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Drip, Drip, Drip

 By **MATT BAI**

For Jim Doyle, it's a day like any other. In the morning, Wisconsin's new governor arrives at the Madison Concourse Hotel, where he informs drug makers that unless Washington comes through with a prescription drug plan, the state is going to have to force them to lower prices. Then he walks down the hall to the A.F.L.-C.I.O. convention, where he explains why almost 3,000 state jobs are going to be cut. A few hours later, he holds a news conference at a Milwaukee school to plead for more special-education financing from Washington.

"Everybody gets bad news," Doyle tells me wearily as he inhales a McDonald's fajita on the way back to the capital. His state is in financial free fall -- it's short about \$3.2 billion -- and no one in Washington seems to care.

"Whatever the theory is behind trickle-down economics, I don't think people are seeing it here," Doyle says. "You watch these school districts struggle mightily with their budgets, and you think that if even a small part of these tax cuts were going instead toward helping education in this country. . . ." His voice trails off, and he turns up his hands in surrender.

At least Doyle has a support group: 49 other state governors, virtually all of whom are going through some version of the same ordeal, being forced to make decisions that will haunt them in attack ads for the rest of their careers -- assuming they still have careers. The governor of Kentucky released hundreds of prisoners because the state couldn't afford to house them. In California, 350,000 people are being booted from Medicaid. In Oklahoma, some teachers are driving school buses. The list goes on.

Even the governors themselves can appreciate the absurdity of all this. "I joke with people that the only things we're waiting for are the plagues and the locusts," says Tim Pawlenty, Minnesota's new Republican governor. But this is gallows humor; the crises in the states will ultimately affect thousands of families in deeply personal, even tragic ways. The states themselves helped create this mess by slashing taxes during the boom years, while at the same time blowing money like Bill Bennett at the Tropicana. Now, as tax revenues plummet and job losses mount, there just isn't enough money coming in to pay the bills, nor is there much sympathy from the former governor sitting in the White House. The only things trickling down from Washington, it seems, are impossible choices -- and the blame for making them.

Amid all the political rhetoric about saving taxpayers money, we seem to have

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Photo: Dwight D. Eisenhower at a rally in Chicago, 1952

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forgotten how governments actually function. President Bush says federal tax cuts now totaling more than \$1.5 trillion will put money back in the bank accounts of average Americans, but to understand what governors are going through is to understand why that isn't really true. For a lot of Americans, the president's tax cut won't end up being a tax cut at all; it's really just a tax shift.

Here's how it works. The tax cut will choke off revenue to the federal government, which is precisely what conservatives want it to do. Their thinking is that the less money Washington has, the less it will waste. This means Congress can't increase financing for the mandates it's been heaping onto the states for 40 years. For instance, Congress shares with states the cost of Medicaid, the health care program for the poor, which gobbles up huge chunks of state budgets. Since Washington hasn't seen fit to provide elderly patients with a prescription drug plan, that, too, falls to the states. So does the overwhelming share of special education for disabled children, another federal program. And let's not forget more recent mandates -- Bush's "No Child Left Behind" law and increased spending on homeland security -- that the feds have passed on to governors with minimal assistance.

Bush's tax cut does include \$20 billion in aid to the states, a provision that passed only because Senate moderates demanded it. Half of that money will be divided among the states over the next two years to help close budget shortfalls. That's helpful, but it's hardly salvation. According to the nonpartisan Center on Budget and Policy Priorities, states are facing about \$100 billion in deficits right now.

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Unlike the president, who can run up deficits at will, governors are legally bound to pass balanced budgets. So in order to finance programs like special education and Medicaid while their budgets implode, governors must pull money from universities, parks and highways. "The budget meetings are extremely depressing," Michigan's new Democratic governor, Jennifer Granholm, told me during a recent visit to Washington. "We've got to contemplate cutting burial services for indigents, or cutting after-school programs for at-risk kids, or cutting programs even for talented and gifted children. These are Hobbesian choices."

Rather than raise taxes, a lot of governors, like Doyle and Granholm, adhere to what might be called "Florio's Law." During the last recession, some governors, most visibly New Jersey's Jim Florio, tried to raise taxes and were soundly bounced from office. The lesson that a lot of politicians, especially Democrats, took away from that period is that you can weather almost anything but a major tax increase.

Instead, desperate governors are slashing the aid that flows from each state to the cities and towns where people actually live. And this is the hidden effect of the Bush tax agenda -- beyond the expanding deficits and favoritism toward the wealthy -- that a lot of taxpayers don't yet seem to grasp. If Bush and Congress cut taxes, and your governor doesn't raise them, then the buck ultimately stops with your mayor, who has to find ways to pay the police and firefighters, paint schools and pave roads. That'll mean higher property taxes or fees on services like garbage collection, or maybe the town will decide it's time to reassess the value of your house. Either way, you're likely to be paying someone else the money you no longer send to Washington.

