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.