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Though it may be small comfort, the CNMI economy is not the only "state" economy that is suffering. The media is full of tales of the struggle of one state or another as they try to find funds to maintain their operations, programs, bureaucracies.

"The Four Causes of the State and Local Budget Crisis and Proposed Solutions" in the Summer 1994 issue of *The Urban Lawyer*, vol 26, #3, describes not only some causes, but offers some solutions. Though published in 1994, and dealing with a past crisis rather than the present one, much of what the article contains would appear to be still relevant. How does that saying go about being forced to repeat errors of the past if one doesn't learn from history?

It should be noted that not all that is reported in the article applies to the CNMI. But the findings are interesting, nevertheless.

Author Kenneth Drexler identifies four reasons for the states' budget crises. First, the national economic recession of the early '90's, which reduced tax collections and drove up the costs of welfare and related social programs nation-wide - as has now occurred again. The second, outdated and inefficient tax systems at the state level, which have kept tax revenues below "desirable" levels. Third, three programs: elementary and secondary education; corrections costs; and Medicaid. Lastly, the new federal mandates and reduced federal aid.

Drexler warns that though state and local budget outlooks could brighten due to improvement in the national economy (as occurred in the later 90's), if the underlying causes identified in the article were not addressed, the states could face even more serious problems when the economy experienced its next downturn - as it now has.

The article states that many state tax systems rely on fixed tax rates imposed by legislation, rather than on flexible ones based on economic growth. This makes them "inelastic." A tax calling for a fixed percentage or amount is inelastic because it does not change with inflation. Drexler elaborates, "If a 1% growth in income produces an increase in tax revenue greater than 1%, the tax is said to be highly elastic. If it produces less than 1%, the tax is considered inelastic." Income taxes, therefore, should be "elastic" - based on income levels - which tend to reflect the economy. Writes Drexler, "Relying more heavily on the income tax and increasing the progressivity of their rate structures would go a long way toward alleviating the states' fiscal problems."

As to sales taxes - which Drexler considers a given - how elastic they are depends on what is taxed. A sales tax that exempts food, but is imposed on services - that are usually consumed by households of higher income - would have higher elasticity than a sales tax imposed on food but few services. As the economy improves, Drexler asserts that such tax revenue would increase, as more non-essential goods and services would be purchased. Revenue from such a sales tax would also increase with inflation, as would the revenue from more elastic income taxes. On the other hand, excise taxes - on alcohol, tobacco, gas - are generally inelastic because they do not change with inflation.

States should also increase the scope of their sales or "consumption" tax to cover a broader range of services, rather than focusing on manufactured goods or tangibles as is now the case. "Services currently account for 52% of personal consumption expenditures" yet few are taxed by states. Instead, manufactured goods are taxed, making them more expensive, and driving the manufacturers out of the country.

Summarizes Drexler, "The most effective steps the states can take [to generate more revenue] are to increase reliance on the income tax, preferably by raising their top rates, and to expand the sales tax to cover more services."

The four largest categories of state spending, on the other hand, are K-12 education, higher education, Medicaid, and corrections. Only state spending for higher education has shown little increase, according to Drexler. The article discusses each of the remaining categories in turn. To begin with, state costs for K-12 education are increasing due to an increase in the number of school age children, efforts to improve the educational system, and to "equalize educational resources."

He acknowledges that most of the increasing Medicaid costs, due to rising enrollment levels, medical price inflation, and higher demands from sicker populations, are beyond the control of the states; and notes that Medicaid may well disappear depending on the success of the president's [then Clinton] efforts to reform the health care system.

As for corrections, Drexler reports that state spending on corrections has sky-rocketed, due to mandatory minimum sentencing provisions and growing narcotics convictions, with the resulting need for new prison construction. Crime rates correlate with unemployment rates; "there is no discernible correlation, however, between the crime rate and the level of incarceration," he writes. The U.S., according to Drexler, has the highest incarceration rate of any industrial country in the world, and he urges states to "reevaluate the effectiveness of their corrections policies." "The money spent keeping nearly 1 million Americans imprisoned could be better allocated to improve the alternatives to incarceration, such as rehabilitation, job training, and, where appropriate, drug treatment programs."

In discussing state costs related to federal mandates, Drexler predicted that the federal government, already running a budget deficit, would not be likely to fund new mandates adequately, and that, consequently, the federal-state relationship would likely continue to be costly for the states.

While states cannot control the economy or federal mandates, they can control the structure of their tax systems and expenditure priorities. In addition, they should, he concludes, "increase the elasticity of their tax systems to ensure that revenues keep pace with the growth of personal income," rely more on income taxes, graduate their rate structure more steeply, and expand their consumption taxes to reach a wider array of services." So far as expenditures are concerned, Drexler wrote that states should "continue to provide modest increases to meet the enrollment increases in public schools, ...seek alternatives to the spiraling rate of offender incarceration, and ...work with the federal government to develop a comprehensive national program to control health care costs."

The article makes a distinction between "total state revenue" and "state general funds" which I could not follow. Perhaps the "elephant in the room" - state government personnel costs, which are not mentioned in the article, and surely represent a significant element in state budgets - falls into that other category that the other costs discussed here do not......

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Short takes:

- Biggest mystery of the year: the unexplained decision by the U.S. Office of the Inspector General not to pursue what it found to be a likely violation of government ethics in the award of management of CNMI's ARRA funds to the firm of Integrated Professional Services. See the IG report at < http://www.doioig.gov/images/stories/reports/pdf/CNMIARRAManagement%20-%20Public.pdf >

- Another recent and as yet unresolved mystery: the reason behind former Lt. Governor and just-retired Congressman Diego T. Benavente's unprecedented mid-term resignation from office. Though explanations were given - he wanted to spend more time with his family - they seem weak indeed.
- Smaller scope, but still a mystery: Why is a new junior high school being proposed for the southern end of the island, when it already has a junior high school? Isn't it time the northern student population also got a junior high school? And is it really necessary to use federal funds for purchase of private land from a now-deceased loyal politician's family to build it on?
- A mystery of a different sort: why would anyone who confessed that he had not read any documentation on zoning, proceed to demand answers to countless questions that could have been answered by reading the documentation? See Wednesday's "Letters to the Editor" in the 7/26 issue of the *Saipan Tribune*.
- Not so trivial a piece of trivia I've only recently learned: for the nearly ten years that Saipan and Tinian were under U.S. Navy rule (1953-1962), Rota was governed separately, under the UN Trust Territory of the Pacific Islands.