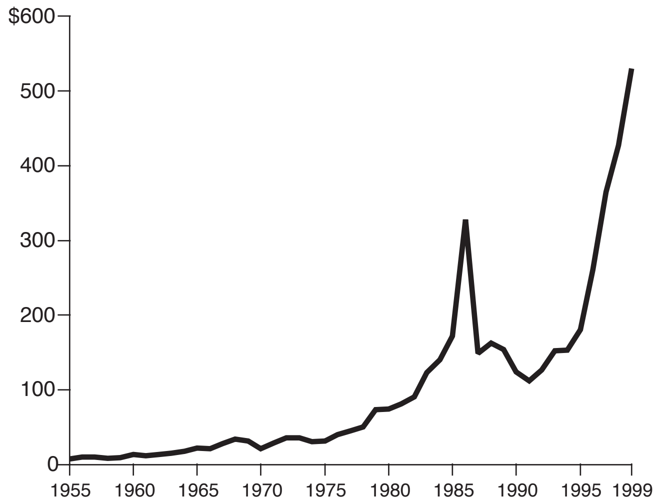
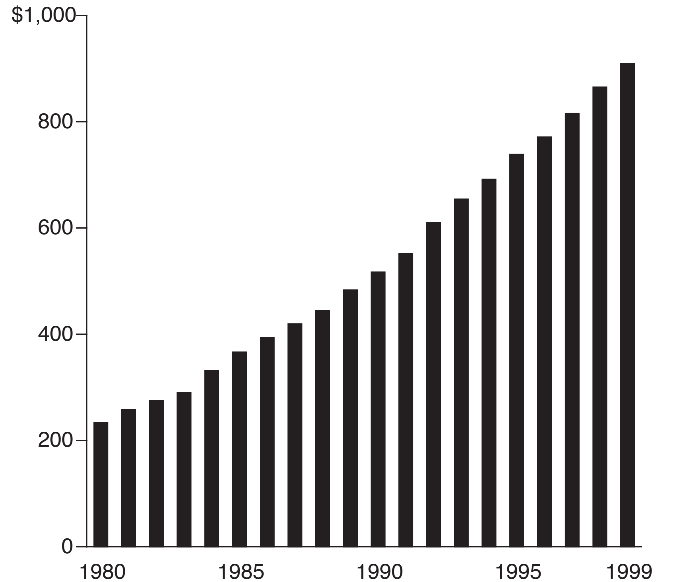
FIGURE 1
Realized Capital Gains in the United States
(Billions $)



Source: Congressional Budget Office, Tax Division; "Statistics of Income" of the Internal Revenue Service of the Department of Treasury; *EIR*.

FIGURE 2
Total State Revenue
(Billions $)



Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR*.

ine two sources of tax revenue, the state general sales tax and the personal income tax, which account today for two-thirds of the states' total General Revenue. We look at the change in the internal composition of these two taxes—what is being taxed when these taxes are applied—which shows the dangerous situation the states have gotten themselves into.

Start with revenues: The Total State Revenue represents all the revenue that a state takes in, through taxes, fees, etc. (with the exception of revenues that the state takes in for specially earmarked trust funds, such as the state employee retirement trust fund). It is the most comprehensive measure of state revenues. **Figure 1** shows that for all 50 states combined, Total State Revenue grew from $234 billion in fiscal year 1980, to $910 billion in fiscal year 1999, which is the latest year for which data are available. (These data come from the Census Bureau of the U.S. Department of Commerce.)

However, when the states officially report their revenue levels, they do not report the Total State Revenue, but instead report the State General Revenue, which is smaller than, and a subsector of the Total State Revenue. There are several reasons why the states don't officially use the Total State Revenue, reasons which are too complex to go into here. But it is useful to show one difference, in scope, of the category Total State Revenue versus the State General Revenue.

