COMMITTEE ON FINANCE
NEWS RELEASE
Max Baucus, Chairman
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Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding the Economic and Fiscal Conditions of the States
(as prepared)

Justice Louis Brandeis wrote:

"There must be power in the states and the nation to remold . . . our economic practices and institutions to meet changing social and economic needs. . . . It is one of the happy incidents of the federal system that a single courageous state may . . . serve as a laboratory, and try novel . . . economic experiments without risk to the rest of the country."

We meet today to examine the economic and fiscal conditions of the states. We meet today to learn how different states are reacting to the economy. And we meet today to discuss whether the nation should remold our economic policies to meet the changing economic needs of the states.

Today, the nation's economy is hurting. Last month, the U.S. economy lost jobs for the first time in four and a half years.

Some industries have been hit especially hard. Over the last 12 months, manufacturing lost nearly 270,000 jobs. Construction lost more than 280,000 jobs.

And some states have been hit especially hard. Michigan's unemployment rate is 7.6 percent. Mississippi's is 6.8 percent. Alaska's is 6.5 percent.

Economic conditions vary from state to state. With high oil prices, states that pump oil are doing well. With high prices for many crops, many farming states are doing well. Mining and farming have helped to keep the unemployment rate in my home state of Montana at 3.6 percent.

A state's economy affects the state's budget. When a state's economy weakens, the state government's revenues generally fall off. And as unemployment increases and incomes decline, more people become eligible for programs like Medicaid.

Almost all states' constitutions require them to balance their budgets. During a time of economic weakness, states may have to raise taxes or cut spending to balance their budgets. Unfortunately, that's exactly the wrong policy for the economy.

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State tax increases reduce the purchasing power of people in the state. And state spending cuts lower the purchasing power of the people who would have received the funds. Tax increases and spending cuts can thus accelerate the economic decline.

At least 20 states are now projecting deficits for the coming fiscal year. California alone expects a $14.5 billion deficit. Taken together, these 20 states are projecting shortfalls that add up to more than $35 billion. If these deficits lead to state tax increases or spending cuts, they could counteract some of the fiscal stimulus that we just enacted.

What can Congress do to meet these changing economic needs?

For one thing, Congress could increase the number of weeks that unemployed workers receive Federally-funded unemployment benefits. The stimulus bill that this Committee reported last month would have allowed for an additional 13 weeks of benefits in all states, and 13 extra weeks of benefits in states with high unemployment. Unfortunately, that proposal did not make it into the final bill. If unemployment increases, we could revisit the proposal.

During the last economic downturn, Congress passed two other measures that provided budgetary help to the states.

First, Congress increased the Federal matching rate for the Medicaid program for a little more than a year. As a result, states did not have to cut Medicaid benefits. And since that money helped state budgets, states did not have to raise taxes or cut spending.

Similarly, Congress provided direct fiscal assistance to the states through a block grant, distributed on the basis of state populations. Congress specified that states could not use the funds to start new programs.

Many observers thought that these two measures worked pretty well. Should we consider using them again?

The application of our Federal system also finds several other areas where the states and the nation work together to meet changing economic needs. Let me tick off a few.

Many states couple their tax codes to those of the Federal Government. This means that changes to the Federal tax system affect state tax revenues. When the Federal Government cuts taxes, should we consider providing relief to states at the same time?

States and the Federal Government work together on Trade Adjustment Assistance. TAA provides Federal job retraining funds to states. And state workforce agencies use these funds to retrain TAA-certified workers. As the economy declines, shouldn't we reform and expand TAA?

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States and the Federal Government work together on infrastructure. Federal highway programs provide money to states to repair or build highways. These highways add to productivity. Shouldn't we eliminate the $3 billion deficit in the Highway Trust Fund?

The Federal and state governments share responsibility for Medicaid, the vital health care safety net. But in the last year or so, the Bush Administration issued several rules that will reduce what the Federal Government will pay for Medicaid. These new rules will shift costs to the states. Shouldn't the Congress address these new burdens on the states?

The State Children's Health Insurance Program is also funded with a combination of state and Federal dollars. President Bush's veto of the CHIP Reauthorization Act forced Congress just to extend the current program. Wouldn't it be better to provide a stable, long-term source of CHIP funding to the states?

The Temporary Assistance for Needy Families block grant provides critical support for work. This year, TANF's supplemental grants expire. These grants provide additional funds to states that have lower historic grants per poor person or high rates of population growth. Shouldn't Congress extend this important funding stream?

The child support program helps 17 million children. For every dollar that the Federal Government spends there, the program collects $6.50 in private child support payments. Investing in child support enforcement helps low-income families as well as state and county governments. Shouldn't the Federal Government invest more in child support enforcement?

The Social Services Block Grant supports programs that serve our Nation's most vulnerable. SSBG allows states to design programs that best meet their particular needs. SSBG provides older Americans with adult protective services, adult day care, and home-delivered and community-based meals. The program supplements foster care, child protection, and other services to prevent child abuse.

President Bush proposed cutting this crucial block grant by half a billion dollars. Shouldn't the Federal Government continue its investment in this program?

And this year, this committee begins its work preparing for comprehensive reforms to our Nation's health care and tax systems. Health care and tax reform will both dramatically affect the states. Shouldn't we build state concerns into those reforms?

And so, we have many reasons to examine the economic and fiscal conditions of the states. We have many things to learn about how different states are reacting to the economy. And we have much to discuss as we consider how the nation and the states should remold our economic policies to meet these changing economic times.

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