

Flawed Economic Policies Strangle State Budgets, Threaten Basic Programs and Saddle Future Generations with Crippling Debt

Misguided federal tax and budget policies, along with weak economic conditions, have reduced tax revenues for the nation and the states at the same time high joblessness has increased demand for public services. Declining revenues and rising demand have had a disastrous effect on federal and state budgets. Flush only two years ago, the nation and the states now face staggering shortfalls that undermine our capacity to protect programs like Social Security and invest in meeting basic needs, while simultaneously threatening to saddle our children with crippling debt in the future.

■ In September, the Treasury Department announced a year-to-date federal budget deficit of \$200.18 billion, compared with a \$91.77 billion surplus just one year earlier. For the first time since 1997, the nation will have a year-end deficit. Our long-term fortunes are no better. In January 2001, the Congressional Budget Office (CBO) projected a 10-year budget surplus of \$5.6 trillion. When CBO issued new 10-year projections this past August, the projected surplus had plunged 94 percent, to only \$336 billion. The largest single factor in this dramatic reversal of fortunes is last year's millionaire tax cut, which accounts for nearly one-third—31 percent—of the drop, roughly double the share attributed to the economic downturn (15 percent) or added defense costs (16 percent).

■ In January 2001, the National Conference of State Legislatures (NCSL) said states were in their best financial shape in decades, with many reporting large surpluses. By FY 2002, however, the states were experiencing about \$40 billion in budget shortfalls and now face FY 2003 shortfalls of \$49.1 billion.

■ To balance their budgets, states already have cut vital programs, and more cuts are coming. According to NCSL, in FY 2003, 16 states will cut higher education spending, 11 will spend less on K-12 education, 14 will make cuts in corrections and 12 will cut Medicaid. On the revenue-raising side of the ledger, 16 states raised taxes in 2002, generating \$6.7 billion in revenue.

■ States will experience even greater revenue losses unless they “decouple” their estate tax and bonus depreciation rules from cuts that will occur automatically because of related federal tax cuts. States that have not decoupled from the new estate tax provisions will lose \$2.2 billion in FY 2003 and another \$3.4 billion in FY 2004. Those that do not decouple from the bonus depreciation rules stand to lose as much as \$3.4 billion from FY 2002 through FY 2004.

The budget crisis will deepen, and further damaging cuts will follow unless the president and Congress take steps to get the nation's economic house in order. States urgently need federal financial assistance to offset their additional recession-related costs. A strong bipartisan majority in the Senate approved \$9 billion in such assistance, but the president and the Republican-led House of Representatives so far have refused to follow suit. They must do so. Congress and the president also must revisit last year's millionaire tax cut, freezing rate cuts not yet in effect. At a time when needs are so great, revenues are so short and the economic crisis is so severe, the nation cannot afford additional tax breaks that largely benefit only the richest among us.

Sources: Center on Budget and Policy Priorities, Congressional Budget Office, National Conference of State Legislatures, U.S. Treasury Department. (AFL-CIO Public Policy Department, 202-637-5172.)