The Total State Revenue includes "intergovernmental transfers." This includes U.S. Federal government payments to the state governments, such as funds to the states to pay its share of the Medicaid program. On the other hand, the State General Revenue does not include "intergovernmental transfers." There are other important differences.[1]

Because the states use the State General Revenue level in their official reporting of revenues, we will concentrate on that here.[2]. **Figure 2** shows that for all 50 states combined, State General Revenue grew from $137 billion in fiscal year 1980, to $500 billion in fiscal year 1999, an increase of more than three and one-half times; there is a significant growth since 1992. What accounts for this growth?

Taxation of Speculation

To understand the normal functioning of the state budget, and its aberrant functioning since especially 1990, which has produced the current budget crises, one needs to distinguish

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1. On the whole, the state General Revenue includes revenues: 1) that mostly come from taxation and not from fees, and 2) are revenues that the states originate within their borders, and not revenues that come from outside the state.

2. Both the National Association of Budget Officers and the Census Bureau of the U.S. Department of Commerce present very similar data on state General Revenue. For consistency, and to be able to compare data, such as that of total state revenue and state General Revenue, we use the Census Bureau figures, which differ from the NASBO figures by a very small amount.

between productive and non-productive economic activity, and the worker who might be employed in a productive economy as opposed to a non-productive one.

In the 1950s and 1960s, and to a much lesser extent during the 1970s and 1980s, the principal income of the states came from taxing the activity of the productive economy, such as manufacturing, agriculture, mining, construction, transportation, etc. Either the state taxed the businesses and farms directly through a corporate income tax, or it taxed the workers.

There are two principal ways it taxed the workers: either through state personal income tax (PIT), which an increasing number of states have adopted since 1970, or through the general sales tax (GST). Since these two taxes supply the lion's share of the income to the states' general revenue budget, it is useful to look at both.

The PIT taxes: 1) wages, salaries, and tips; 2) interest, dividends, and rent; 3) capital gains; and 4) stock options.

The GST applies a tax at the retail store when a citizen buys clothing, furniture, hardware, food (in most states), cars, and so forth.

In the 1950s, 1960s, and early 1970s, and to a lesser extent during the late 1970s and 1980s, the state governments derived most of their PIT through taxation of wages, salaries, and tips. Not all the jobs were productive, but the bulk of the PIT was on wages and salaries. During this period, there was some PIT revenue from interest, dividends, and rent, and some from capital gains, although that revenue was small. The PIT revenue from stock options was negligible.

During this same period, the General Sales Tax collected revenues from individuals' purchase of cars, clothing, etc.—the normal gamut.

Now, look at the distinction in the 1990s. Today, the states will apply the same two taxes—the PIT and GST—but the internal composition of where the revenue come from, and what the taxes are applied against, has changed, reflecting the shift into the "post-industrial society." It is not as if the states

States Cannot Solve Crisis on Their Own

During a March 21 seminar that was broadcast internationally on the Internet, Lyndon LaRouche developed how to approach the matter of state budget crises.

Mississippi State Rep. Erik Fleming: My question is going to be more local, as far as the state governments are concerned, in this financial crisis. Our current situation in Mississippi, is that we still have a projected growth, not as much as the so-called economists said it was going to be, . . . but next fiscal year we're not going to be so lucky. So, what would be your assessment on what state legislators need to be doing in order to prepare for that, as far as putting together budgets, putting together programs and services, and so on? And what kind of defense plan . . . and what kind of offensive plan do we need to have to start recovering, after that point?

LaRouche: I think we're looking at—we have to look at an estimate of, in the course of the next 12 months, a probable 30% collapse across the board in the real economy. . . .

When you take an economy like ours, in which the base of the economy, the agricultural, industrial, infrastructural base, is actually a shrinking portion of the total economy, and you collapse that economy, the bubble economy, which exists on a highly leveraged basis, you're not talking about recession; you're not talking about depression; you're talking about a depression of the kind that Europe faced in the immediate postwar period, at the end of the war. . . .

So therefore, I think the key thing is, yes, it's important to look at this question the way that you pose it. But I don't think there are any solutions in that [state/local] area. . . .

