



## If We Are Going to Do It, Do It Right

By Michael S. Greve

*If we are going to spend billions on a stimulus package, and if it needs to be done sooner rather than later, then we should insist that all its infrastructure projects be exempt from federal environmental requirements, the Davis-Bacon Act, and minority contracting quotas and insist that state and local governments do the same. We should also align political and fiscal responsibility for Medicaid. While both ideas are fanciful in the current political environment, they can advance conservative themes of greater seriousness about politics and more discipline in government.*

South Carolina governor Mark Sanford has done yeoman's work in warning against the dangers of the state and local government lobby's proposals for a federal bailout. Despite Sanford's admonitions, however, in all likelihood when Congress enacts its latest bailout (or "stimulus") bill, it will include substantial funds for these governments. Given this, the objective now is to separate the merely dumb from the horrendous—and, perchance, to inject seriousness and long-term perspective into the debate.

High on state and local governments' wish lists is federal support for infrastructure investment—roads, bridges, and port expansions, but also "green" boondoggles such as energy efficient buildings and renewable energy projects. While most economists believe that such investments require far too much lead time to have the desired immediate stimulus effect, the states claim to have \$136 billion worth of infrastructure projects "ready to go."

That figure is wildly inflated, and there is no assurance that the federal dollars would even go to the small-scale, humdrum projects that actually could be started promptly—as opposed to, say, futuristic windmill parks in the middle of nowhere. Never mind, though: federal money will be spent,

and everyone agrees that it ought to be spent *now* if it is to do any good.

To that end, a proposal: exempt all federally funded projects from federal requirements for environmental assessments, the Davis-Bacon Act, and minority contracting "goals"; insist that state and local governments suspend their own parallel requirements; and exempt the projects from judicial review. It has been done before for projects that Congress deemed truly necessary, such as the Trans-Alaska Pipeline. If there is an argument for cost- and delay-inducing requirements, then let us hear it. Politicians who insist on this dross should be asked what they are actually trying to produce—a spur to investment or litigation opportunities for the Natural Resources Defense Council.

Also high on the states' list—and genuinely atrocious—is a demand for increased Medicaid funding, to the tune of at least \$40 billion. Under that program, the federal government already pays between 50 percent and 75 percent (sometimes more) of state health care expenditures on populations and services covered by the states' programs. The nasty economic incentives are obvious: in good times, states rapidly expand Medicaid services since each dollar "attracts" a federal match. Then, in tough times, states are loath to cut services since each cut means a "loss" of federal dollars. In June 2008, under already weakened fiscal

---

Michael S. Greve is the John G. Searle Scholar at AEI. A version of this article appeared on National Review Online on December 8, 2008.

conditions, almost half of all states still proposed to *expand* Medicaid.

Unlike the states' infrastructure proposals, their Medicaid demand is a pure, naked bailout. The states received a \$20 billion Medicaid increase in 2003, and it had no stimulus effect. It is, moreover, precisely the wrong medicine. The combination of centralized tax authority and decentralized spending has wreaked havoc on fiscal systems from Germany to Brazil and is wreaking havoc on ours. Medicaid's exceedingly generous, uncapped funding formula has driven extravagant expenditures (\$333 billion in fiscal year 2007) and unsustainable program growth (projected at 7.9 percent over the next decade). At the state level, Medicaid's fiscal incentives have displaced unfunded and less generously funded programs (including, notably, infrastructure spending) and exacerbated boom-and-bust budget cycles. The states' proposal to fix the mess by making the funding formula yet more generous is, frankly, insane.

If we must have a Medicaid bailout, the time may have come for the feds to assume full funding responsibility for Medicaid—and to cut the states entirely out of the program. In normal times, the full assumption of the states' share, some \$146.2 billion in 2007, would be unthinkable. But times are not normal. States could choose between full federal buyouts and having their Medicaid funds capped at 2007 levels. Or (reviving a 1982 proposal by President Ronald Reagan), full federal Medicaid responsibility could be “swapped” for the states' assumption of exclusive authority and funding responsibility for some other program, such as special education.

The central purpose is to align political and fiscal responsibility for Medicaid—to make it so that the same government that administers the program pays for it in full. Since we cannot hand the program to the states, it has to be consolidated in Washington. “Nationalized health care”? Perhaps. Given unsustainable Medicaid spending trends, though, that is inevitable in any event. The last thing we need is yet another decade of expansive state “experimentation” on the feds' dime.

---

Unlike the states' infrastructure proposals, their Medicaid demand is a pure, naked bailout.

---

While neither the infrastructure nor the Medicaid proposal stands a political chance, these ideas could be first rehearsals of what should become constant conservative themes in the coming years: greater seriousness about politics and more discipline in government. In prosperous times, we could afford—or thought we could afford—to adorn public projects with interest group baubles. That time has passed. We thought we could afford Medicaid's warped fiscal incentives and its built-in, HillaryCare-on-autopilot tendency. Now is the time to drag this scarecrow on the floor of the Congress and to decide what we are actually willing and able to spend on it.

“Deleveraging” is all the rage now. Our bloated political institutions would be a splendid place to start that project.

## Related Health Policy Outlook:

### **As Arizona Goes, So Goes the Nation: How Medicaid Ruins the States' Fiscal Health**

July 2008

By Michael S. Greve and Philip Wallach

The Government Accountability Office (GAO) has issued a bleak report on the long-term financial prospects of state and local governments. Their fiscal balances, GAO's simulations show, will rapidly deteriorate in less than a decade. For 2007–2050, GAO estimates a fiscal gap on the order of \$10.6 trillion. GAO identifies Medicaid (along with health insurance expenditures for state and local employees and retirees) as the principal culprit. In some states, the crisis has already arrived. Arizona provides an early and stark illustration of Medicaid's ruinous effects. . . .

Read more at [www.aei.org/publication28340/](http://www.aei.org/publication28340/).