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Without federal help, states remain in peril

Higher taxes and job cuts would threaten recovery.

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State and local officials are pleading for financial help, and Congress should respond quickly and positively.

Without more aid, states and cities will have no choice but to raise taxes and slash jobs and services, which could cut short the still-fragile economic recovery and trigger renewed recession. Governments would have no effective way of responding at that point, making the downturn long and painful.

State and local governments are struggling with epic shortfalls. The states' aggregate deficit for fiscal 2011, which begins shortly for most of them, is close to $100 billion. Fiscal difficulties in California, Illinois, and New York are getting the most attention, but similar problems plague states and municipalities from coast to coast.

Last year's budget woes were even worse, but the federal stimulus helped states avoid the worst. They made cuts - including nearly 200,000 state and local government jobs over the past year - and raised sin and property taxes. But these steps were accomplished without significant economic damage.

We won't be so fortunate in the coming year if federal aid is not forthcoming. States' rainy-day funds are dry, and their borrowing capacity is depleted.

Based on what they were hearing from Washington while drawing up their 2011 budgets, more than half the states assumed Congress would come through with more help. Without it, the budget cuts will be draconian, and the tax increases debilitating.

There will also be a greater chance of municipal bond defaults, which historically have been rare. While a major government default is a remote possibility, other equally unlikely things have occurred recently.

At the very least, lots of jobs will be lost without more federal assistance. An additional half-million teachers, policemen, and other government workers will be laid off. And, since much state and local government spending is on goods and services produced by businesses, many private-sector jobs will be lost as well. This could be lethal to an economy still saddled with a nearly double-digit unemployment rate.

Prudent economic risk management requires Congress to fill in as much as half the state and local government budget hole, or about $50 billion. This can be done most efficiently by giving states enough money to meet their ballooning Medicaid obligations over the coming year. By shouldering this burden, Washington could allow states to redirect their resources and forestall the worst budget cuts and tax increases.

There are reasonable concerns that providing that help will add to Washington's own fiscal problems. Those must be addressed before global investors begin to balk at buying U.S. debt, as they are now doing in the case of some European countries. Indeed, it would be ideal if Congress funded additional aid to the states by reducing other spending or raising taxes, rather than through more borrowing.

But concerns about the federal budget should be addressed when the economy is in full swing. A larger federal deficit this year is not an economic problem, provided we make up for it with greater discipline in subsequent years.

Paying as we go should not be a precondition for additional aid to the states now. Shoring up state budgets will help ensure that economic growth continues and ultimately gains traction - which is a precondition for addressing our long-term fiscal challenges.

Even if Congress fails to come to the states' rescue, the economy probably will not fall back into recession, but the odds of a "double-dip" downturn are nevertheless too high. Until the economy is off and running, federal policymakers shouldn't risk stopping it by failing to help state and local governments get through the next fiscal year.

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