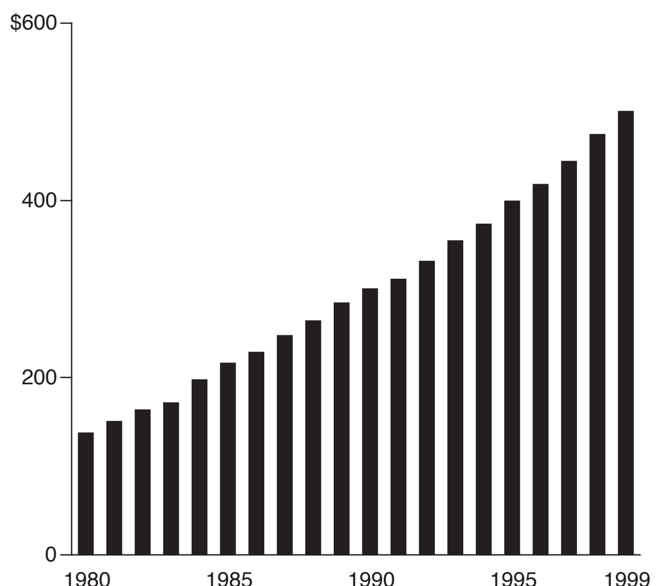
We're now at the point, where either this government changes its ways, and adopts the lessons of the Hoover-Roosevelt cooperation in early 1933, to take the initial emergency actions which redirect the direction of the economy, to begin to deal with this crisis. Because, what we can do, in that case, the way we can deal with this, with a state problem, is the old way: You create a public authority with a credit authority; you've got a section of the country that's in a disaster. What do you do? You take a project which you have, which you know is there, it's sound, it's needed. You put the project into effect, in order to stimulate that local, state economy. And, in that way, you're able to pull things together and get the state through it.

That's what we have to do. That's the *only* way we're going to be able to deal with these problems, is do it the Roosevelt way, or learn the lesson of what Roosevelt did, and adapt to that: Federal projects, Federal agencies, using the power of credit of the Federal government, under a reorganization scheme, to make sure that the credit is a line of credit—not money, a line of credit—going to the financial system, like it went to the RFC, the Reconstruction Finance Corporation, under Roosevelt, is going into the areas to work for *earmarked purposes,* worked out with state authorities, to make sure that state stays in business. And that's the way it's going to work. But, we have to have a change in government, or the *heart* of government, to do that. And that's what I'm working on.

chose the post-industrial society; that change was imposed on the U.S. economy by the financier oligarchy from the top down. However, like all entities in America over the past 30 years, the state governments adapted to the post-industrial society, and vigorously fought for it when they mistakenly believed it advanced their purposes.

Consider the application of the PIT against wages and salaries today, and the difference it makes, in general, whether it is applied to someone from the productive economy or the non-productive economy. Consider a household, headed by a manufacturing worker, that has an income of $40-45,000 per year. Compare that to a household that is riding the crest of the Information Age, speculative, non-productive economy. One member of the household may work for a so-called "high-tech" or dot-com company, whose activity may be largely or entirely non-productive. That person may earn $75,000 per year. The other member of the household may work in finance, insurance, or real estate, which is entirely non-productive. This household which works in the non-productive economy takes in $150,000 per year. The taxes it pays on just its wage and salary income are likely at least three times what the household headed by a manufacturing worker pays. The employment in the high-tech, dot-com, finance, insurance, or real estate sectors, up until recently, has been exploding. This has represented a bonanza for the state's PIT income stream (not to mention the corporate taxes the state collects from dot-com firms, banks, insurance companies, etc.).

FIGURE 3
State General Revenue
(Billions $)



Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR*.

Capital Gains Taxes

Wage and salary income from the bubble economy is just one form of income that a household can earn, and that the states can tax. Another huge source of household income, earned mostly by wealthy families, which the state can tax, is capital gains. Capital gains, even though they have their own tax rate, are a segment of personal income tax.

A capital gain is simply the buying of any asset at one price, and, after holding it a period of time, selling it at a higher price. A capital gain can be realized on stock, real estate, or a work of art. So, for example, if one bought a stock at $10 per share, and sold it at $50 per share, that is a $40 capital gain. If one had bought and sold 100,000 shares, the capital gain is $4 million.

