

“Several Modest Proposals,” for the Urban Institute’s *Thursday’s Child* series
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I’ll begin by commenting on federal-state budget relations--starting with two points of praise and two recommendations for improvement.

First, with the 2009 recovery act, the federal government prevented a disaster in the states for two years, enabling them to maintain vital services, particularly for elementary and secondary education. Unfortunately, the states now face the cliff of losing this assistance, which is a problem especially because general revenues are still lagging from the recession.

The lesson I take from this experience is that to prepare for the next recession, the federal government should build on its recent practice of temporarily increasing the federal contribution for financing Medicaid. It should decide to automatically provide counter-cyclical aid to states and localities, with a requirement that states first save adequately with rainy day funds.

Absent such a reform, once the next recession hits, the governors will become, as the slang has it, “50 little herbert hoovers.” That’s their role for the next year or two. While some argue that fiscal pressure leads states to cut inefficient spending that won’t be cut otherwise, I’m not confident that this is happening now. It would be better to smooth out funding booms and busts.

Second, the federal government also helped states by passing the Affordable Care Act. If implemented and improved, it will reduce spending growth on health care by just a bit. Since Medicaid has been and will continue to be the biggest budget challenge faced by the states, building on the ACA is an imperative. That would not only reduce the states’ structural deficits, but also reduce problems caused by inadequate medical care, such as sick kids in the classroom. So the national debate needs to get beyond “repeal the bill,” and consider how to help the states better cope with the costs of long-term care, substance abuse, and other cost drivers.

We also need to think more broadly about how to improve the interactions of federal and state finances. Political attention is now focused on the states’ pension liabilities and “OPEB” exposures (mostly health benefits for retirees). Some of this attention is justified, though most problems result more from state underfunding of annual required contributions for projected benefits rather than those benefits being too generous.

Largely missing from this discussion is recognition of other challenges faced by the states: for example, the viability of state sales taxes in light of internet commerce and federal barriers to

state taxation of internet sales, and the mandatory costs of whatever replaces No Child Left Behind. Challenges such as these deserve more attention.

Now to the negatives. To state the obvious, the federal budget process is highly dysfunctional, for the states and for everyone else. I would need 80 minutes rather than eight to describe all the problems. I will focus on two. The first is that six months into the fiscal year, not a single appropriations bill has been passed. Blame should be widely shared for this extended failure, which has left agencies, grantees, and contractors uncertain about their funding levels and unable to run programs efficiently. Press reporting such as Tuesday's *New York Times* story by Robert Pear is finally focusing on these problems; Andy Sullivan of Reuters just released a special report that provides good examples.

In addition, the last election has led the Tea Party and many others in the GOP to claim a mandate for extreme spending cuts. Some of the reductions in HR 1, the Republican House's most ambitious continuing resolution, would have cut too much and too quickly, without any reasonable explanation as to why--unlike regular appropriations bills, continuing resolutions are not supported by committee reports.

I want to be clear here: I strongly support large reductions in the federal deficit. The nation must substantially reduce spending over the coming years, as well as increase revenues, in order to produce a sustainable federal budget. But there are smart ways of doing this, and dumb ways.

I put a cut of 15% for Head Start in the dumb category. No question: some Head Start centers do not work well, and given the scale of Head Start spending we should see positive impacts larger than those shown by evaluations. But much quality social science projects strong returns from increased access to quality pre-K education and social services. There are plausible mechanisms for producing these results in Head Start: increasing competition, linking more to state programs, and supporting better training and management.

The one alternative we should rule out is giving up by cutting back. But that is what the House would do--and if you go back through the House debate on this provision, you will read that the proponents of the cut failed to provide a single program-related justification for that action. Rather than ideologically reflexive cuts to Head Start, we need reflective, careful investments in the program.

Now it is possible that there will a swift political backlash to such cuts, making it less likely that they will be included in a budget deal that must eventually be negotiated between the parties and branches.

I use "swift" intentionally, as it is St. Patrick's Day. In 1729, the Irish cleric, politician, and writer Jonathan Swift wrote *A Modest Proposal*. In response to poverty and hunger in Ireland, he satirically commented that

I have been assured by a very knowing American of my acquaintance in London, that a young health child well nursed, is, at a year old, a most delicious nourishing and wholesome food, whether stewed, roasted, baked, or boiled; and I make no doubt that it will equally serve in a fricasie, or a ragoust.

