

Gloomy forecast for states even if economy rebounds

By Mary Williams Walsh and Michael Cooper, New York Times

WASHINGTON – The fiscal crisis for states will persist long after the economy rebounds as they confront rising health care costs, underfunded pensions, ignored infrastructure needs, eroding revenues and expected federal budget cuts, according to a report issued here Tuesday by a task force of respected budget experts.

The problems facing states are often masked by lax budget laws and opaque accounting practices, according to the report, an independent analysis of six large states released by the State Budget Crisis Task Force.

It said that the financial collapse of 2008, which caused the most serious fiscal crisis for states since the Great Depression, exposed deep-set financial challenges that will worsen if no action is taken.

“The ability of the states to meet their obligations to public employees, to creditors and most critically to the education and well-being of their citizens is threatened,” warned the chairmen of the task force, Richard Ravitch, a former lieutenant governor of New York, and Paul A. Volcker, a former chairman of the Federal Reserve.

The report added a strong dose of fiscal pessimism just as many states have seen their immediate budget pressures begin to ease. And it called into question how states will restore the services they have cut during the downturn, saying that the loss of jobs in prisons, hospitals, courts and agencies have been more severe than in any of the past nine recessions.

“This is a fundamental shift in the way governments have

responded to recessions and appears to signal a willingness to 'unbuild' state government in a way that has not been done before," it said, noting that court systems had cut their hours in many states, delaying actions including divorce settlements and criminal trials.

The report arrived at a delicate political moment. States are deciding whether to expand their Medicaid programs to cover the uninsured poor as part of the new health care law, with the federal government pledging to pay the full cost at first. Public-sector unions feel besieged, as states and cities from Wisconsin to San Jose, have moved to save money on pensions. And Washington's focus on deficit reduction – with big budget cuts scheduled for after the fall election – has made cuts to state aid inevitable, many governors believe.

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