BY: STEVE ISRAEL AND RICHARD RAVITCH

Across New York, too many families are dealing with a harsh reality: they're broke. So is the state. And we're not alone.

With less income tax revenue from widespread job loss, less sales tax revenue from decreased consumer spending and less property tax revenue from falling real estate values, states have seen record-level budget deficits open up in short order. New York's projected $8 billion budget gap for the 2010-2011 fiscal year, scheduled to balloon to $14 billion-$15 billion when the federal stimulus money disappears -- is second only to California's, but is symptomatic of the large majority of states.

In fact, the Center for Budget and Policy Priorities estimates that by the end of fiscal years 2010 and 2011, the 50 states will have faced a combined budget shortfall of at least $350 billion. Since virtually every state must balance its budget, deficits mean that states are forced to cut spending on important services or raise taxes.

New York isn't alone in cutting spending on education and health care to close its deficit. Thirty-six states have cut higher education spending, 28 have cut health care services and 24 have cut spending on services for the elderly. These cuts not only threaten the provision of services that are essential elements of our social contract, but also weaken the economy, exacerbating a downturn already in progress.

Indeed, the consequences of deficits can get even more perverse, as some state and local governments desperately seek revenues with the equivalents of tag sales. This fall, Arizona approved a budget that raises $735 million by selling government property, including the state Capitol in Phoenix.

What we need is a new federalism for a new era. Just as the Great Recession has revealed the weaknesses in our national economy, it has also shown our need to re-evaluate the fiscal responsibilities of the federal government and the states. For almost 40 years, there was an official body dedicated to exactly this kind of ongoing re-evaluation -- the U.S. Advisory Commission on Intergovernmental Relations. It's high time we revive it.

The commission was established by Congress in 1959 "because the complexity of modern life" -- including trends such as population growth and scientific development -- "intensifies the need in a federal form of government for the fullest cooperation and coordination of activities between the levels of government."

The commission served for 37 years as a bipartisan body that brought together representatives from all levels of government to study and make recommendations about "the most desirable allocation of governmental functions, responsibilities and revenues."

According to Richard P. Nathan, formerly of the Rockefeller Institute in Albany and one of the country's foremost students of American federalism, the commission had two particular strengths.

First, its staff produced large amounts of high-quality information about state and local governments so as to provide a proper foundation for policymaking. Second, the commission, because of its authority, was able to convene groups of officials and experts and, thus, raise the profile of federalism issues on the national agenda.

The commission was shuttered in 1996, a victim of shifting ideologies and policy ideas. Its successor, however, should not be a line-for-line copy of the original. For example, it is generally agreed that the commission's size and structure -- an unwieldy 26 members, many of them representing and defending particular interests and agencies -- were serious shortcomings. The successor body should be more streamlined, with a broader membership.

One of the first issues a new commission should explore is relieving state and local governments of their mandated share of Medicaid. This single action, done correctly, could allow local governments to help manage the local tax burden and assume a greater share of job-creating local infrastructure investments.

A new commission can outline the way forward for a new federalism that more appropriately aligns federal and state responsibilities for the new century's economic realities -- including the fact that social insurance is most efficiently funded by the federal government, allowing states to return to providing the traditional basic services that are their distinctive competence.

When we consider the alternative -- forcing states to close budget gaps in ways that are extremely harmful to their chances for future recovery -- it's no exaggeration to say that our future prosperity depends upon our ability, to paraphrase President Barack Obama's Nobel Peace Prize speech, to "think anew" about federalism.

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