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testimony to the Senate Commerce, Science and Transportation Committee, "it is clear that serious weaknesses exist in our aviation security system, and their impact can be far more devastating than previously imagined."

Federal Re-Regulation Urgent

Just nine days after the Sept. 11 attacks, Dillingham was documenting for the Congress, how screener problems have worsened over the last two decades. In 1978, he said that screeners failed to detect 13% of dangerous objects in FAA tests. In 1987 that figure was up to 20%. The test data for 1991-99 "show that the declining trend in detection rates continues," although he could not release that data because it is now classified by the FAA. "Furthermore," he said, "the recent tests show that as tests become more realistic and more closely approximate how a terrorist might attempt to penetrate a checkpoint, screeners' ability to detect dangerous objects declines even further."

Significantly, the GAO's investigators visited five other countries—Belgium, Canada, France, the Netherlands, and the United Kingdom—to study their airport security procedures. Dillingham reported that generally, those countries "require screeners to have more extensive qualifications and to meet higher training standards; they pay screeners more and provide benefits, and they place the responsibility for screening with airports or the government instead of air carriers." He added that these countries have significantly lower turnover rates among screeners and "may have better screener performance."

The GAO reports do identify problems within the FAA in implementing new security standards, such as certification of screening companies, which has been recommended by the GAO since at least 1987, and higher training standards for screeners. The FAA Reauthorization Act of 1997 required the FAA to develop standards for certifying screening companies and for training and testing of screeners. The FAA expects to complete the deployment of equipment at airports to monitor and improve the performance of screeners by 2003 and is expecting to issue its final regulation on screening company certification this month, two-and-one-half years behind the schedule called for in the 1997 act.

Perhaps the most succinct comment on the relationship between costs and security was made by Rep. Peter Defazio (D-Ore.) on the floor of the House, on Sept. 24. He told the House that the system "has always been driven by costs. We had the best system of security you could get by pinching pennies and always, always hiring the lowest bidder to provide screening at the airports."

Whatever bureaucratic problems the Federal Aviation Administration might have in implementing security standards, this situation was created, not by the FAA, but by the deregulation of the airline industry, which dictated savage cost cutting and the turning over of essential services, such as security, to the lowest bidder.

State Budget Revenues Are In Jeopardy

by Mary Jane Freeman

Forty-six states of the United States began a new fiscal year on July 1, 2001, and by the middle of August, when July revenue figures were tallied, state after state reported shortfalls, as against projected budget revenues, in the tens of millions of dollars (see *EIR,* Aug. 31, 2001). Now, as mid-September reports of August revenue collections trickle in, states are reporting additional revenue shortfalls.

What makes this news doubly troubling, is that these shortfalls occurred *before* the horrific attacks on the World Trade Center and Pentagon, which will negatively affect states' economies, and *after* many states had reduced revenue projections for their 2001-02 fiscal year in anticipation of slowing economic growth. Moreover, these shortfalls come on top of FY 2000-01 state revenue shortfalls which ranged from tens to hundreds of millions of dollars, necessitating roughly one-third of the states to cut education and services, lay off state workers, and/or draw down various reserve funds to balance their budgets, as the stock market plummeted and manufacturing jobs continued to vanish (see *EIR,* May 4, June 15, and July 27, 2001). If state legislatures and the nation fail to adopt 2004 Democratic Presidential pre-candidate Lyndon LaRouche's proposed New Bretton Woods reorganization of the economy, immediately, then states will either have to make drastic budget cuts or face insolvency by year's end.

Abundant Warning Signs

In our Aug. 31 issue, we characterized officials' reaction to the July shortfall as an "hysterical calm," because many said they would "wait and see" whether a trend were setting in. At the time, six states had reported declines in the range of tens of millions of dollars in the first month of the new fiscal year. Now, 11 states report second-month declines of the same magnitude. These are Arizona, California, Georgia, Iowa, Indiana, Maryland, Massachusetts, Minnesota, Mississippi, Nebraska, and Tennessee. For at least Arizona, Indiana, and Nebraska, the decline was two consecutive months. The number of states with shortfalls in July and August is likely much greater, because such data are not centrally compiled, and thus we relied, largely, on state media reports, that are spotty at best.

For example, four states announced downward revisions of their projected FY 2002 revenues as of mid-September, presumably because of July-August shortfalls. The projected

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shortfalls for these states are: Florida, $673 million; Oregon, $212 million; South Carolina, $150 million; and Washington, $101 million. A fifth, Colorado, expects a $267-307 million hole, prompting Gov. Bill Owens to announce a freeze on state construction projects.