Figure 3 shows the growth of capital gains in the United States from all sources, of which the majority are from the stock market. Between 1990 and 1999, capital gains exploded nearly four and one-half times, from $123.8 billion to $530 billion, in tandem with the explosive run-up in fictitious stock market values.

Though a national average does not exist of the percentage that capital gains represent of states' tax revenues, it is possible to gain insight by looking at a single state. In this case, we use California data, both because that is America's largest state (with 12% of the nation's population), and because it made the information available.

On March 30 of this year, Ted Gibson, chief economist for California's Department of Finance, told *EIR* that for fiscal year 2001, which ends on June 30, the state expects to collect $8 billion in capital gains taxes, $43.3 billion in personal income taxes, and a total of $79.4 billion in revenues from all sources (including the PIT, GST, and other taxes). It can be seen that the PIT accounts for a very large percentage of California's total tax revenue. Based on Gibson's information, capital gains represents a stunning 18.5% of California's PIT revenue, and 10.1% of all California's General Revenue income. It is incredible for capital gains to supply one-tenth of a state's total income.

But, the situation becomes even more amazing: Gibson reported that California anticipates taking in another $8 billion from its taxation of household income based on stock options.[3] Thus, capital gains and stock options together repre-

3. Stock options work as follows: A company, particularly a "high-tech sector" company, may offer one its employees stock options in order to attract or keep that employee. Under a stock option, an employee is entitled to buy, say, in three years time, 10,000 shares of the company's stock, and pay, for example, $30 per share—though, the stock may be trading, in the open market at $60 per share. The employee, by exercising the stock options, makes $300,000 ($30 times 10,000). This is counted and taxed as the employee's wage compensation (not a capital gain); it is still a segment of the state's personal income tax.

sented an incredible 37.0% of California's PIT revenue, and 20.2% of all of its general revenue income. To say that California's budget is vulnerable to the stock market bubble, is an understatement.

How Much Revenue Is Derived From the Bubble?

Can one make an educated estimate how much of California's total general revenue income derives from the non-productive, bubble economy? There is one additional element to consider. We have looked at the change that has taken place in California's PIT revenue; what about the change in its GST revenue?

Go back to the example of the difference between the income of a household headed by a manufacturing worker, earning $40-45,000 per year, and the household whose employment is in the non-productive, speculative economy, earning $150,000 per year. The household headed by a manufacturing worker makes its purchases of food, clothing, cars, and pays its general sales tax on that. The household whose employment is in the non-productive economy has $150,000 to spend, but it may have earned money in the stock market or through exercising stock options, so it may have another $100-200,000 to spend. The spending of money from the stock market and other bubbles is called the "wealth effect." This second household, then, instead of buying a car for $20,000, may splurge and buy a car for $50,000. It will buy fancy clothing, expensive furniture, etc. In all of these purchases, it will pay a greater amount of GST. Thus, the non-productive, speculative economy also swells GST receipts.

Thus, to answer how much of California's general revenue is dependent on the non-productive, bubble economy, we have the following elements to form an estimate. We know California:

1. Collects $16 billion from taxation of capital gains and stock options, which constitutes 20.2% of all of the state's General Revenue income;
2. Collects a considerable amount of its PIT from the millions of households employed in the non-productive, speculative economy (much more than from households headed by manufacturing workers);
3. Collects a considerable amount of its GST from the millions of households employed in the non-productive, speculative economy (much more than from households headed by manufacturing workers);
4. Collects a considerable corporate tax income from firms that engage in the non-productive, speculative economy.

From these elements, it is possible to estimate that the non-productive, speculative economy represents a staggering 35-45% of all California's general revenue income. That is, at least one-third to two-fifths of California's revenue comes from taxation of the non-productive, speculative activity.

What happens when that activity, which has nothing solid supporting it, ceases to exist? Even an initial meltdown of one-third of the bubble economy would wipe out 11.7% to 15% of all of California's general revenue, a shattering blow. And, the loss of revenue would grow as the bubble economy melted down further.

