Cuts Watch brief
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USA

<table>
<thead>
<tr>
<th>Country</th>
<th>United States</th>
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<tbody>
<tr>
<td>GDP change 2009 %of GDP</td>
<td>-2.6</td>
</tr>
<tr>
<td>Stimulus: % of GDP</td>
<td>1.8</td>
</tr>
<tr>
<td>Support for banks etc: % of GDP</td>
<td>23.0</td>
</tr>
<tr>
<td>Government austerity cuts: % of GDP</td>
<td>0.0 (federal), -7.6 (states)</td>
</tr>
<tr>
<td>IMF proposed extra cut by 2030: % of GDP</td>
<td>-17.5</td>
</tr>
<tr>
<td>Public sector job cut</td>
<td>-535,000</td>
</tr>
<tr>
<td>Public sector pay and conditions cut</td>
<td>Yes</td>
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<tr>
<td>Healthcare cut</td>
<td>No/Yes</td>
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<tr>
<td>Pensions cut</td>
<td>Yes</td>
</tr>
<tr>
<td>New privatisation</td>
<td>Yes</td>
</tr>
<tr>
<td>Municipal, regional, state level cuts</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Compared with 2008: states cut services -4.2% in 2009, -10% 2010, -7.6% 2011

Result of cuts at state level 2008-2011

Some cut pay, pensions, healthcare, layoffs. Result of cuts at state level 2008-2012, federal pay freeze 2010-2012

Improved national health coverage but cuts at state level.

Increased retirement age to 67

Some state level contracting-out, PPPs

Extensive cuts made by nearly all states

Links
- AFSCME action centre [http://www.afscme.org/action/](http://www.afscme.org/action/)
- SEIU on public services [http://www.seiu.org/publicservices/](http://www.seiu.org/publicservices/)
- AFT on public employees and financing public services [http://www.aft.org/yourwork/pubemps/](http://www.aft.org/yourwork/pubemps/)

1. Government policy on spending and services

1.1. National/federal level

In February 2009 the government introduced a massive stimulus package worth $787billion. This stimulus has supported employment throughout the economy through higher spending on benefits, infrastructure and support for state and local services, up to and including 2011. Details of the money and jobs supported in each state are on maps at [http://www.recovery.gov/Transparency/MapGallery/Pages/maps.aspx#z](http://www.recovery.gov/Transparency/MapGallery/Pages/maps.aspx#z).

However, the additional public spending in the stimulus is not being extended, due to political opposition by Republicans. The Republicans have also delayed authorising the deficit necessary for the USA government to continue its spending commitments in 2011, including the payment of civil servants’ salaries. For the same political reasons, the tax cuts introduced by the previous president Bush will be extended and made permanent – worsening the deficit by over 1% of GDP per year, without improving the money available for public services.

This is now jeopardising economic recovery: even the IMF warned in June 2011 that the USA recovery is so ‘ tepid’ that reducing the deficit “should ideally be gradual and sustained, so as not to undermine growth prospects”; this should include “revenue-raising tax reform”, but "social sector spending and priority infrastructure investment must be preserved".
If by contrast the Bush tax cuts were allowed to expire, then a return to economic growth would automatically boost tax revenues to increasingly higher levels. This would in turn match the rising public spending on old age pensions and healthcare which is forecast because of the relative ageing of the population. The chart shows how the current deficit could then be gradually eliminated by growth by about 2015, and then both spending and taxation could return to a long-term, rising but sustainable path (based on the assumption that military spending is gradually reduced over this period).

Chart A. USA federal Government spending and revenues, if Bush tax cuts expire

![Chart A](chart.png)

Source: CBO [2011 Long-Term Budget Outlook](http://www.cbo.gov)

1.2. State level

The recession has meant a drop in spending and incomes, which results in a fall in tax revenues for the states – at the same time as the needs for public service support increases. So when their revenue from taxes falls because of the recession. All states (except Vermont) are bound by law to have ‘balanced budgets’, so they have to rely on federal government to provide extra support to bridge the funding gap. The federal government stimulus provided about $158billion dollars to help states between 2009 and 2011, but this still only covered about 1/3 of their ‘funding gap’. The result has been a fall in spending on services: “states cut funding for services by 4.2% for fiscal year 2009 and an additional 6.8% for 2010… state spending for 2011 will remain 7.6% below 2008 levels.” (CBPP Feb 2011). The real effect on people is even greater, because the need for social services increases during a recession.