Stateline.org, a news arm of the National Governors Association, reports that, even before Sept. 11, "many states were already noting lower-than-expected tax revenues during July and August," according to Arturo Perez, senior fiscal analyst for the National Conference of State Legislatures (NCSL). Perez told *EIR* that these shortfalls are of concern because so many states had already revised their projected revenues downward for the FY 2002 budget cycle, such that the national average of projected state revenue growth "is now 2.4%" over FY 2001. "This year's budgets are built on a very different assessment" of the economy, Perez noted. But even this lowered growth rate is wildly optimistic, given the underlying erosion of the U.S. physical economy.

Indeed, as of the March 2001 NCSL "State Fiscal Outlook for 2001" update, 24 states expected "FY 2002 revenue growth to be at least 4%," 19 of which were then projecting 5-8% growth rates. When that update was issued, the warning signs were already on the wall: "State revenue growth has slowed," and "budget cuts are likely in 11 states and possibly in 8," it reported. By June, 17 states had made various cuts, including in teacher pay raises or halted capital improvements, or laid off state workers or imposed hiring freezes. As the red ink flowed, 20 states used these and other extraordinary measures to balance their FY 2002 budgets, with at least 11 revising downward their budget revenue projections for FY 2002. Thus, even before the economic impact of the Sept. 11 disasters can be measured, the accelerated rate of layoffs, especially in manufacturing, combined with the blow-out of the stock market and crash of the "New Economy," renders these lowered growth rates too optimistic, because states will face increased demand for services as the ranks of the unemployed swell and corporations retrench or close.

The State-By-State Picture

Here is a thumbnail sketch, state by state, of the July and August revenue shortfalls.

Arizona: July revenues were $32.5 million below forecast, and preliminary August data indicate general fund revenues will come in $12.5 million short. Gov. Jane Hull will meet with state agencies to work out 4% cuts, which will likely result in layoffs, reduced raises, and elimination of some programs.

California: The state's $100 billion FY 2002 budget began $3-5 billion in deficit, requiring a transfer of $3.7 billion in FY 2001 surplus funds into the FY 2002 budget to balance it. The *San Francisco Chronicle* reports, "Already hit by the sputtering economy and the tanking stock market, California's cash-short state budget could fall further into the red after the terrorist attacks in New York and Washington." The state closed FY 2001 with June revenues $327 million below forecast. Now, August general fund revenues are $316 million below forecast.

The State Capitol in Columbus, Ohio. The state budget director issued a "red-flag" memo to the governor, stating that the state's economic consultants "now project a recession."

Georgia: The state ended FY 2001 with a surplus, despite March and April revenue shortfalls. But by July the tide had begun to turn. It now reports a 6.2% two-consecutive-month revenue decline for July and August, or a $136 million shortfall from income, sales, and corporate tax revenue sources.

Indiana: July revenues were down $83.5 million, and August's were $41.3 million short of projections. In announcing the August figures, Gov. Frank O'Bannon ordered a "strategic freeze" on state hiring and cut travel expenses in half, on top of last month's announced 7% spending cuts. This $124.5 million two-month deficit means that for every $15 the state expected to collect, $1 did not materialize. The state's tax collections have been short of expectations 9 out of the last 14 months.

Iowa: Specific July and August figures are not yet in, but the state reports it is facing a 1.5% revenue fall for the first two months of the fiscal year, prompting Gov. Tom Vilsack to announce $300 million in cuts in the FY 2002 budget on Sept. 20. Immediately, Vilsack has ordered a 7% spending cut in most agencies, which is projected to reduce the deficit by $100 million. These cuts are on top of state worker layoffs, made when the state ended FY 2001 with a shortfall. The remaining $200 million in cuts in the FY 2002 budget are to be made in January.

Massachusetts: Twelve weeks into the new fiscal year, the state still has not passed an FY 2002 budget, and is keeping government open via interim spending measures. Tax collection figures show July down $38 million and August down $35 million compared to last year's figures. Not since 1992 has it had a two-month revenue decline. September is a big month for revenues, as businesses and some individuals make

quarterly estimated tax payments, and if revenues continue to plummet, legislators will have to slash spending. Increased layoffs in the high-tech industry and a huge income tax cut passed by voters a year ago are the prime causes of the shrunken revenues.