But, at the same time, the U.S. physical economy is melting down, affecting California further. (This is intensified by the insane energy hyperinflation that energy bandits, including Enron, Reliant, and Duke Power, have imposed upon California, which is crippling the state's physical economy.) As California's physical economy is devastated, the tax revenues that it would normally collect—through the PIT, GST, and corporate income taxes—likewise collapse. So, California loses tax revenues from the speculative bubble economy and the physical economy.

California has been exposed to industrial and agricultural collapses before, and suffered loss of tax revenues. What has changed now is, that first, the physical economic collapse this time will be far more severe than in the past. Second, because of the profound shift during the past 10-15 years, to becoming addicted to tax revenue streams from the non-productive economy, California faces a revenue loss that it would never have incurred years before. Thus, the long-term effect of California's shift to an addiction to the non-productive, speculative economy is that it *permanently amplifies the magnitude of revenue loss to a crisis that is beyond control*.

Other States

The explosive budget deficit potential that has built up in California exists in every other state. It is possible that these states do not have as extensive an exposure as California to the speculative economy, but even if they have half of California's exposure—and many have much more than that—they are in serious trouble.

The problem is traceable to the very nature of the PIT and GST. **Figure 4** shows, for 1980-99, the growth of GST and PIT revenues. GST collection rose from $43 billion to $168 billion, and PIT collection rose even more steeply, from $37 billion to $172 billion. Notice the increase in PIT collection since 1992.

Figure 5 shows, for 1980-99, GST and PIT revenue as a percentage of total general revenue. The percentage of GST revenue did not change much, ending in 1999 at 33.2% of total general revenue. But the percentage of PIT revenue rose, from 27.5% of total general revenue to 34.4%, with a sharp rise in the last two years.

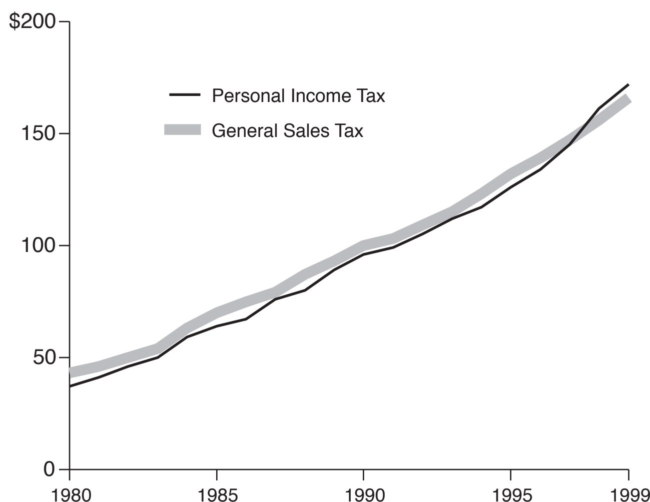
On the whole, during 1980-99, the GST and PIT combined rose from 58.6% of total general revenue to 67.6%. Given that the GST and PIT revenues are so dependent on the bubble economy, that means that, on the whole, each state's general revenue is thus extraordinarily vulnerable.

The meltdown of the bubble economy, combined with industrial collapse, sets the stage for a crisis in every state.

FIGURE 4

Personal Income Tax Revenues and General Sales Revenues, 1980-99

(Billions $)

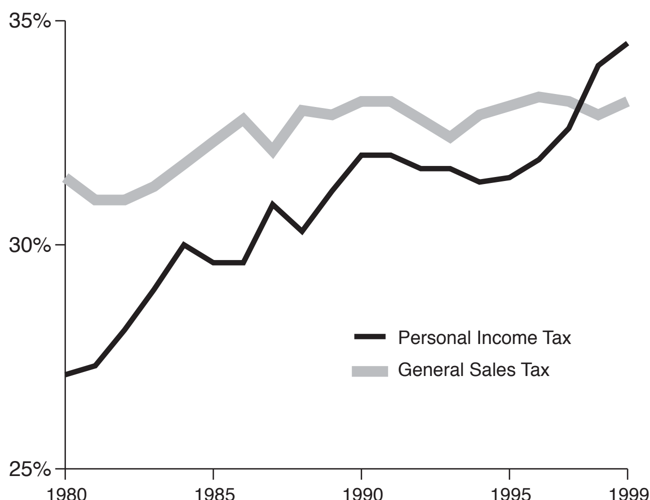


Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR.*

FIGURE 5

Personal Sales Tax Revenues and General Sales Tax Revenues, as a Percent of State General Revenue, 1980-99

