

Troubled States

by Paul Starr

This year, with unemployment still at recession levels, one state after another will lay off teachers, reduce health care for people on Medicaid, defer maintenance on roads and bridges, and make other assorted cuts to balance their budgets. Even though these policies will hinder economic recovery, venerable observers will say the cutbacks are

preferable to higher taxes, and some Republicans will relish the chance to slash programs they never liked in the first place.

Even liberal Democratic governors and legislators, compelled by balanced-budget requirements in state constitutions, will have no politically feasible alternative except to reduce spending. Although state revenues have begun to grow again, they are still well below 2007 levels, and federal stimulus aid to the states—perhaps the least appreciated part of an ill-appreciated program—ends with the new fiscal year (beginning in most states on July 1).

This whole experience ought to be a lesson in the limits of stimulus packages and the need for ongoing federal policies that recognize, and correct for, the fiscal pressures that states predictably face in recessions. We have long tolerated a perverse situation where states work at cross-purposes with national macroeconomic imperatives, cutting expenditures when they should be at least holding them steady. We need to change that, and adjusting the federal support for Medicaid is the easiest way to do it.

Under the stimulus program, the federal government temporarily paid a

higher percentage of each state's Medicaid costs than it normally does. That was a good thing to do: While state revenues fall in a recession, Medicaid enrollments rise because many people who lose their jobs lose health coverage, too. And because Medicaid has become the single largest item in state budgets, increasing the federal share during recessions significantly reduces the pressure on states to cut education and other programs.

But instead of an emergency onetime adjustment, Congress should have introduced a permanent trigger to boost the federal Medicaid match during recessions, as the Center on Budget and Policy Priorities and others have urged. Under a new formula, the federal share of Medicaid costs would automatically go up when national and state unemployment rates hit predetermined levels. A permanent trigger could target higher matches to states suffering from the biggest increases in unemployment.

To be sure, this kind of policy doesn't address the problems of states like California that have massive structural deficits and need fundamental tax and budget reform (and in the case of California, constitutional

change as well). But automatically triggering a higher federal Medicaid match in recessions would help states avert unnecessarily large, recession-driven cuts in services and better align state budget policy with national macroeconomic interests.

An unemployment-rate trigger on federal aid would supplement the automatic mechanisms we already have to fight recessions.

The recession will take its biggest toll on the states this year. We could fix that.

“Automatic stabilizers” were among the great advances in public policy brought about by the New Deal. The concept is simple. When high unemployment reduces consumer demand, government expenditures for unemployment insurance and other programs automatically go up, helping to avert a self-reinforcing downward spiral. Unlike stimulus programs—which require congressional action and typically work slowly, even when they are for projects that are supposedly “shovel ready”—an automatic stabilizer bypasses political gridlock and provides a more timely and, when necessary, longer-lasting boost to the economy.

Health-care reform now provides an additional reason for raising the federal share of Medicaid costs during recessions. Assuming it is not repealed, the Affordable Care Act will give the states the central role in assuring universal coverage. In 2014, the federal government will assume all of the cost of subsidizing low-income people who get coverage through the new, state-based insurance exchanges. The federal government will also pay for nearly all the cost of people who become eligible for Medicaid. The states, however, will bear some new costs for people who were previously

eligible but not enrolled in Medicaid. That burden and the continued growth in costs for the existing Medicaid population have led state officials to dread Medicaid's 2014 expansion, even though it will bring a flood of federal dollars to cover the uninsured.

A recession-related adjustment to the federal share of Medicaid would provide some assurance to state officials that they can manage Medicaid through the current and future recessions. Most of all, however, we need recession-related boosts to federal aid to prevent states from undermining economic recoveries. Medicaid happens to be a good way to do that. **TAP**