For 2012, the stimulus is not being extended. As a result, despite some recovery in tax revenues, states still face a shortfall of $97billion in 2012, so additional cuts are being made. These cuts are made worse where there is political insistence on tax cuts. In June 2011, for example, the largest state, California, agreed on a budget for 2011-2012 which included $15billion cuts in spending across all services: Republicans refused to agree to the extension of state tax increases which would have provided an extra $11.2billion and saved most of the cuts.

Chart B. Falling spending by states in USA on public services
2. Public sector jobs, pay, pensions and union rights

2.1. Public sector jobs

At federal level, where there are just over 2 million civil servants, there has been no formal cut or freeze in recruitment. However, the expected growth in civil service is not producing many new vacancies.

At state level, loss of tax revenues due to the recession has meant that states still faced a ‘funding gap’ even after the stimulus package money. There were some tax increases in some states, but nearly all have reduced spending on services.

As a result, the number of people employed by state and local governments in the USA fell by 535,000 from August 2008 to May 2011. For example, New Jersey and Tennessee have each cut 2000 jobs through early retirements and layoffs; the state of Washington is cutting 4,000 jobs as the result of a recruitment freeze. Cuts in 2012 could lead to the loss of a further 650,000 jobs unless federal government support is continued.

Sources:
- CBO April 2011 An analysis of the President's budgetary proposals for fiscal year 2012
- CBO June 2011 2011 Long-Term Budget Outlook
- NGA/NASBO May 2011 Spring 2011 Fiscal Survey of States
- CBPP Feb 2011 An Update on State Budget Cuts
- CBPP June 2011 States Continue to Feel recession’s Impact
- Wall Street Journal 29 June 2011 California Budget Deal Leaves GOP Out in Cold
- IMF June 2011 World Economic Outlook Update
2.2. Cuts in pay and conditions

As in other countries, public employees in the USA are mostly paid less than their counterparts in the private sector in similar jobs, but there are political campaigns to cut public sector salaries, as well as the real pressure of the recession.

At national level, at the end of 2010, President Obama announced a 2-year freeze on the pay of nearly all 2 million federal civil servants. Republicans are calling for further cuts in pay and jobs.

At least 28 states have cut pay and conditions in various ways. One method, used by more than half the states, has been compulsory unpaid leave, known as ‘furloughs’: 250,000 workers were subject to this arbitrary layoff in New York and California alone. Because the USA has no national health service, health insurance is one important benefit threatened by these cuts.

In some cases these cuts have been imposed, in other cases negotiated through agreements designed to protect jobs as a priority (US unions have negotiated many such deals in the public sector at times of crisis, as far back as the crisis in New York City in the 1970s).

2.3. Pensions of public employees

Pension funds for state and municipal employees have deficits which are a result of the recession or past underfunding by employers, which can be dealt with by long-term solutions over many years. But in some states these deficits have been used as an excuse to cut the pensions of public employees or increase their contributions: in the first nine months of 2010 alone, 19 states implemented such cuts. In June 2011 the federal government was also reported to be considering increasing the pension contributions of federal civil servants.

In Illinois, proposals to impose big increases for pensions and healthcare benefits were abandoned in June 2011, after a state-wide campaign generated tens of thousands of phone calls and letters to elected legislators.
2.4. Union bargaining rights

In Wisconsin, Ohio and a few other states, right-wing republicans have used the crisis as an excuse for removing union collective bargaining rights. The governor of Wisconsin, Scott Walker, introduced a budget in 2011 which removes the right of collective bargaining from nearly all state employees, and imposed extra pension contributions equivalent to a 8% pay cut. Since February the unions in Wisconsin waged a lengthy campaign, including demonstrations, legal challenges and political campaigns, which won a remarkable level of public support. Tens of thousands of people have attended demonstrations supporting the right to collective bargaining, with students in particular actively maintaining a camp outside the state legislature. Most public opinion polls show a majority of people oppose what the republicans are doing. Unions from all over the world have sent messages of support.

