

The logo for The Intelligencer, Wheeling News-Register, is displayed on a dark green background. The text is in a white, serif font with a slight glow effect. The main title is "The Intelligencer, Wheeling News-Register" and the tagline below it is "The Ohio Valley. Delivered. Like No Other Media."

**The Intelligencer,
Wheeling News-Register**
The Ohio Valley. Delivered. Like No Other Media.

Balancing State Budgets, Improving Schools

By: Terry Wallace

September 17, 2012

Reports of deep cuts in most state budgets are all too common these days and are passed down to each level of government, including counties and school boards. One of the primary culprits is the blank check that is Medicaid, the growth of which is crowding out other programs at the state and local levels.

The program is funded at about a 60 percent level from the feds, with 40 percent in required state matching funds, and has been growing at an unsustainable rate. Obamacare will add tens of millions of additional recipients to the Medicaid system and force states to pay their increased shares by raising taxes or cutting other programs to make up the difference. They have no choice.

The federal share is supported by printing more fiat money and/or additional borrowing, so Washington doesn't worry about where the money comes from. States, though, do not have that option and must balance their budgets each year by either raising taxes or cutting other programs. This has caused states to reduce reimbursement to providers to the levels where many refuse to accept Medicaid patients ... levels that are already well below Medicare reimbursement.

This has the effect of raising states' taxes, since they still must come up with the 40 percent match - essentially a blank check situation, as there is no "gatekeeper" on the system. Program costs are increasing while many states' revenues are shrinking and the resulting fiscal situation is unsustainable.

To exacerbate things even further, the growing aging population is increasingly adept at "qualifying" for nursing home care, paid for by Medicaid. The nursing home industry is huge and growing, as is the cadre of attorneys who assist individuals in qualifying for Medicaid and Social Security disability payments.

Medicare does not pay for subacute nursing home services; Medicaid prohibits co-payments for any covered service.

Related to all this is education spending. Washington recycles your tax dollars back to the states to cover about 10 percent of primary and secondary education costs, though this represents only a fraction of the costs for federally mandated programs and constitutes an intrusion into state and local education rights that is universally loathed. In fact, many states are being held hostage via multiple waivers granted by the feds in order to bring about compliance with unpopular and oftentimes counterproductive requirements emanating from Washington.

The result is that, since the creation of the United States Department of Education, student performance has been static, dropout rates have increased and the flight to non-public schools has accelerated. The states' costs to comply and defend against attack by Washington are staggering and the results have been worse than the original problems. Compliance pressure has even driven state officials to cheat or game the system as evidenced in numerous and ongoing high profile cases.

Since the amounts of money going into both programs are not all that different, it seems to me that the time is perfect to trade one for the other and improve the efficiency of both.

The states should give Medicaid to the feds, get totally out of the business and let them run and fund it. This would allow states to manage their own budgets without covering the growing healthcare blank checks and would do away with the morass of 50 different state Medicaid operations and their associated waivers.

In the meantime, the feds could shut down the Department of Education, let the states pick up the additional 10 percent of their education budgets and get the central government out of the business of controlling education curriculum and practices across the nation.

States are much more able to make rational decisions about their schools and control funding for them than the feds ever were or will be. The latter have brought virtually nothing to the table beyond increasingly burdensome regulations and increased costs. None of this would reduce the rights of students to a free, appropriate public education, as statutory protections remain intact.

The initial fiscal impact of this sort of exchange would be approximately budget neutral, with the states offloading about \$200 billion to the feds for Medicaid, but taking on in excess of \$100 billion in increased education costs. It would allow states to predictably control their budgets to a much greater degree during the coming years and that is a huge benefit. This is especially important, given the large unfunded liabilities that most are facing and which will eventually have to confront.

Trying to leverage a homogeneous educational system from Washington is a poor model and results in being a misfit for everyone, especially our children. Education policy in each state should be determined in each state and paid for in each state as was true for most of our history.

Giving Medicaid back to the feds is not a new idea. During my days in the health care business in Tennessee, Gov. Lamar Alexander proposed doing it as a means to head off what he then recognized as a looming fiscal train wreck.

Extremely analytical and forward thinking, Alexander's 30-year old visionary solution should be taken off the bench and sent into the game. Now.

Wallace is a Senior Fellow at the Institute for Innovation in Education at West Liberty University, a Senior Fellow at the Public Policy Foundation of West Virginia and a CATO Institute contributor.