(Billions $)



Source: U.S. Department of Commerce, Bureau of the Census, State and Local Government Finances Division; *EIR.*

The Consequences

All states are responding to the crisis with actions which do not constitute a solution. Many states are slashing infrastructure and services, which destroys the physical economic basis for the next economic cycle, and thus contributes to the crushing of the economy.

Some states are attempting short-term fixes, such as drawing on "rainy day" or "ending balance" funds, or raising taxes. But every state has ignored the harsh reality: The budget crises cannot be solved on a local basis; there is no way to protect one's state from the real world.

The crises have national consequences. For example, on March 22, Moody's rating service downgraded the state of Wisconsin's bonds from "stable" to "negative." Many other states' ratings will follow suit.

LaRouche has laid out a national and international solution:

Put the world financial system through Chapter 11 bankruptcy, and organize a New Bretton Woods monetary system, pivotted on great infrastructure projects such as the Eurasian Land-Bridge, which will carry out global economic reconstruction.

This will eliminate the non-productive, speculative bubble economy, and thus states' need to depend on it for revenue.

Unless this step is taken, the state budget crises will multiply, and shred any semblance of either state budget functioning or protection of the General Welfare.

Documentation

Budget Cuts, Revenue Shortfalls Hit States

Here we provide a thumbnail sketch of the budget status of 14 states. Even these data will have changed when states tally April personal income tax (PIT) revenue collections. By May, this picture is likely to be worse.

Alabama: The state's Education Trust Fund (ETF) budget for FY 2001, originally set at $4.31 billion, is now short $264 million. Gov. Don Siegelman has ordered cuts of all education budgets. K-12 public schools are cut by 3.76%, or $109 million. Universities, colleges, and museums are cut 11.17%, or $157 million. Layoffs of up to 1,800 teachers and 2,000 janitors and other support staff may result. March payouts to education were delayed and now will also be cut. The ETF is the largest state operating fund, which relies on 12 tax sources including PIT, sales, utility, and user taxes.

Arkansas: Gov. Mike Huckabee imposed $8 million in cuts on the state's FY 2001 spending to deal with a $24 million shortfall in projected revenues. He hopes the remaining $16 million will be covered by fewer tax refund claims,

or else more cuts will be required by June 30. The *Arkansas Democrat Gazette* reports that legislators are considering a beer tax, hiking fees for birth, death, and marriage certificates, and drivers' licenses. State Sen. John Riggs (D-Little Rock) says that raising income taxes is "politically impossible," and that "if the state hadn't cut taxes $160 million a year" in 1997 and 1999, the scramble to give teachers raises wouldn't be happening.

Florida: Gov. Jeb Bush faces a shortfall of at least $271 million. He and legislators are considering cuts that could be politically explosive, e.g., eliminating benefits that help the poor and elderly get eyeglasses, hearing aids, and dentures.

Indiana: Gov. Frank O'Bannon and the legislature learned on April 12 that cumulative shortfalls so far this fiscal year and those projected for the next, leave the state two-year budget $950 million short. For FY 2001, this means $200 million in cuts and/or spending of reserves. March tax collections fell $61 million short of expected revenues—the second month in a row that they fell. PIT and corporate income tax collections have fallen $250.2 million behind projections for this fiscal year because of industrial layoffs, lower corporate profits, and earlier tax refund claims. State budget director Betty Cockrum has asked state agencies not to spend $35 million of appropriated funds in the current budget, and has ordered a delay on building projects. The state plans to rely on gambling revenue and draining the general fund to tide them over to the end of the biennial budget years, June 30, 2002.

