US states' budget crisis sets stage for new attack on the working class

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By Tuesday, many US state governments must pass budgets for the coming fiscal year. The state capitals are now the scene of bitter feuding among governors and legislators over how the deficits will be met. But there is unanimity that the working class must foot the bill.

Forty-six states confront significant deficits, and their collective shortfall for 2010 stands at more than $130 billion. This comes after a $104 billion deficit in 2009, for a two-year total of $234 billion in red ink—$91 billion more than President Barack Obama's stimulus package allocated to all municipalities and the 50 states for the next two years.

At its heart, the state budget crises are driven by the recession and the impoverishment of the working class. Layoffs and wage cuts are rapidly diminishing returns on state and local taxation—income, sales, and property taxes. At the same time, increasing numbers of unemployed workers and their families are turning to state-administered social safety programs already woefully unprepared for hard times.

Now, as the fiscal year approaches its June 30 end, the budget crisis is being used by Democratic and Republican governors alike to launch a new attack in the social position of the working class. This will be carried out through cuts to social programs, education, and transportation; layoffs and wage and benefit cuts for state workers; and regressive forms of taxation targeting the spending and income of working class households.

State-level income tax collections plummeted 26 percent in the first quarter of 2009 from the same period last year, according to a recently released analysis by the Nelson A. Rockefeller Institute of Government. Another new study, by the National Governors Association, shows that sales tax revenue has fallen 3.2 percent over the previous year—the biggest decline on record—and corporate income tax has tumbled by 15.2 percent.

Unemployment increased in 48 of 50 states in May, according to statistics from the Department of Labor. The official national unemployment rate rose in May to 9.4 percent, the highest level since 1983, while a broader tally that takes into account the long-term unemployed and part-time workers stands at a rate of 16.1 percent.

In spite of talk about "green shoots" in the economy, the unemployment crisis continues to mount. Initial jobless claims rose by 15,000 to 627,000 this week. Economists had anticipated a significantly smaller number of first-time benefits seekers. It is now widely accepted that unemployment will surpass 10 percent before the end of the year. This figure is far higher than the scenario anticipated by Obama's top economic advisers in February—an estimate that undergirded the stimulus package.

This week also witnessed several major layoff announcements. Among these, thrice-bailed out insurance giant American International Group (AIG) announced it will lay off 300 employees from its offices in Milwaukee and Wauwatosa, Wisconsin. Harvard University, the world's wealthiest, announced that it would dismiss 275 workers from its professional, clerical, and technical staff, in Cambridge, Massachusetts. Another 40 will see their hours reduced.

Rupert Murdoch's NewsCorp initiated another round of layoffs at Fox Interactive Media. This time between 50 and 75 workers will lose their jobs. Last week, NewsCorp announced the layoff of hundreds from its MySpace unit. And the Metropolitan Museum of Art in New York City concluded a series of layoffs and buyouts that has shrunk its work force by about 170.

The furniture distributor Ethan Allen announced it will shut down a factory in tiny Beecher Falls, Vermont, throwing 260 people out of work. "We're all in the same boat," worker Sylvie Mathieu told a local news source, "living paycheck to paycheck, and the economy isn't helping anything. We're all there for the insurance." Mathieu and her husband Danny worked in the factory for 15 years. "I used to work in the grocery store, and went to Ethan Allen to better myself," he said.

The unemployment crisis is stretching the American social safety system, such as it is, to its breaking point. While the federal government administers Social Security and Medicare (medical insurance assistance for the elderly), it is the states that administer, and are partially responsible for funding, jobless benefits claims, welfare, and the medical-coverage system for low-income households, Medicaid.

Already 15 states have emptied their unemployment insurance funds and have been compelled to borrow from the US Treasury in order to make monthly payments. By next year, it is anticipated that 30 states will have to borrow in the neighborhood of $17 billion to meet unemployment payments. The crisis is "setting the stage for big pressures for states to restrict eligibility and benefit levels," warned Rick McHugh of the National Employment Law Project.

Unlike in many European countries, where unemployed workers can recuperate the majority of their lost wages through national insurance plans, in general, the average unemployed American worker receives at most half of his or her lost wages. In fact, many states have in place weekly caps on the amount that workers can receive.

While in Massachusetts an unemployed worker can receive at most $942 per week, in Arizona, the top weekly payout is $242, and in Michigan, $362. Most southern states have capped weekly benefits at under $300.

