Eight Progressive Reasons to Support Fiscal Controls for Washington

Vickie Deppe
Managing Editor, *State Legislators Article V Caucus Newsletter*
Director of Education, Path to Reform

Many—if not most—Americans who would like to see the states meet at an Article V Convention to propose amendments to the Constitution concede that the resolutions currently making their way through state legislatures across the country tend to appeal more to one end of the political spectrum than the other. An Article V Convention is the constitutional method for the states to mobilize to impose reforms on Washington when Congress can't—or won't—clean its own house. But if the states are to succeed, Democrats and Republicans must work together.

Given that Congress' approval rating has averaged less than 19% over the last decade,[1] and the likelihood that a convention to impose fiscal controls is on the near horizon, it is time to take a more careful look at assumptions surrounding what the states can accomplish at an Article V Convention. Though fiscal controls are typically seen as a priority for the right, there are a number of reasons for the left to support them, too.

Waste, Fraud, and Abuse
Mismanagement of taxpayer dollars is ubiquitous in Washington. Exposés have been published for decades by everyone from United States Senators to *Politico* to watchdog groups.

Centers for Medicare & Medicaid Services data show that the Medicaid improper payment rate for 2021 is over 21%, and for CHIP (Children's Health Insurance Program) the figure is nearly 32%.[2] Senator Rand Paul, Ranking Member of the Subcommittee on Emerging Threats and Spending Oversight for the Homeland Security and Governmental Affairs Committee, estimates associated losses at $48 billion in FY2018 alone.[3] In its 2021 *Prime Cuts* report, Citizens Against Government Waste identifies recommendations totaling potential savings of over $370 billion in the first year and $4 trillion over five years, none of which jeopardizes quality governance or social safety net programs.[4]

➡ What is your state's share of $370 billion?

Federally-administered Programs are Less Responsive and Accountable
Consider education: in spite of the fact that the United States spends, on average, over 30% more than other Organization for Economic Cooperation & Development member nations,[5] our students' scores routinely hover around average on the Programme for International Student Assessment (PISA) test.

New York Times Education Correspondent Dana Goldstein reports:

> The performance of American teenagers in reading and math has been stagnant since 2000, according to the latest results of a rigorous international exam, despite a decades-long effort to raise standards and help students compete with peers across the globe. And the achievement gap in reading between high and low performers is widening.[6]

Forbes Senior Contributor on Education Peter Greene observes:

> There will be discussions of what the PISA scores do or do not prove. Some of that is fair; Common Core and other ed reforms pushed by billionaires and thinky [sic] tanks and politicians and a variety of other non-educators were going to turn this all around. They haven't. This comes as zero surprise to actual educators. It's just one more data point showing that all the reform heaped on education since *A Nation At Risk* is not producing the promised results.[7]

Whether the yardstick is PISA, the National Assessment of Educational Progress, the Trends in International Mathematics and Science Study, or the SAT, gains in American student performance over time are virtually non-existent.

But worse than the fact that American students are merely average when compared with their peers around the world is the fact that in spite of all the time, money, and federal involvement in American education, the achievement gap for students of color has barely changed since the Coleman Report on educational opportunity was issued in 1966. Dr. Eric Hanushek, Paul & Jean Hanna Senior Fellow at Stanford University and former member of the Equity and Excellence Commission of the U.S. Department of Education, says our failure to close the gap "can only be called a national embarrassment." If current trends continue, he estimates that it will take over a century-and-a-half to close achievement gaps in math and reading.[8]

➡ American children—especially minorities—have benefitted very little from the over half-trillion dollars in federal spending since education was made a cabinet-level position in the 1970s.

Sovereign Debt Throttles Economic Growth

The World Bank has estimated that for every point above a 77% debt-to-GDP ratio, economic growth is throttled by .017%.[9] The current debt-to-GDP ratio is currently over 100%, and the Congressional Budget Office (CBO) projects it to reach 202% by 2051.[10] This means that over the next 30 years, the United States' economic growth will be slowed by approximately .5-2% every year.

➡ Higher debt means fewer jobs and less tax revenue, and puts added stress on our social safety net programs.

Income Inequality has Increased as the National Debt has Grown

The CBO reports that inflation-adjusted after-tax household income for the wealthiest 1% more than doubled from 1979-2019; at the same time, that of other Americans had grown by only 33-75%. These trends are projected to continue going forward.[11] Worse, according to an International Monetary Fund study surveying economies from 1950-2006, greater income inequality further throttles economic growth,[12] combining with high levels of sovereign debt to create a downward spiral that most severely impacts economically-vulnerable families.

