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Bush's Neverland Economics

By David Ignatius

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INDIANAPOLIS -- When all 50 state governors agree on something, that's a powerful message. Especially when it's a cry for help in dealing with what many governors say is a national fiscal crisis -- invisible at the federal level but ravaging state government.

This rare display of unanimity came in a plea to Congress from the governors gathered here this week for their semiannual meeting. They asked the federal government to take responsibility for billions of dollars in Medicaid prescription drug costs that are now burdening the states.

Without help, Arkansas Republican Gov. Mike Huckabee told me, the states face a "galloping" crisis that could destroy their ability to pay for schools, hospitals and other basic services.

You don't get this sense of looming disaster in the Neverland of Washington, where the Bush administration continues to pump the deficit and ignore any serious accounting for the cost of war in Iraq.

But governors can't play games with numbers. Every state but one is required to balance its budget annually, and over the past several years, governors have faced some excruciating choices on what to cut -- a state nursing home or a junior college, a prison or a new highway.

The governors have cut spending so much that even Republicans have been doing the unthinkable and raising taxes. But the attempt to recall California Gov. Gray Davis, who raised taxes to deal with his state's $38 billion deficit, was a warning that these budget ills can be politically fatal.

The fiscal squeeze was the first topic many governors brought up at the conference. The war in Iraq is far away, but the economic crunch is here and now.

Democratic Gov. Bill Richardson of New Mexico explains that President Bush is still very popular in his state, regardless of the troubles in postwar Iraq. Fellow Democratic Gov. Kathleen Sebelius agrees that voters in her home state of Kansas are worried about the economy, not Iraq.

Huckabee illustrates how the fiscal crunch is playing out across the country. He says that 91 percent of his budget now goes for education, Medicaid and prisons. These amount to fixed costs. Because of declining revenues, he had to cut his budget 11 percent over the past two years -- despite raising the state's tobacco tax last May.

"You're cutting down to the bone," he says. "It comes down to deciding how many inmates you will release from prison, which colleges and nursing homes you will close."

Without federal help on Medicaid spending, says Huckabee, he fears rolling cutbacks that will undermine the economy of his state. A reduction in Medicaid reimbursements could force him to close some rural hospitals; that loss of health services, in turn, might lead companies to decide not to locate in Arkansas; that would increase unemployment and lower tax revenue . . . and down it goes.

Huckabee exemplifies the tax-cutting fever of the 1990s that got many states into such trouble. Like many governors, he rushed to cut taxes during the boom years. His 1997 tax cut was the first in the state's history, and he followed with another in 1999. Then, the bubble burst, revenues began to fall and the fiscal squeeze began.

"This is a burning crisis," says Huckabee. "There is no indication that it will get better," without federal help. Though the Arkansas governor is a conservative Republican, he could be mistaken for a New Dealer when he calls for the federal government to accept responsibility for health care of the elderly.

I can't help but contrast this sense of urgency and political realism with the happy talk coming from Washington. The federal budget deficit is nearing $500 billion, more than 50 percent bigger than the $304 billion deficit that was forecast early this year. That doesn't include the full costs of the war in Iraq, for which the administration still hasn't provided detailed numbers. Estimates range from Iraq administrator L. Paul Bremer's recent prediction of up to $100 billion over the next three years to a Brookings Institution forecast of $300 billion to $450 billion.

Does the Bush administration plan to raise taxes to pay for the war? Does it plan to cut spending? Or does it just plan to wing it and hope for the best? That would ignore the one clear lesson of Vietnam, which is that if you decide to go to war, you have to pay for it -- or risk the damage of severe inflation.

But the Bush administration apparently thinks it is exempt from the laws of economics. It can wage war, cut taxes, spend what it likes -- and worry later about the consequences. That choice is not open to the nation's governors. Their unanimous cry for help should be a wake-up call to the White House.

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