Since you may wonder why I am comparing the brutal conditions of Ascendancy Ireland to today's United States, I wonder myself about Swift's reference to a "knowing American." To digress for a sentence, the better comparison might be to today's Ireland, where a foolish guarantee of bank debts has led to a truly austere budget, one that cuts the child benefit, for example.

My main point is really that budget cuts should be made following a more intelligent process than the one we now have. Swift too suggested some reasonable alternatives to his outrageous proposal, which are hard to translate here, but then he wrote "*let no man talk to me of these and the like expedients, 'till he hath at least some glympse of hope, that there will ever by some hearty and sincere attempt to put them into practice.*"

So with just a little bit of hope, I'd like to make my own modest proposal--though it is a serious rather than satirical one. It is:

The Congress should make deficit reductions only after it adopts a budget resolution. That resolution should be drafted following a debate over national priorities, and that debate should be informed by an annual report on important national indicators.

The Urban-Brookings March 2010 report on "Public Investment in Children's Early and Elementary Years" begins with a revealing sentence: "How government spends money, and who benefits, reveal our priorities." It correctly uses the verb "reveals"--since the government doesn't explicitly set priorities. The government should.

Some deficit hawks are now suggesting a "trigger" approach of imposing across-the-board spending reductions and tax increases in case of failure to meet deficit reduction targets. Intended to prevent a fiscal crisis in upcoming years, this approach is based on the assessment that elected officials will be unwilling to sustain deficit reduction policies once citizens understand that programs they like would be cut and taxes they pay would increase.

While I share this pessimism, I think a trigger is unlikely to solve this problem, for several reasons. The one I will mention here is that the approach would not use the budget process to set priorities. Instead, it would mechanically adjust the base.

A better course is based on the following principle: significant deficit reductions are more likely to be sustained if they reflect our hopes and desires as a country.

So let's debate conditions and goals first. E.g., before cutting Head Start, wouldn't it be better to know what the child poverty rate is, how it is distributed across the states (which might surprise many in the Tea Party), and how it has changed (or not) over time? Do we want to reduce child poverty by half in N years, do we have some other goal in mind, or are other concerns more important?

We already have extensive data on social, economic, and environmental conditions in the country, so preparing a national report is possible. Let's argue about what should be in it, and let's see if politicians might make better decisions when greater exposure is given to these data.

And rather than strictly separating discretionary from mandatory spending, as is done in the most recent CBO deficit reduction options report, let's look at conditions, set policy goals, and allocate resources within each budget function, making tradeoffs across policy tools, including tax preferences.

That is, this priority-setting approach requires that the obsolete Congressional committee structure and the overlapping authorizations and appropriations processes should be reorganized and simplified. It suggests, for example, that when the Senate holds a vote to amend the budget resolution's number for education spending, that vote should mean much more than it does now. This is the immodest part of my proposal. But when a VAT, Medicare vouchers, and Medicaid block grants are being considered seriously--because "everything should be on the table"--the same should apply to ambitious budget process reforms.

This approach would make more use of performance information--on current program operations and from summative evaluations--for determining budget cuts, and increases. For nearly two decades, starting with the 1993 Government Performance and Results Act, through the Bush administration's Program Assessment Rating Tool and the Obama administration's focus on agency priority goals, the executive branch has invested in developing performance information. While none of these approaches have been perfect, the information generated has been potentially useful. Congress in particular has failed to make budget allocations in light of performance information. As with committee reorganization and process simplification, fiscal pressures will eventually require us to adopt the better practice. Better sooner than later.

Finally, let's ignore the red herring that using the budget process to set priorities in this way would amount to socialistic planning. It's not even close. Look at how some states have clarified their priorities or at least reported systematically on state conditions--e.g., Virginia, Oregon and Washington. While I know of no definitive studies that document positive impacts, I think the anecdotal evidence is supportive.

I would be very interested in working in working with anyone who shares my goals here. Thanks for your attention and consideration.