Iowa: Gov. Tom Vilsack and the legislature have a $16-22 million revenue shortfall for this fiscal year. Vilsack supports $5 million in budget cuts combined with a $4 million transfer from a court technology fund to deal with it—far short of plugging the gap. On April 12, the state's finance director announced hiring restrictions, a freeze on some contracts, and equipment, supplies, and vehicle purchases, and travel expenditures. These measures are expected to revert $10 million to the treasury.

House Republicans fear that the government is about to slip "into red ink," and approved $22 million in cuts.

Democrats say the cuts will lead to layoffs, curtailment of services, and tuition increases. State Rep. Steve Falck (D) said, "This isn't belt-tightening. This is the Texas Chainsaw Massacre." State Rep. Don Shoultz (D) suggests undoing the $100 million tax cut on utility bills approved in January.

Missouri: Gov. Bob Holden as of December had to impose a 2-5% hold on agencies' budgeted spending when revenues were expected to be $100 million short of target. But by April, the state revenue collections will have fallen such that the total annual shortfall will reach $250-300 million. The cuts have affected all expenditures except education. Also, a $155 million capital improvement fund is now frozen, to be drawn on to close the gap if April and May revenues fall off. A hiring freeze is in effect, and the legislature has just approved use of $127 million from a legal settlement with the major tobacco producers to help balance the budget.

Mississippi: Gov. Ronnie Musgrove imposed 5% across-the-board cuts to general fund spending, except in K-12 education (only 3%), for a total of $137 million. A 15% tuition hike at the state's eight universities, as well hiring freezes, are expected. In early March, the state's tax commissioner expected sales tax collections to be $27-30 million short of projections for the year. By mid-March, $50 million had been taken from reserve funds to cover the deficit.

Nevada: Gov. Kenny Guinn has been asked by Morse Arberry (D-Las Vegas), chairman of the state legislature's Ways and Means Committee, to point out what can be cut in the budget. Faced with a $43 million shortfall, Arberry said, "The picture . . . doesn't look rosy. We need your assistance in coming up with a battle plan if we're going to start hacking."

Guinn, however, isn't ready to rewrite the budget until he sees another month of revenue collections. Tentative plans are to make $20-30 million in cuts of one-time expenses (e.g., equipment). Tahoe.com reports that "if sales and gaming taxes don't bounce back before the end of this fiscal year," the shortfall could grow to as much as $44.7 million. Gaming and sales taxes make up more than 70% of Nevada's general fund revenues.

North Carolina: Gov. Mike Easley, faced with a potential $791 million shortfall for this fiscal year, declared a state emergency as of March and imposed a $1.5 billion freeze on state spending. State budget officials euphemistically call this "building an escrow fund." This is how it is done: A hiring freeze, travel and purchasing restrictions, and no new repair or renovations on state infrastructure, to free up $407 million to revert back to the general fund. This has meant a 6-7% cut in most agencies' budgets, with the exception of cuts that would jeopardize public health, safety, and education.

If April revenues are off, then even these areas will be up for cutting. Then, $598 million is being taken from other resources, including some trust funds. For example, payments into the state's retirement fund have been suspended for five months to save $151 million. One state budget official said that the state's manufacturing sector, referring to the micro-electronics and information hardware industries that service the dot-coms, which are a big part of the state's economy, has taken "a big hit."

Ohio: Gov. Bob Taft ordered an additional 1% cut of agencies' budgets between now and June. This is on top of cuts of 2-4% already ordered in January to shave off $125 million in spending. Revenue shortfalls in sales taxes ($190.8 million below estimate), the personal income tax ($51.1 million), and all other tax revenues ($39.7 million) have

brought the total shortfall to $282 million. Ohio's economy is 19.6% dependent on manufacturing (nationally, manufacturing jobs account for just 14.3% of jobs). Before the add-on 1% cut, the Department of Corrections had a hiring freeze in effect, and says this new cut will mean 350 layoffs by end of June.

Tennessee: Gov. Don Sundquist learned on April 12 that his state's March tax collections were $100.5 million less than March of last year, resulting in a cumulative $200 million shortfall for the year. State Finance Commissioner Warren Neel said that tax collections are 5% below this fiscal year's projected figures. "We're in the same kind of recession pattern we were in in 1991. The only difference is that it looks like we're in a steeper decline than . . . then." He said it is likely that the state will have to dip into its "rainy day" fund for at least $50 million to cover the current budget. So far, the state has targetted $150 million in budget savings through delayed purchases and not filling staff vacancies.