Many rules, moreover, make it impossible for workers to collect jobless benefits at all. In Michigan, for example, 34 percent of all jobless workers cannot collect benefits, because before losing their job they were part-time workers, self-employed, or working on commission, according to the Detroit Free Press.

Another huge group of the unemployed are not receiving benefits because they have exhausted their eligibility. This number will grow by the millions in the coming months. The federal stimulus package allocated $7 billion to the states to extend unemployment insurance from 26 to 59 weeks, and also allowed states to borrow interest-free from the federal government in order to meet payments.

The number of US workers receiving unemployment benefits has gone from 3 million to 9 million since only January 1. It is anticipated that the ranks of those receiving assistance will peak in the summer, and then begin to fall as hundreds of thousands of workers run past their benefits limit.

Unemployment is driving more and more US workers to state welfare. A recent survey by the National Conference of State Legislatures and the Wall Street Journal reveals that in 23 of the 30 most populous states—representing nearly 90 percent of the US population—welfare caseloads increased over the last year.

The biggest jump, 27 percent, occurred in Oregon, followed by South Carolina (23 percent), Florida (14 percent) and California (10 percent).

The current American welfare system, Temporary Assistance for Needy Families (TANF), was signed into law by President Bill Clinton in 1996. It was the product of the "welfare reform" movement of the 1990s that had as its goal limiting the number of poor families on welfare rolls through "welfare to work" initiatives. TANF now provides assistance primarily to households headed by a single, jobless mother. The average monthly payout was a miserly $362 in 2006, the last year national statistics were available.

Michigan, the state with the highest unemployment rate, at 14.1 percent, has actually seen a drop in the number of residents applying for welfare assistance, with a five percent year-on-year decline from 2008—even as food stamp use went up by 13 percent. Currently, a staggering 1 in 7 Michigan residents are receiving food stamp assistance.

"Some advocacy groups for the poor complain that strict front-end requirements—which force welfare recipients to look for work in a state with a 14 percent unemployment rate before even meeting with a caseworker—deter many from seeking help," the Wall Street Journal notes.

Michigan terminates family benefits for three months if a household head fails to comply with its draconian work-search requirements. Still, it is anticipated that there will be a huge influx of applications for welfare in the state as tens of thousands of workers begin to exhaust their unemployment insurance benefits in January.

Michigan's "welfare-to-work" rules were signed into law by Republican governor John Engler in 1993, and provided a national model for similarly reactionary legislation in other states. Democratic Governor Jennifer Granholm made the rules more severe in 2006, by capping the length of time families can stay on welfare at two years and making penalties for violating work rules more severe.

New Jersey is the only other large state that has seen a decline in welfare cases. Evidence there points to another deficiency of TANF. "A further explanation is that income limits for welfare eligibility are set so low, and haven't been adjusted for so long, that having a low-wage part-time job can disqualify an applicant," writes the Wall Street Journal. It notes that in New Jersey, "a family of three earning more than $636 a month is ineligible."

Finally, rising unemployment is forcing hundreds of thousands of workers who have lost their employee-based medical insurance to turn to state-run Medicaid plans, further burdening state budgets. Even as Obama touts his proposal for a health care "overhaul" that he claims will expand coverage, state capitals across the country are moving to cut

Medicaid funding and to make eligibility more difficult for working families.

In an effort to make up the deficits, state governments are collectively increasing revenue this year by $24 billion, mostly through various forms of regressive taxation of the working class, such as sales tax increases, taxes on tobacco and alcohol, user's fees on public services, taxes realized through the promotion of gambling, and increases in income taxes, which in many states are "flat" rather than graduated. But these new taxes on workers will meet not more than a fifth of the states' collective budget deficits.

Moreover, it is unlikely, in most cases, that states will be able to meet their obligations through significant deficit spending. Many states are constitutionally required to balance their budgets through reactionary "pay-as-you-go" rules. And the Obama administration, using California as an example, has made clear that it will not step in to meet the needs of the states' underfunded social spending requirements. By downgrading California's credit rating, thus making its interests rates more expensive, ratings agencies and the finance industry have served notice to states and local governments that "fiscal discipline" shall be the order to the day.

Nor will new proceeds be realized through taxation of the wealthy—in spite of their immense resources. According to Forbes magazine, the richest 400 Americans had a combined net worth last year of $1.57 trillion last September. Less than 10 percent of this vast fortune could resolve the combined budget deficits of 46 states. None of the states are planning increases in taxes on the wealthy.

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