There is a legitimate conservative theory at work here -- if anyone in the administration had the courage to own up to it. Conservatives believe that it's simply fairer to have people taxed by their local governments than by Washington. This way, the people who pay for the services are the ones using them. As an intellectual point, this makes a lot of sense: if you live in Illinois, you may end up paying more money for your local police force, but that's better than giving it to Congress so they can use it to pay for cops in Florida.

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That said, you won't see Bush campaigning in 2004 on the notion that he shifted taxes to the local level and thus made government more accountable. There will never be a TV ad that says: "President Bush. He decentralized revenue." Instead, Bush will insist that he cut your taxes more than any president in history -- and if some other moron raised them, you should throw him out of office. This is, at best, disingenuous. At worst, it helps create a cynical society where people believe they shouldn't have to pay for anything and their elected officials are too afraid to tell them they should.

As proof, look no further than a referendum earlier this year in Oregon, in which voters were asked to choose between \$724 million more in income taxes or sharply reduced spending projections, including \$95 million less for schools. Here's a shock: by a margin of 55 to 45 percent, the voters chose to shrink spending. (Ninety-nine Oregon school districts ran out of money and have to close their schools before the end of the school year.) To conservatives like Stephen Moore, the influential president of the Club for Growth, this is the best kind of democracy in action. "A lot of people in local towns or cities are going to say: 'Hell, no! You're not going to raise my taxes,'" Moore says triumphantly. "'Get rid of the welfare programs!'"

But it's hard to imagine a more basic abdication of leadership than to leave state and local spending decisions to the mercy of the majority. It's fair to have arguments about what kind of services to provide, but that's different from asking the voters themselves to figure out which programs are essential and how much revenue is needed to run them. That's the whole reason we elect people to govern -- even if, at times, they wish we hadn't.

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Given that Bush and three of his cabinet members were governors themselves, you would think they'd be deeply concerned about the crisis in the states. If they are, no one in the administration wants to talk about it. When I called to request an interview with Bush's liaison to the governors, Claire Buchan, a White House spokeswoman, said she knew where the administration stood, so there was really no need for me to talk to the liaison. "The president thinks the most important thing we can do for the states is get the economy going again," she said, as if reading a memo. "The president's put forward a robust growth plan that he thinks will be meaningful for the economy and for workers."

When I asked Governor Pawlenty, a loyal Bush supporter, what kind of aid he needed from his party's leaders in Washington, he burst out laughing. "What we need and what we're going to get," he said, "are two different things."

Influential Republicans aren't merely indifferent to the crises facing governors; they are openly hostile. Conservatives like Moore and Grover Norquist, the strategist who talks often with Karl Rove, say it would be insane for Washington to help states that won't help themselves. What governors really need, they argue, is the spine to cut back sprawling government programs. Norquist says governors should kick more people off Medicaid, for instance. To ensure that only the truly needy qualify, he advises governors to say, "We're not going to be doing hair transplants or sex-change operations and all the other things we've been doing."

This is not the ideological fringe talking. It is, in fact, the center of power in the Republican Party -- a party, it should be pointed out, whose modern hero, Ronald Reagan, once passed a big tax increase as governor of California. Just as conservatives going back to Barry Goldwater have pushed to shrink the federal government and return the responsibility for social services to the states, so are these same Republican activists now declaring war on the state bureaucracies that deliver those services. Leaving the governors to deal with their own fiscal nightmares is part of a tough-love policy designed to make the states scale back the social programs that are making them destitute.

In a sense, Republicans are using the very same tactic against the states that Reagan employed to win the cold war against the Soviet empire: force your enemy to spend himself into poverty until, at some point, the infrastructure on which he stands gives way and topples.

That's fine, except taxpayers -- even those who vote for smaller government -- have come to demand a certain threshold of services. People are living longer, and they can't go without health care. Disabilities are being diagnosed in children, and

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those children can't just be left to fail in crowded classrooms. And so the nation's governors find that they are not only governors in the traditional sense, but advocates, too. Under an ever-darkening economic sky, they're forced to play the role of civics teachers, trying to make people in their communities (not to mention those in their own parties) understand that you can't get everything for nothing.

I recently talked with Dirk Kempthorne, the Republican governor of Idaho and a staunch supporter of the Bush agenda. In the years after he was elected governor in 1998, Kempthorne, a former senator, signed 49 tax cuts into law. But this year, with income-tax revenues off by \$35 million, Kempthorne persuaded his Republican-dominated Legislature to temporarily raise the sales tax and add a tax on cigarettes. For this, he has been vilified by conservatives in Washington, who vow that no governor who raises taxes or asks for more aid will have a future in the party.

"I wasn't going to make further cuts in education," Kempthorne told me. "I wasn't going to release prisoners. I saw that in other states, and it was a disaster. We had proposals that would have eliminated the delivery of meals to elderly who had chosen to remain in their homes. If they don't receive that food, then they have no choice but to go into a nursing home. Why would you take their dignity away from them?"

"I did what was unpopular, but in my mind and heart it was the right thing to do. And I think the measures that I've taken that are being criticized by my brethren conservatives, well. . . ." He sighed. "They're not standing in my shoes."

Matt Bai is a contributing writer for the magazine. His last article was about Howard Dean.

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