

Straits of the States

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Congress returns to work this week in a grim mood. Its members are bolstered by polls showing broad public approval of incumbents, but most are well aware that this popularity will be hard to sustain. They know that the unity on display after the Sept. 11 terrorist attacks has eroded. The last session ended in partisan gridlock a month ago. And the return of budget deficits means that difficult choices loom.

But after being at home for the first three weeks of January, they also know they are the lucky ones: They could be serving in their state capitals rather than in Washington.

The members of Congress have a lot more maneuver room than their colleagues in the legislatures and the governors' offices. They can justify red-ink spending by the demands of the war on terrorism and homeland defense. The spending caps that were in place during peacetime have been removed. The stage is set for an eventual budget deal that will give President Bush what he wants for the military and preparedness, without the sacrifice of any promised tax cuts, and give Democrats much of what they covet for education, health programs and other domestic needs.

It will take awhile to get to that deal, and the way will be marked by fierce partisan rhetoric. But in the end, they can pass on part of the spending bill to future generations, claiming that the return of economic growth will yield the needed revenue.

By contrast, legislators and governors in most states face a constitutional requirement to balance the budget now, even in the face of declining revenue and rapidly rising Medicaid costs.

That is why you find solid, mainstream Republicans such as Kansas Gov. Bill Graves proposing increases in sales, cigarette and gasoline taxes to close a budget gap. Graves's \$228 million tax hike would not avert an overall spending cut, but it would finance what he calls "vital services" and investments in Kansas's future.

Graves's example makes the point that the biggest gap in fiscal policy today is not between Republican and Democratic politicians but between state and federal officials. In Washington, neither Bush nor most Democrats (with the notable exception of Massachusetts Sen. Edward M. Kennedy) want to acknowledge the need to reexamine the generous tax cuts they enacted during the flush economic times a year ago, before recession and war had upset the apple cart.

In the states, budget gaps measured in billions are increasingly common. Newly elected New Jersey Democratic Gov. Jim McGreevey faces perhaps the toughest situation. With only five months left in his state's fiscal year, he must close a \$2.4 billion deficit inherited from his Republican predecessors. McGreevey told his first post-inaugural Cabinet meeting last week to cut agency budgets 5 percent immediately and hinted he may have to cancel almost \$1 billion of scheduled property tax rebates.

In Alaska, where residents are accustomed to receiving sizable annual dividends from the state's oil royalties, Democratic Gov. Tony Knowles has called for reinstatement of the state income tax, which ended in 1980.

Even populist mavericks are being forced into asking for higher taxes. Minnesota's independent Gov. Jesse Ventura has proposed raising the gas tax from 20 cents to 25 cents a gallon -- with the \$160 million proceeds to go into the general fund, not earmarked for road construction and improvement.

In states where tax increases are off the table, other desperate measures are being discussed. Idaho's Republican

Gov. Dirk Kempthorne has frozen all state construction projects, including a renovation of the state capitol, and has suggested he may have to transfer \$19 million of tobacco settlement money into the regular budget .

Rising Medicaid costs are forcing cutbacks and caps in many states. Michigan Republican Gov. John Engler, one of many governors facing more than \$1 billion in deficits, has ordered a freeze on a popular and innovative program that allowed elderly people who otherwise would be in nursing homes to receive care in their own homes.

Engler, chairman of the National Governors' Association, lobbied Congress last autumn for Medicaid relief for the states. But no help was forthcoming.

Governors and legislators may find Congress no more sympathetic this year. The attitude among the politicians in Washington seems to be: We've got our own problems. But few of them would swap places.

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