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Leaving the States in the Lurch

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LANSING, Mich. -- Last week Michigan Gov. John Engler found himself the man in the middle, trying to straddle an increasingly dangerous gap in the federal system -- an abyss between Washington and state government that has no institutional bridge.

For more than a year, as head of the National Governors Association (a post he has just left), Republican Engler has been pleading with Congress to grant states some relief from their rapidly rising Medicaid costs. State spending on low-income health programs jumped 13 percent last year, and worse is expected this year. Last week the Senate finally approved \$6 billion of additional Medicaid dollars and \$3 billion for related low-income assistance.

But even if the House goes along, which is by no means certain, the help comes too late to relieve the immediate budget pressures torturing Michigan and all but a handful of other states. Even as Michigan's Republican representatives in Washington, for example, voted last month to make last year's massive federal tax cuts permanent, Engler was arm-twisting a reluctant Republican legislature to pass a 50-cents-a-pack cigarette tax boost to fill a big budget gap.

Then last week he stunned the state by announcing he was cutting \$845 million of aid to local governments, as well as trimming Medicaid spending and postponing a scheduled small rollback in business taxes. The move eliminates more than half the expected state funds for cities and towns and all the help allocated to counties. Engler said the action was necessary because initiatives that may be on the ballot this November could boost mandatory spending and leave his successor, to be elected then, in a dangerous hole.

What is happening here is echoed across the country. While Washington continues to dangle tax cuts and boost both defense and domestic spending, dissipating the promised surpluses and running up a deficit for next year conservatively estimated at \$165 billion, state and local governments are raising taxes and slashing vital services in order to balance their budgets.

The paradoxes do not seem to bother Republicans, who have used their control of the White House and their leverage in Congress in ways that cause headaches -- and bring political vulnerability -- for their embattled governors. While President Bush was urging Congress to stay the course on the upper-bracket tax cuts scheduled for coming years and to make them permanent, his brother, Florida Gov. Jeb Bush, signed a budget that cut 37,000 low-income Floridians out of Medicaid-financed basic dental care.

Variations on the same theme were happening last week in many other states with Republican governors. Nebraska Gov. Mike Johanns sent a budget to a special session of his legislature eliminating all Medicaid benefits for 19,000 recipients. The same budget threatens to force layoffs of tenured faculty at the University of Nebraska.

In Massachusetts, legislators passed a \$1.1 billion tax increase; in Montana, where one-third of the

school districts fail state accreditation standards, the state ordered an additional \$11 million reduction in education financing.

The picture is at least as bleak at the local level. Last month the Economic Policy Institute reported that city budget shortfalls range up to \$6 billion in New York City -- and that is not the worst as a percentage of operating expenses.

What is conspicuously missing from this picture is any forum where elected officials at all three levels of government can have a serious discussion about national goals and national resources. Nowhere are the law enforcement needs of Detroit or the education needs of Montana weighed in the balance against the elimination of the federal estate tax or the purchase of the latest generation of high-tech weaponry.

I regularly cover national meetings of governors, state legislators, mayors and city council members, and I watch presidents, Cabinet officials and members of Congress drop by, make a speech and move on. But no real dialogue about priorities and revenues takes place.

The Founders, who thought of almost everything, did not consider this need or supply any way of meeting it. Our system of government is notoriously shortsighted; we do not act until a crisis is upon us.

But it is equally narrow in its focus. As much as we need to think about the coming generation -- the retirement costs and health care needs of the baby boomers, for example -- we need to weigh seriously what the country really requires right now, and how we are to pay the bills.

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