➡ Higher debt correlates with greater income inequality. Income inequality is a drag on economic growth.

Federal Transfers Force States to Subsidize each others' Policies

Because the federal government collects money from your state's taxpayers and redistributes those taxpayer dollars to other states, it is, in effect, forcing your constituents to subsidize other states' policies and programs that they—and your state legislature—may not support.

Take labor policy, for example: Robert Bruno, University of Illinois Professor of Labor & Employment Relations, explains that workers in collective bargaining states are effectively subsidizing companies that choose to locate in right-to-work states.[13] Whether they are union members or not, workers in collective bargaining states earn more on average and are more likely to have health insurance. Consequently, they generate more economic activity, pay more taxes, and are less reliant on social safety net programs. States with no minimum wage, on the other hand, have the highest percentage of laborers working for less than the federal minimum wage, and workers in right-to-work states are more dependent on means-tested programs.

➡ States should not be forced to underwrite the costs of policy choices made by their neighbors.

Federal Block Grants are used to Manipulate State Policy in Areas where the Federal Government has no Constitutional Jurisdiction

Federal block grants have been used for decades to manipulate states into adopting policies the federal government favors but has no constitutional jurisdiction to impose. State budget dollars for everything from policing to infrastructure to education have been held hostage by Congress and the executive branch. One of the most controversial in recent times has been the attempt to withhold public safety funding from states that have made the entirely constitutional decision to require that federal law enforcement agencies enforce federal law surrounding immigration.

➡ This money was taken from these states' taxpayers to begin with, and withholding it until their state and local governments comply with federal policy preferences is nothing short of extortion.

Federal Spending Facilitates Political Hostage-Taking

Also known as “pork” or “log-rolling,” perhaps the most notorious example of this practice is unrelated spending attached to emergency aid bills. What American didn’t want people to receive help rebuilding their homes and businesses after Hurricane Sandy? But other people wanted things, too; and according to the CBO, approximately half of the nearly $50 billion Disaster Relief Act of 2013 funds were earmarked to be spent four or more years after the storm (read: not an emergency). Some of these monies were allegedly recycled for a second round of log-rolling when they became part of New Jersey Governor Chris Christie’s “Bridge-gate” scandal.[14]

➡ Vulnerable populations should not be held hostage to irrelevant, unpopular spending measures that would not be able to pass on their own merits.

Borrowing costs money that could be invested elsewhere

According to the Federal Reserve Bank of St. Louis, the United States’ debt surpassed GDP nearly a decade ago.[15,16] Interest on the national debt was over $400 billion in 2021. Thanks to the effect of compounding interest, rising interest rates, and continued deficit spending, interest payments are projected to climb to 12% of the federal budget and become the federal government's single greatest annual expenditure within a decade[17,18]. These dollars are unavailable to be invested in infrastructure, mental health services, education, or any number of other projects because they are owed to those who lent money to the federal government to fund past projects that have neither paid for themselves nor been paid for. What is your state’s share of $400 billion?

➡ Pro-rated by population, states like New York, California, and Illinois could recoup well over $10 billion a year if the federal government were to take steps to retire our debt instead of continually adding to and refinancing it.

Conclusion

Economists differ as to whether and how a nation’s financial condition is impacted by habitual deficit spending and high levels of sovereign debt. Some believe that economic growth will allow the United States to continue refinancing and borrowing indefinitely without consequence. Others predict that our deficit spending may ultimately lead us to the point at which there are no longer enough lenders willing finance the United States’ debt, precipitating a chaotic restructuring most acutely felt by the nearly two-thirds of Americans who live paycheck-to-paycheck.

One thing is certain: the federal government has failed to demonstrate that it is an impartial, responsible custodian of our taxpayer dollars. Federal programs are largely ineffective and very often plagued with waste, fraud, and abuse. States have both the right and responsibility to impose reforms on Washington under Article V of the United States Constitution.

➡ An Article V Convention to impose fiscal restraints on Washington is imminent. State legislators—especially those in leadership—should begin making plans to take advantage of this opportunity.

Use of this document to advance a specific federal fiscal control program should not be construed as an endorsement of that program by the author.

[1] Saad, Lydia, “Congress Approval Lowest in 2021 as Democrats Turn Negative,” *Gallup* News, 26 October 2021, https://news.gallup.com/poll/356591/congress-approval-lowest-2021-democrats-turn-negative.aspx; accessed 4 February 2022.

