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STATES' RED INK DEMANDS TOUGH NEW ECONOMIES
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Swimming in red ink, deficits rolling in as far as the eye can see, what are America's state governments to do?

The "realists," notes government reform expert Ted Kolderie, "tell us the only options are to cut and to tax." Their clear message, he suggests: "With more we can do more; with less we have to do less. We don't do 'different.'"

But there are bitter consequences, *especially* in a recession. Budget cuts reduce vital services. Increased taxes take money out of people's pockets, perversely making economic recovery all the tougher.

Raymond Scheppach, executive director of the National Governors Association, hears lots about the monstrous budget dilemmas the 50 state governors face. The time is at hand, he believes, "to look at new and different governance models for the delivery of services."

I asked him for examples and he didn't hesitate.

A top idea: Curb our states' "endless incarceration" practices – failed logic in a nation that already imprisons more people than any other on the planet. At a January meeting, Scheppach relates, one governor proclaimed: "I'm not going to build *any* more prisons from now on. We have to find a different way."

Ask criminal justice specialists, and big majorities cite reasonable solutions running from residential programs to electronic monitoring, drug decriminalization to community service.

Next on Scheppach's list: higher education. "States have to stop putting money into new buildings and campuses. We need to move to a high degree of undergraduate education online."

A top example: Western Governors University, an online institution created by 11 Western governors 13 years ago and administered from Salt Lake City. It now has 17,000 students from 50 states and is the nation's largest supplier of urban math and science teachers.

Says David Osborne, co-author of "Reinventing Government" and "The Price of Government: Getting the Results We Need in an Age of Permanent Fiscal Crisis": "We should quit paying for higher education except for research, and give the money to the students, letting them choose the universities that meet their needs."

As for public schools, Osborne would transform local school boards into "chartering boards" that would contract with independent groups, like charter schools, to run schools, regularly renewing or discontinuing contracts based on their performance in educating children. Teachers unions are adamantly opposed. But cities such as Washington, D.C., Milwaukee and Houston, aiming for better student achievement for public dollars invested, are moving toward the new model.

But the biggest fiscal savings, says Osborne, can be won on health care. Medical bills are already 35 percent to 40 percent of states' budgets and rising rapidly. Yet studies by experts at Dartmouth College show the more doctors and hospital beds per capita in a region, the higher the costs and, amazingly, often the lower the average health outcomes.

So what should states do? Decree a shift, says Osborne, from fee-per-service to a competitively determined total flat fee for a given procedure – a knee replacement for example. Typical expense-compounding billing for each separate step, from diagnosis to X-ray to anesthesia to recovery care, would be ruled out. Likewise, primary care physicians would get flat fees for caring for a person of any given age for a year – again discouraging unnecessary procedures. There would be coordinated statewide electronic record keeping and a new system of health courts set up to contain malpractice costs.

Longer term, Osborne adds, states need to save health dollars by curbing the obesity epidemic – "Americans eating themselves to death." Fiscal sanity demands curbing highly expensive long-term care for diabetes and heart conditions. How? Tax junk food. Champion exercise and sound diets. And then, with increasingly older populations consuming about 25 percent of health care dollars in their last year of life, institute more end-of-life care – avoiding, for example, heart bypasses for weakened 89-year-olds.

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So what about the hundreds of billions of dollars that state governments owe in unfunded pension obligations and retiree health care? Scheppach has one answer: the so-called "defined benefits" system, with its lifetime guarantees, "just has to go." State workers – at least new ones – would have to manage their own 401(k) or comparable plans.

Perhaps, says Scheppach, states should "hire private-sector people willing to come into government for three to five years." They would be paid competitive salaries, bring in fresh blood and ideas, and provide a clear alternative to the prevalent pattern of retaining state workers for 25 years or more and then owing them high lifetime defined benefits.

Put another way, state workers would be job-mobile (like most of us), and not receiving retirement benefits superior to the taxpayers who support them.

Are all these ideas practicable? Maybe not all. Each would trigger political battles. But if we can't pass imaginative reforms in today's fiscal storm, then when? Inaction means prolonged fiscal misery, deep deficits, and a less competitive United States.

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