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Federal Fiscal Policy Is Ruining State Budgets, Too

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The Cato Institute's 12th biennial [fiscal report card on the governors](#)¹ is a thorough evaluation of major budget issues facing the states. One of its best features is grading governors A-F based mostly on their taxing and spending in the last two years.

Four governors, all Republicans, earned "A's": North Carolina's Pat McCrory, Kansas' Sam Brownback, Maine's Paul LePage and Indiana's Mike Pence. Meanwhile, eight Democrat governors received an "F," including our favorite, California's Jerry "Moonbeam" Brown.

Recent economic growth has taken pressure off state budgets for now, but the future poses extremely challenging problems states ignore to everyone's peril. These include unfunded liabilities due to underfunded public employees pensions, the "Affordable" Care Act – an airborne, economic Ebola – and, worst of all, Medicaid.

Reforms to the pension systems must begin immediately. Fortunately, some states have begun doing so, but "some" isn't enough. The underfunding of most states' systems remains an urgent problem – Illinois' shortfall is a whopping 60%. We've already seen cities going bankrupt over public pensions. A few states may be next.

More Baby Boomers file for Medicare everyday, and they make up the largest demographic group in the nation. Trillions of dollars will be spent as they age, and with people living longer, the outlook is worrisome to say the least. Former House Speaker Newt Gingrich was the last politician who made a serious attempt to *slightly* reform Medicare in 1995. Democrat demagogues and their Leftmedia lapdogs, as well as the AARP, crucified him, and the Left succeeded in heading off reform.

Democrats assured the nation in 1965 that 30 years after its inception Medicare Part A would cost only \$10 billion. In 1995, it cost \$165 billion. It must be reformed, or it will simply collapse. And we're reasonably sure the Left will blame Republicans for that, too.

Far worse than Medicare, though, is Medicaid, another gift to us from Lyndon Johnson's "[Great Society](#)"². Medicaid pays for health care and long-term care for 66 million people, and it's the largest component of state budgets, accounting for 24% of total spending.

After years of rapid expansion, Medicaid was expanded even further by ObamaCare. Individual states can choose whether or not to implement the expanded coverage, but Congress bribed most by paying 100% of the costs of expansion through 2016 – aid that declines annually afterwards. That rewards politicians now for decisions that won't be ruinous for years after they can be held accountable.

ObamaCare will put a huge burden on the states. The Congressional Budget Office (CBO) estimates Medicaid expansion under the ACA will cost the federal government \$792 billion and states \$46 billion over the next 10 years. Congress is almost certain to slash the federal share because of federal deficits. As the population ages, states' Medicaid spending will rise inexorably. The entitlement's large and powerful constituency will demand its benefits. Ultimately, the choice will become funding Medicaid as it's currently designed, or making changes so that other bills demanding attention, such as the pensions, can be paid, even if only partially.

As we approach the election that might [return the Senate to Republicans](#)³, we can only pray they demonstrate the courage needed to stop this runaway freight train. Unfortunately, the last Republican majority Congress was an example of political cowardice and hypocrisy. But, as the poet says, "Hope springs eternal within the human breast." Conservatives must work to make that hope a reality.