Mississippi: Collections came in $33.6 million short for the first two months, with the largest shortfall occurring in August, when revenues were $27.7 million below estimates. The state had four quarters of negative growth in FY 2001, and Gov. Ronnie Musgrove had to use $50 million in "rainy day" funds, among other things, to balance the FY 2001 budget by June 30. The state's manufacturing sector has lost 11% of its workforce, or 27,000 jobs, over the last year. Musgrove had already directed state agencies not to spend 5% of their budgets when FY 2002 began. This year's rainy day fund began with $189 million, but now, because of accumulating deficits and the need to use these funds for cash flow management, the state expects only $8 million to be left by November. Plans to use tobacco settlement funds to help bail out the state's finances are looking bleak. The tobacco fund was expected to hit $4.1 billion, but, because of decreased tobacco product sales, it will be at $3.3 billion. Also, the rate of return on the investment of tobacco settlement monies severely dropped over the last year. In June 2000, tobacco investment earnings were $25.2 million, but by June 2001, they were just over $1 million. The legislators' plan to divert tobacco funds to cover a $124 million Medicaid shortfall in the budget is now jeopardy. House Appropriations Committee Chairman Charlie Capps summed it up on Sept. 10, saying, "August hit us like a bomb."

Minnesota: The state's August revenues were a net $27.4 million below projections. Sales tax income alone fell $27.4 million, while income taxes fell $12.3 million and corporate taxes fell $10.3 million. These huge declines were only partially offset by an increase in motor vehicle sales taxes and some smaller revenue categories. Even before August's shortfall, the FY 2002 budget required scaling back school bus routes and many "non-essential" foreign language, music, and "gifted student" programs.

Nebraska: "There is now little doubt that state spending will have to be cut to keep the budget balanced," Gov. Mike Johanns declared after August revenue figures were announced. July's revenues were $8 million below expectations, and August came in $8.2 million below. He is calling a special session of the legislature in mid-October to cut the budget.

Ohio: July-August revenues came in $101 million, or 3.4%, below estimates. The *Columbus Dispatch* reported that State Budget Director Thomas W. Johnson issued a "red-flag" memo to Gov. Bob Taft on Sept. 20, stating that the state's economic consultants "now project a recession based on falling revenue in two consecutive quarters through the end of 2001." A $282 million shortfall in FY 2001 required 2-4% cuts, resulting in layoffs, in order to close out the year with a balanced budget. The adopted FY 2002 budget, revised downward, "was so tight" that some agencies had trimmed spending by 1.5% in July before the revenue decline even hit.

Tennessee: The state, already reeling from a $218.6 million shortfall in FY 2001, scrambled to patch together a FY 2002 budget which required a $550-880 million infusion from tobacco monies and surplus and rainy day funds. Its July-August revenue shortfall is $90.3 million ($62.9 million for July and $27.4 million for August).

Impact Of The Sept. 11 Attacks

Uncertainties abound as to how badly the Sept. 11 attacks will impact the economy. Yet, it is certain that the Wall Street bankers' media myth that "consumer confidence" will make or break the economy, is a vicious lie. More than one-third of states already lost between tens amd hundreds of millions of dollars in expected revenues as of June 30, the end of FY 2001. Layoffs were accelerating as of January 2001, while U.S. stock values since the first quarter 2000 have lost mroe than $5 trillion. July-August revenues were down in the range of tens of millions for many states. Across the nation, from Maine to Mississippi to California, state officials are saying, "Our economy has been on the edge of recession for a year." So, the downward trajectory was in place long before Sept. 11.

However, indications that the collapse of the economy is accelerating in the wake of Sept. 11, are already evident. There has been a 40-70% plunge in tourism revenues since Sept. 11. Florida's $673 million downward revision, for example, is largely due to expected falls in tourist spending. Stateline.org reports that Florida is the nation's number-one tourist destination, "California is second," and "Hawaii and New York tied for third." Annual tourism revenues, which include business conferences etc., for some states are: Florida $50 billion, New York $25 billion, Nevada $31.5 billion, Illinois $23.7 billion, Tennessee $9.7 billion, and Idaho $2 billion. Hawaii's governor has called an emergency economic summit. The immediate impact of the Sept. 11 attacks on Tennessee's economy were summed up by the state's Hotel and Lodging Association CEO Pam Inman: "In the first 48 hours, the Nashville hotel industry lost $1 million in direct revenue because of cancelled conventions, and that translates into more than $6 million in lost [indirect] tax revenue."

Airline cutbacks already announced will strike a wide range of support companies, leading to layoffs far beyond the nearly 100,000 expected direct airline layoffs. State unemployment resources will be strained, and Medicaid claims are likely to soar. The Sept. 17-21 stock market plunge has resulted in huge losses to state employee pension funds. For example, pensioners in Michigan lost $1 billion in the market plunge just on Sept. 17.

The predicament of states' declining revenues began long before Sept. 11, and now is worse. The only way out is to launch LaRouche's proposed economic recovery, as Franklin Roosevelt acted during the Great Depression.