Ohio has introduced similar legislation to remove or restrict the bargaining right, and the right to strike, of state employees, but a campaign to submit it to a referendum has been supported by over 700,000 signatures – 3 times the number required – so the law may yet be rejected by voters in November 2011.

Video interviews with USA trade unionists reveal the extent of the support for the unions’ campaigns and also the breadth of the attacks on rights, which include deliberate attempts to make it harder for poor Americans to vote.

Sources:
- J.Slater June 2011 The Assault on Public Sector Collective Bargaining: Real Harms and Imaginary Benefits
- Chicago Tribune 28 June 2011 After heated debate, Wisconsin union law takes effect
- Washington Post 29 November 2010 Obama announces 2-year pay freeze for federal workers
- CNN Money 10 March 2011 Federal jobs fast becoming an endangered species
- AFSCME 02 June 2011 Illinois Union Coalition Blocks Bills Attacking Public Service Workers
- Youtube June 2011: Interview with Mary Kay Henry, President SEIU
- Youtube June 2011: Interview with Candice Owley, AFT Wisconsin
- CBPP Feb 2011 An Update on State Budget Cuts

3. Impact on public services

3.1. Healthcare

President Obama succeeded in introducing some improvements in public spending on healthcare in the USA, but with little expansion of public sector services. In 2011 the Republican party opposition are attempting to cut federal spending on healthcare.

The pressure on states and local government has already led to cuts various healthcare programs in over 31 states. For example:
- California cut nearly all funding for services for HIV/AIDS patients, the state’s domestic violence shelter program and maternal, child, and adolescent health programs. It also cut funding for the medical needs of the poorest: according to CBPP “to make up for the lost funds, the nearly 1 million children in the program will have to pay more for visits to health care providers, and many will have to pay higher premiums as well.”
- Massachusetts cut HIV/AIDS prevention programs and cut support for dental care for 700,000 people on low incomes.

3.2. Pensions
In the USA old age pensions are part of the social security programme, funded by social insurance contributions. Under laws passed in 1983, the retirement age is being gradually increased from 65 to 67. As of June 2011, social security benefits have not been reduced, but social insurance contributions have been cut to provide ‘tax breaks’ for workers and employers. There is now growing pressure to cut pensions too, by measures such as raising retirement age, cutting benefits.

3.3. Other services
States have also cut other services, including services to the elderly and disabled, education, and higher education. Examples include:

- Arizona “eliminated a host of behavioral health services for 4,000 children ineligible to receive such services through Medicaid, and has also cut case management, therapy, and transportation services for 14,500 individuals participating in a non-Medicaid program for the seriously mentally ill.”, according to CBPP.
- Michigan froze enrollment for long term care and supports to help the developmentally disabled avoid institutionalization, so 300 people were instead placed on a waiting list.
- Hawaii cut the school year by 17 days and laid teachers off without pay for those days.
- Virginia saved $500 million by cutting 13,000 support staff such as janitors, school nurses, and school psychologists.
- The South Carolina Department of Juvenile Justice has lost almost one-fourth of its state funding, resulting in over 260 layoffs and the closing of five group homes, two dormitories, and 25 after-school programs.

Sources:
- CBPP State Fiscal Analysis Initiative
- Truthout 27 June 2011 Dirty Deals on Social Security Likely to Succeed

4. Privatisation

Privatisation has not been a major part of the cuts programmes, but there is a constant threat of contracting-out of services like garbage collection. One city in California dismissed all its 100 employees and contracted-out all services in 2010. In Ohio, the state budget includes privatisation of 5 prisons and a major toll road.

Unions succeeded in preventing the threat of privatisation of the service in Memphis, Tennessee, where Martin Luther King was assassinated in 1968 while supporting garbage workers on strike for safer working conditions.

Sources:
- CBS News 22 June 2011 Memphis saves jobs of union championed by King
- Forbes 29 June 2011 Ohio Senate approves sweeping $56B budget