Boston Sunday Globe

DECEMBER 2, 2001

THOMAS OLIPHANT

US government makes it tougher on states

WASHINGTON

IT IS ALREADY the worst set of problems confronting state and local governments in a decade. The only question is whether it will become the worst set of problems confronting state and local governments in two decades.

As always, the national government is doing its best to make things worse. And that, in turn, is likely to worsen the impact on state and local government — in effect to make the recession deeper and more painful.

In the current mess, brought about by the rapid economic meltdown nationally and exacerbated by costs incurred after the attacks in September, the government is withholding assistance, imposing higher expenses without helping pay for them, and moving toward tax breaks that increase the uncompensated burden on state treasuries — all at the same time.

This sad fact of American politics and government was driven home with special oomph and a fresh twist the other day by Representative Tom Allen of Maine, who noted that harmful effects can come even from ideas that have merit when considered as national policy.

Allen's case in point was the growing consensus behind some effort to increase the speed at which business investments in new equipment and facilities can be written off for tax purposes, or depreciated. If you accelerate the time frame, you end up increasing a business's cash flow, making the investment decision more likely to be a "yes." And if you target it, for example, at investments made over the next 12 months, you have created an incentive that can be both effecting and short-term.

At the moment accelerated depreciation is one of just two ideas for economic stimulus — the other being a new round of direct payments to primarily low-income workers who got nothing from last year's round — that have support from President Bush, the Republicans who run the House, and the Democrats who run the Senate.

The problem, Allen notes, is that these faster write-offs will go right into the tax rules of most states, Maine included, along with 45 others plus the District of Columbia, resulting in another jolt to their revenue streams.

How much? A standard proposal, offered last month by Senate "centrists" led by Olympia Snow of Maine and John Breaux of Louisiana, would cost the affected states at least $3.6 billion a year, as calculated by the Center for Budget and Policy Priorities, a liberal research group whose 20-year record of accuracy is legendary. In the case of Allen's Maine, the hit would be some $20 million. As Allen says, "it can be compensated for" — but it's arguable that without sensitivity to the impact on states, the cost may not be worth the allegedly stimulative benefit.

Pardon the regional entendre, but this is not small potatoes.

From the recession, the loss of sales tax and other revenue and the growing burden of important costs (aiding local education, Medicaid, keeping unemployment insurance solvent, and special education) threaten to leave a $200 million to 300 million gap in Maine's budget for the coming biennium, or more than double it's "rainy day" fund from the propsperous '90s.

In addition, though the costs are still being calculated, the added public health and security costs since Sept. 11 are at least at $10 million after less than three months.

The Senate Democrats' stimulus plan, blocked from a vote by the Republicans, would involve roughly half the revenue loss from accelerated depreciation envisaged by the centrists. In addition, the plan would have compensated states for their hardships.

It would send $5.1 billion in direct relief to the states — 40 percent to offset the depreciation loss, another $600 million to keep the federal share of Medicaid funding stable, and another $2.5 billion for direct budget support to minimize cuts and and tax increases.

By contrast, the centrists earmark $5 billion to state and local "workforce boards" to cover some of the added expense of helping displaced workers with training and health insurance costs. Translation: no fiscal relief.

Allen, as a modern Democrat, believes strongly that aid to the states can be targeted on recession and post-Sept. 11 relief, and can avoid paying for new projects. But his main point is that effective stimulus has to avoid making the situation worse or it's not worth it.

Thomas Oliphant's ***e-mail is oliphant@globe.com.***