



*Those who cannot remember the past are condemned to repeat it. Santayana*

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## WINTER WARNING



### In One Hell of a State

Virtually, all across the spectrum of America, many regions, states and municipalities are encountering serious financial problems and are unable to balance their annual budgets. In the northeast, according to a recent forecast by the New England Economic Partnership (NEEP), New England is destined to experience a “significant recession” that will cost the region 250,000 jobs through the end of the decade. The forecast stated that New England will experience a “pronounced and prolonged employment decline and a weak economic recovery because of the region’s relatively high concentration in business investment and high-income dependent industries”. Within the six New England states of Maine, New Hampshire, Massachusetts, Vermont, Connecticut and Rhode Island, the economic downturn has already extended from the housing market to the construction industry, financial services, retail and other sectors. Indeed, the State of Rhode Island has seen its unemployment rate soar to 9.3% in recent months, as a result of industrial plant closures, residential foreclosures and small business closings in record numbers. In tandem, the state’s crime rate is climbing steadily and an increasing number of families in Providence are becoming dependent upon the city’s food banks for weekly groceries.

A close neighbour along the eastern seaboard, the Empire State of New York has a \$1.5 billion (U.S.) shortfall in its current fiscal year and faces a \$12.5 billion deficit in 2009-2010, as a result of plunging tax revenues and unsustainable spending growth. Indeed, due to the recent unprecedented turmoil on Wall Street, New York must confront a cumulative budget gap of \$47 billion (U.S.) over the next four years. During the current economic recession, over 160,000 New Yorkers are projected to lose their jobs, including 45,000 in the financial services industry, resulting in the unemployment rate reaching 6.5% in 2009. Accordingly, Governor David Paterson has recently announced a comprehensive 2-year \$5.2 billion (U.S.) deficit reduction plan spread across several areas, including education, health care, human services and the State workforce. The Governor stated that “the only way we are going to overcome this unprecedented crisis is through shared sacrifice”.

Nearby, the Garden State of New Jersey has laid off 4,000 employees, sharply reduced State aid to municipalities and deferred pension contributions to State employee pension plans; all the while witnessing the loss of \$9 billion (U.S.) in those same pension funds during the month of October alone. New Jersey Governor Jon Corzine (D), a former CEO of Goldman Sachs, says the State must find a way to cut another \$2 billion (U.S.) of expenses, because it was not conservative enough in its 2008 / 2009 budget. Homes are being lost to foreclosure at a rate of 50,000 per year and emergency assistance is needed at the State’s food banks. Thousands of Wall Street, construction and manufacturing jobs have already been lost, casino revenues are in decline, auto and retail sales are plunging and spending during the holiday season is predicted to be weak. Indeed, the State’s unemployment rate is expected to be in the range of 8.5%-9.00% by mid 2009.

In the Great Lakes region, the state of Michigan is faced with significant financial challenges, indigenous to its economic structure. Long dependent mainly on the automotive manufacturing and automobile parts industries as the State’s biggest employers, ongoing attempts to diversify Michigan’s economy have been a slow process. Indeed, since Governor Jennifer Granholm took office in 2002, the State’s net job losses have totaled 281,500. Moreover, the State’s business regulations and taxes have contributed to Michigan’s long list of dismal rankings among the states, i.e. number 2 in unemployment; number 5 in residential foreclosures and number 50 in attracting new residents. Currently, Governor Granholm and several of her fellow Governors, are vigorously lobbying Congress for \$25 billion (U.S.) in emergency aid for General Motors, Ford and Chrysler, as being critical to the country’s economy, energy independence and national security. “Because a bankruptcy in the auto industry during these troubling economic times would be crippling in efforts to immediately grow the economy and because U.S. automakers will be a critical component in developing an alternative energy industry in America, we urge Congress to pass this legislation immediately,” the Governors wrote. The Center for Automotive Research recently reported that if one of the big three automakers ceased operations in 2009, nearly 2.5 million jobs would be lost in the first year alone. In addition, it would result in a loss of \$125 billion (U.S.) in personal income, \$17 billion (U.S.) in Social Security receipts and \$20 billion (U.S.) in personal income taxes. “It would be such a huge, huge strain on our safety net ... of double Katrina-like proportions. Michigan would absolutely need assistance” Governor Granholm recently stated.



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On the west coast, the Golden State of California is economically challenged by an \$11.2 billion (U.S.) fiscal deficit, a residential mortgage foreclosure crisis, a rising unemployment rate and a major assault on the State's unemployment insurance fund. Governor Arnold Schwarzenegger recently declared that California was in danger of "running out of cash by the end of February, 2009 and if state lawmakers were not able to agree about how to bridge that gap by the end of November, 2008, then they will have failed". Accordingly, the Governor has proposed spending cuts in education, welfare, prisons, health care and other social services. On the revenue side, the Governor has proposed raising \$4.4 billion (U.S.) in the current year through a 1.5% sales tax increase and appropriation of more than \$700 million (U.S.) in existing State bond funds. "We must do everything that we can to stimulate our economy and put people back to work" Governor Schwarzenegger recently pledged.

From the smallest to the greatest in size, many American states are seeking direct and immediate financial assistance of an historic magnitude, from the Federal Government. It remains to be seen if President Elect Obama will include financial aid to state and local governments in his anticipated \$500 billion (U.S.) stimulus package for the economy, because lots of States are in dire straits.

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