Texas: Gov. Rick Perry will draw on reserves and unspent appropriated funds to cover $708 million in expenditures for the state's prison and Medicaid programs, as well as some workers' compensation claims, which were not adequately budgeted. An emergency appropriations bill proposes to cover the gap by taking $35 million from unspent education funds, and unspecified amounts from the Employee Retirement System, the Children's Health Insurance program, and the state's surplus.

Virginia: Gov. Jim "No Car Tax" Gilmore has ordered $421 million in spending cuts. Gilmore's intransigent insistence on eliminating the car tax, means that $275 million in spending cuts will come out of state colleges, resulting in deferment of construction, and $146 million will come out of state agencies, including public safety and environment. It is also likely that a planned 3.5% salary raise for teachers and state employees will not materialize.

Even his GOP allies are turning against him. When Gilmore insisted that his balanced budget would "not result in the layoff of a single deputy sheriff," State Sen. Kenneth W. Stolle (R) retorted, "The governor needs to tell that to [Norfolk Sheriff] Bob McCabe, who's already [laid] off 18 deputies."

Wisconsin: Gov. Scott McCallum has frozen state agencies hiring, restricted travel, and all agencies are to revert 0.5% of their budgets to the general fund, spending 0.5% less than appropriated.

By mid-February, revenue projections were falling. Wisconsin's bond rating was downgraded from "stable" to "negative" by Moody's on March 22 because of ongoing "budget imbalances" and declining revenue growth, according to news reports. Moody's said that Wisconsin has drawn down its reserves, such that it started the fiscal year with $836 million in reserves, but now projects $159 million by fiscal year's end.

U.S. Spring Grain Crop Falls Far Short

by Marcia Merry Baker

In the U.S. grain belt, energy hyperinflation, on top of low commodity prices for farm output (following from the 1996 radical markets-based "Freedom to Farm" Act), are creating conditions for drastically reducing grain production. Since about 40% of annual world grain exports originate in the United States in the recent years of globalized trade, a drop in U.S. grain output is automatically a strategic issue for the world food supply. All the reports from the current U.S. Spring planting and crop progress look grim.

Corn: On March 30, the U.S. Department of Agriculture released its annual March "Grain Planting Intentions" report. The USDA forecasts that 3 million fewer acres of corn will be planted this Spring, falling to a crop area of some 76.7 million acres, down from 79.5 million last year. In fact, it could be even worse. Anticipated cotton acreage is also down.

Farmers are facing short supplies of nitrogen fertilizer, and high prices (with prices up to as much as 200% over last year), because natural gas is the key input for anhydrous ammonia fertilizer. Soybeans don't require nitrogen fertilizers, and their acreage accordingly may rise, but this is not an offset in the food chain.

Wheat: The area planted last Fall for Winter wheat, the main type produced in the United States, was down to the lowest acreage in some 30 years—62.5 million acres. Of that, the area expected to be harvested beginning this June, is now also going down sharply.

The expected decline in harvesting is greatest in Kansas, the biggest wheat state, and in Oklahoma, also an important producer. For Kansas, the estimated wheat harvest this year might be 300 million bushels, in contrast to the state's recent average of 370-400 million. For Oklahoma, the harvest might be 100 million bushels, down from a five-year average of 160 million. In the face of poor crop progress, due to a dusty Fall and flooding in the Winter, many farmers will not bother to reap the harvest, with maybe 20% of Kansas farmers abandoning their crop, and 40% in Oklahoma. Wheat futures for May rose 4% in April, on speculation of a low harvest.

Potatoes: In Idaho, the world potato center, and eastern Washington, farmers cut back on irrigated acreage this Spring, in exchange for a cash deal from Bonneville Power Authority, to forgo electricity this season. Drought and electricity speculation are causing havoc throughout the Northwest, including in the irrigated wheat region of eastern Washington.