Working Families Economic Indicators at a Glance

	Jobs Lost/Added (Aug. 2000 to Aug. 2002)		Unemployment (Aug. 2002) (March – Aug. 2002)		Workers Exhausting Unemployment Benefits Coverage*		Poverty, Income and Health Insurance			401(k) Losses and Personal Bankruptcy Filings	
	All Jobs (in thousands)	Manufacturing Jobs (in thousands)	# of Unemployed (in thousands)	Unemp. Rate	# of Workers Exhausting Regular Benefits	# of Workers Exhausting TEUC Benefits	Poverty Rate*	% Change in Median House- hold Income*	Uninsured Rate*	401(k) Losses Dec. 2000-2001 (in billions)	Personal Bankruptcy Filings (2nd Quarter 2002)
US	-631.0	-1,495.3	8,142	5.7	2,333,672	1,120,832	11.7	-2.2	14.6	175.75	390,991
AL	-35.9	-35.3	122.1	5.7	25,165	13,518	14.8	-4.5	13.2	2.69	10,140
AK	9.6	-0.5	24.4	7.3	10,887	3,505	7.9	2.5	17.7	0.37	336
AZ	-0.2	-23	144.1	5.7	26,048	13,199	12.9	4.2	18.4	2.42	7,603
AR	-10.2	-25.7	64.5	5.0	22,574	9,506	16.3	2.9	15.0	1.35	5,592
CA	100.7	-115.4	1,091.1	6.2	346,898	73,727	13.1	1.0	19.2	18.20	37,113
CO	-38.1	-20.3	121	5.1	32,547	16,808	9.0	-1.8	15.1	2.65	5,416
CT	-21.8	-25.5	67.9	4.0	28,013	15,890	7.4	-0.4	9.7	2.52	3,099
DE	-2.3	-5.2	15.8	3.8	4,992	2,348	8.5	0.1	9.5	0.55	816
DC	-3.3	-0.9	15.9	5.9	10,442	4,856	16.1	0.1	13.6		602
FL	107	-44.5	418.1	5.3	88,986	75,045	12.0	-2.1	17.8	7.17	23,534
GA	-107	-65.4	195.7	4.6	57,186	52,090	12.6	0.8	15.3	5.25	17,465
HI	-3.9	0.8	23.6	4.0	7,401	4,041	10.4	0.2	9.7	0.77	1,105
ID	1.3	-4.7	36.9	5.3	11,650	3,140	12.7	0.3	16.5	0.74	2,366
IL	-143.1	-69.6	390.2	6.2	108,938	71,037	10.2	-3.1	13.6	8.66	19,996
IN	-101.6	-69.8	164.6	5.2	47,184	26,057	7.9	-3.5	10.8	4.49	13,839
IA	-18	-18.2	60.5	3.7	17,713	10,096	7.7	-3.1	8.0	2.18	3,100
KS	18.3	-12.8	65.2	4.5	17,007	5,678	10.1	2.1	11.4	1.93	3,970
KY	13.2	-18.8	103.7	5.2	20,668	13,817	12.4	3.6	13.0	2.56	6,800
LA	13.5	-8.8	119.2	5.9	18,127	11,717	17.5	-2.1	19.7	2.23	6,665
ME	5.3	-10.3	27.2	4.0	7,064	3,579	10.3	-5.9	10.7	0.93	1,122
MD	-3.1	-5.7	124.3	4.3	24,947	16,111	7.3	-1.7	11.3	3.80	8,839
MA	-55.4	-32.2	173.9	5.2	72,932	24,890	10.2	5.8	8.7	4.27	4,581
MI	-146.9	-68.8	321.2	6.2	94,692	50,359	9.7	-4.1	9.9	7.67	13,475
MN	-38.5	-32.9	123.9	4.3	37,847	21,161	6.8	2.6	7.8	4.12	4,658
MS	-20.5	-36.5	79.1	6.1	14,968	12,800	16.8	-6.2	15.2	1.48	5,265
MO	-64.2	-38.8	138.8	4.7	37,765	22,336	10.2	-2.9	8.8	4.17	8,325
MT	6.7	-1.3	18.7	4.0	5,627	1,700	14.4	-1.3	16.0	0.52	1,206
NE	-5.1	-4.3	32.2	3.4	9,495	3,607	9.7	3.1	9.6	1.24	1,994
NV	32.9	2.1	53.0	5.1	22,917	11,267	9.0	1.5	17.2	1.08	5,240
NH	3.6	-7.4	33.6	4.7	4,594	1,774	6.2	2.4	9.0	0.94	978
NJ	0.1	-35.7	224.2	5.3	104,310	24,207	7.7	-1.0	12.5	5.56	10,719
NM	14.5	-1.5	52.7	6.1	8,534	3,571	18.8	-2.1	23.2	0.91	2,131
NY	-67.9	-90.9	526.6	5.8	197,698	134,992	14.1	-0.4	15.8	10.78	18,589
NC	-55.8	-70.7	248.6	6.3	71,083	36,531	12.9	-1.8	14.2	5.02	8,735
ND	1.7	1	10.6	3.2	3,233	1,317	12.4	1.5	10.9	0.46	492
OH	-130.4	-80.3	325.2	5.5	66,266	44,385	10.8	-0.2	10.8	8.27	19,787
OK	22.5	-8.2	71.0	4.2	14,870	9,434	14.3	1.3	17.9	1.79	6,215
OR	-29.5	-12.4	127.3	7.0	39,979	1,123	11.8	-2.2	13.1	2.19	6,194
PA	-49	-83.8	327.7	5.3	103,709	48,192	9.2	4.1	8.7	8.65	13,614
RI	5.8	-5.5	24.6	4.8	9,869	5,750	10.0	0.4	7.2	0.70	1,289
SC	-29.6	-26.5	108.6	5.4	32,015	22,128	12.7	-1.3	13.3	2.52	3,708
SD	3.6	-6.3	10.6	2.6	1,055	414	9.0	2.1	10.4	0.52	650
TN	-31.8	-41.3	131.5	4.6	46,361	36,233	13.2	-4.1	10.8	3.37	14,986
TX	-47.7	-82.5	653.1	6.1	191,530	94,212	15.2	-0.3	23.0	11.47	18,606
UT	-14.7	-12.8	56.9	5.0	15,198	7,647	8.0	-1.6	13.6	1.24	5,389
VT	-2.3	-3.8	14.7	4.2	3,285	1,281	9.8	-4.0	9.7	0.43	441
VA	-37.1	-37.2	153.7	4.1	30,496	19,178	8.0	1.8	11.9	4.87	10,937
WA	-76.4	-44.2	218.7	7.2	58,803	7,699	10.4	-6.3	13.5	3.90	9,804
WV	-1.9	-7.7	47.9	5.9	6,325	3,783	15.6	-2.4	14.2	0.97	2,443
WI	-3.5	-45.1	159.6	5.2	51,814	21,982	8.6	-3.3	8.5	4.40	6,677
WY	12.3	-0.2	9.8	3.6	1,933	1,115	10.3	0.2	15.6	0.32	617

Sources: U.S. Department of Labor; Center on Budget and Policy Priorities; Institute for America's Future; America Bankruptcy Institute; National Conference of State Legislatures; U.S. Census Bureau.

* To improve reliability, the Census Bureau uses two-year moving averages and three-year averages for some state data. For state data on health insurance coverage and poverty rates, the Census Bureau uses a three-year average (1999-2001). For changes in median household income by state, the Census Bureau compares a two-year moving average (1999-2000) with another two-year average (2000-2001). For U.S. data on poverty rates and health insurance coverage, the data are for 2001. For changes in U.S. median household income, the comparison years are 2000 and 2001.