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CAPITAL JOURNAL | OCTOBER 6, 2009

States Offer Route for Jobs Spending

By GERALD F. SEIB



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The really bad news for Democrats isn't that the unemployment rate hit 9.8% last week. The really bad news for the party in power is that the last time unemployment reached that level, it was there or higher for exactly one year.

That was between July 1982 and June 1983. If you are thinking of this precedent in political terms, it is important to note that smack in the middle of that dreary stretch, the party then in control -- the Republicans -- lost 26 House seats in the 1982 midterm elections.



New and dreary unemployment numbers raise the following question: Are there any new ideas on stimulating job growth that have any chance of winning support in Congress? WSJ's Jerry Seib outlines a couple of suggestions -- a tax credit for job creation and more aid to states.

Today's downturn is even harsher, and there is some evidence that the American job-creating machine doesn't work quite as well now as it did then, even in good times. So Democrats have every reason to worry that the job picture could remain bad right up until the November 2010 midterm elections -- and every reason to look for ways to avert that unsettling prospect.

As Democrats ponder that scenario, here is one word they might want to keep in mind: states. Getting additional help to states in coming months might well be both the most efficient and the most politically feasible

action Washington could take to avoid sinking deeper into the jobs hole.

The newest unemployment numbers have, of course, ignited speculation about another round of economic stimulus from Washington. Yet the term "stimulus" has become politically charged since President Barack Obama signed a big stimulus package in February.

Big portions of that \$787 billion bill haven't even been spent yet and could turn out to be helpful as they roll out in months ahead. Yet Republicans have become acerbic in their critique of stimulus spending as the months of job losses have piled up since the bill's passage.

Democrats, meanwhile, aren't sure whether, with budget deficits looming nearly as large as job losses on voters' minds, they want to travel the same stimulus path again. So if there is to be something more done to stanch the job losses, what could it be?

One idea that Republicans have floated is a tax credit for employers who create jobs. The hope would be that a tax break would provide employers a direct and immediate incentive to add jobs.

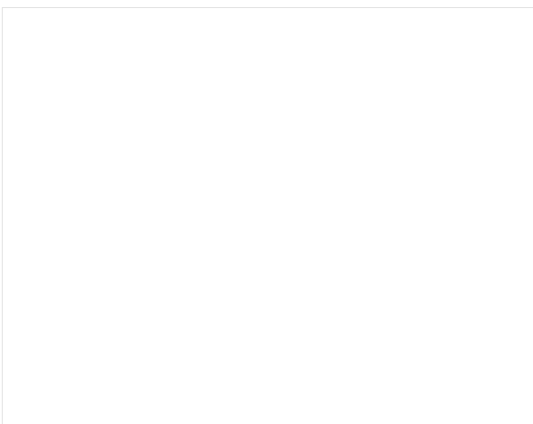
Rep. Eric Cantor, the second-ranking Republican in the House, has advocated a jobs tax credit and suggested using unspent stimulus funds for that purpose. Expect to hear more of that idea, and there may well be some bipartisan support for it. The question, though, is whether a tax credit is sufficient incentive to overcome the profound economic uncertainties employers are pondering as they consider creating jobs.

Beyond that, there aren't many ideas with much prospect of bipartisan backing. Help to the states, though, is one.

Every House and Senate member, regardless of party, comes from a state having serious problems making ends meet in this recession. And getting money out to states quickly may have been the single most effective impact of the February stimulus package. That money -- which went for construction projects, education and health-care programs -- helped financially strapped states avoid even bigger disasters as they put together budgets for the current fiscal year.

Indeed, when the National Conference of State Legislatures surveyed states this summer, it found that 25 of the 35 states that provided budget information said they used stimulus money to close their overall budget shortfalls this year. Texas and Nebraska, two of the reddest states in the land, relied on stimulus money to close 96.7% and 88% of their budget gaps, respectively, the NCSL reported.

States generally are required to balance their budgets, so without stimulus funds they would have been forced into much deeper budget cuts this year. That would have had an immediate jobs impact as states laid off workers, signed fewer deals with private contractors and sent less money on to local governments to help pick up trash, keep parks open and put cops on the street.



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When it comes to job creation, "the federal government is pretty bad at that," says Rob Shapiro, a Democratic economist and chairman of Sonecon, an economic-advisory firm. "But state and local governments are pretty good at it. More of the stimulus should have gone to states."

The problem now is that, while some stimulus funds are still flowing to states, the biggest chunk already is out the door. So states already are starting to plan budgets for the next fiscal year, facing both dwindling stimulus funds and declining tax revenues.

Indeed, Stateline.org, an online news site tracking state governments, reported a few weeks ago that at least half of the states already were running in the red for the current fiscal year as revenues slump. The difficulties will be most acute as states try to figure out how to pay for Medicaid, the health program for the poor, where rolls are swelling with the newly unemployed.

The principal problem with any stimulus program, however it is labeled, is finding the money to pay for it. Meantime, trouble on the state and local front "is the next wave that's coming," says Kenneth Duberstein, who worked in the Reagan White House during that last big spike in unemployment to 9.8% and beyond.

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