[2] “Rolling National Medicaid Improper Payment Rates,” Centers for Medicare & Medicaid Services, https://www.cms.gov/Research-Statistics-Data-and-Systems/Monitoring-Programs/Medicaid-and-CHIP-Compliance/PERM/PERMErrorRateFindingsandReport

[3] “Dr. Rand Paul Releases summer 2019 Edition of ‘The Waste Report,’" *Rand Paul, US Senator for Kentucky Official Website*, https://www.paul.senate.gov/news/dr-rand-paul-releases-summer-2019-edition-‘-waste-report’; accessed 2 February 2022.

[4] *2021 Prime* Cuts, Citizens Against Government Waste, October 2021, https://www.cagw.org/reporting/prime-cuts; accessed 04 February 2022.

[5] “Education Spending,” OECD Data, https://data.oecd.org/eduresource/education-spending.htm#indicator-chart; accessed 7 February 2022.

[6] Goldstein, Dana, “It just isn’t Working: PISA Test Scores Cast Doubt on U.S. Education Efforts,” *Education* News, 05 December 2019; https://www.educationviews.org/it-just-isnt-working-pisa-test-scores-cast-doubt-on-u-s-education-efforts/; accessed 07 February 2022.

[7] Greene, Peter, “Pisa Scores are Out. Ours are not so Great. So What?” *Forbes*, 3 December 2019, https://www.forbes.com/sites/petergreene/2019/12/03/pisa-scores-are-out-ours-are-not-great-so-what/?sh=48815bf65e84; accessed 07 February 2022.

[8] Hanushek, Dr. Eric, “What Matters for Student Achievement,” *Education Next*, Spring 2016, http://hanushek.stanford.edu/sites/default/files/publications/Hanushek%202016%20EdNext%2016%282%29.pdf; accessed 07 February 2022.

[9] Caner, Mehmet, *et. al., World Bank Policy Research Working Paper 5391,* “Finding the Tipping Point—When Sovereign Debt Turns Bad,” https://documents1.worldbank.org/curated/en/509771468337915456/pdf/WPS5391.pdf; accessed 04 February 2022.

[10] “The 2021 Long-Term Budget Outlook,” Congressional Budget Office, March 2021; https://www.cbo.gov/publication/57038; accessed 04 February 2022.

[11] “Projected Changes in the Distribution of Household Income, 2016 to 2021, Congressional Budget Office, 19 December 2019, https://www.cbo.gov/publication/55941; accessed 04 February 2022.

[12] Berg, Andrew G. and Jonathan D. Ostry, “Equality and Efficiency,” *Finance & Development*, September 2011, Vol. 48, No, 3; International Monetary Fund;https://www.imf.org/external/pubs/ft/fandd/2011/09/Berg.htm; accessed 06 February 2022.

[13] Cicoiora, Phil, “Workers in Collective Bargaining States Subsidize Low-wage Earners in Right-to-Work States,” *Illinois News Bureau,* 28 August 2014, https://news.illinois.edu/view/6367/204531, accessed 07 February 2022.

[14] Gandelman, Joe, “Hoboken Mayor says Christie Camp used Sandy Relief Money as Political Hostage Tool,” *The Moderate Voice,* 18 January 2014; https://themoderatevoice.com/hoboken-mayor-says-christie-camp-used-sandy-relief-money-as-political-tool/; accessed 7 February 2022.

[15] “Federal Debt: Total Public Debt,” *FRED Economic* Data, 02 December 2021, https://fred.stlouisfed.org/series/GFDEBTN; accessed 04 February 2022.

[16] “Gross Domestic Product,” *FRED Economic* Data, 27 January 2022, https://fred.stlouisfed.org/series/GDP; accessed 04 February 2022.

[17] “What is the National Debt Costing Us?” The Peter G. Peterson Foundation, 29 November 2018, https://www.pgpf.org/blog/2018/11/we-will-soon-be-spending-more-on-national-debt-interest-than-on-these-vital-programs; accessed 04 February 2022.

[18] “Interest Costs on the National Debt Projected to Nearly Triple over the Next Decade,” The Peter G. Peterson Foundation, 22 July 2021, https://www.pgpf.org/blog/2021/07/interest-costs-on-the-national-debt-projected-to-nearly-triple-over-the-next-decade; accessed 04 February 2022.