

Right Turn

A new Congress intent on fiscal discipline means states can expect little budget help from Washington.

BY NORMAN J. ORNSTEIN

A few weeks after the November elections, a news story triggered a national controversy: In Arizona, state officials decided summarily to deny organ transplants to Medicaid patients, including snatching a new liver away from a dying recipient.

Shortly thereafter, another flap arose in Indiana, with a decision by the state government to deny a 6-month-old on Medicaid a life-saving treatment that works in more than 90 percent of such cases, calling it experimental.

These decisions—made in Arizona by the administration of newly elected Governor Jan Brewer and in Indiana by that of Governor Mitch Daniels—were caused by the excruciating budget pressures hitting every state. The need to balance budgets in a sagging economy, coupled with ballooning Medicaid costs driven in part by stubbornly high unemployment, are precipitating unpleasant, even embarrassing, administrative decisions and actions for well-regarded and less-well-regarded state governments alike.

These Medicaid controversies had nothing to do with the Affordable Care Act, the health care reform Republicans like to call “Obamacare.” And they were unrelated to the election results. Their implications, however, are very much affected by the midterm elections and the political alignments they will produce.

They may be a harbinger of the problems

states will face as a cadre of Republican fiscal hawks take power in Congress; challenges to federal health care reform work their way through the courts; and state lawmakers—many of them new to office—try to close deep budget gaps. Even in the face of high unemployment and increasing demand for state services, legislators can expect little in the way of a fiscal helping hand from Washington.

HISTORIC GAINS

The 2010 midterm elections were by every standard an historic partisan sweep. The GOP gained the most seats by either party in the U.S. House of Representatives since 1948 (the most in a midterm since 1938), a victory that also included handsome gains in the U.S. Senate, governorships, state legislatures and further down the ballot. To be sure, Republicans fell short of their standard set in 1994, when they captured not just the House after 40 years of wandering in the desert of the minority, but the Senate as well. This time the Senate proved elusive. But the huge gains across the board were more impressive since they came only two years after the Republican Party had been declared nearly dead by a coterie of pundits.

There also were dramatic changes at the state level, suggesting something more profound than just a short-term, spasmodic rejection of the status quo and the party in power. Republicans ended up with the largest number of state legislative seats since the Great Depression, with big gains especially striking in both the Midwest and the South. The Midwest had been a bastion for Democrats, who



now are reduced to fewer than 40 percent of the legislative seats there, the lowest number in more than 50 years. The Minnesota Senate has a Republican majority for the first time in nearly a century.

Republicans captured both houses in the Alabama Legislature for the first time since Reconstruction and the North Carolina Senate for the first time since 1870.

In 1990, Republicans held no state legislative majorities in the South and only 26 percent of the seats. Today, they control 18 legislative

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chambers and have 54 percent of the seats. Moreover, a slew of Democrats in Southern legislatures have switched parties since the election, suggesting a deeper cultural shift and a sign, from ambitious politicians, that the future is brighter on the red side than the blue in states such as Georgia and Louisiana. Republicans now have a firm grip on power in more states than at any time in modern memory, with 29 governors, 25 state legislatures—another eight split—and full control in 20 states, compared to only 11 for Democrats.

THE NEW WAVE

This was the third straight wave election, an extraordinarily unusual phenomenon.

The first two waves moved in the same direction, producing big gains for Democrats in 2006 and the recapture of both houses of Congress, and an across-the-board landslide for Democrats in 2008. Both of those elections were characterized by unhappiness over two wars and the economy. There also was anger at Washington, driven by a sense that the parties were more interested in their

insular, partisan battles and protecting their special interests than in getting together to solve our collective problems. The focus of ire was the Republicans.

That same anger erupted in 2010, but this time, the agents of change in 2006 and 2008 became the enemies of change, and the Democratic president and his majority Democrats took the hit. Perhaps ironically, this wave of anger actually began before Barack Obama was elected. The vote in September 2008 for the Bush administration's Troubled Assets

Relief Program or TARP was seen by voters as emblematic of a Washington out of control—rewarding the miscreants who had triggered the economic collapse using the tax dollars of those who had suffered.

TARP was followed by the bailout of the auto industry, a stimulus package passed without a single Republican vote in the House that seemed to have little direct impact on the sagging economy, and then a focus more on health reform and less on jobs. All that led to the giant public backlash against the Democrats.

The results left Republicans at all levels ebullient. But GOP congressional leaders and many governors cautioned their legislative colleagues and acolytes in the media not to overreach or overreact. The election, they said, was much less an embrace of Republicans than a rejection of Democrats and the status quo. The lesson was to focus on jobs and growing the economy, and on the core issues where Republicans were in sync with a majority of voters: cutting the size and scope of government, including rolling back the health care plan; continuing the push to cut taxes; and focusing on the emerging problems of ballooning deficits and debt.

Leaderly caution notwithstanding, rebellious new members, many of them boosted by the Tea Party movement, are much more inclined to move quickly and dramatically to fulfill what they see as their mandate: taking a meat ax to Washington and to government, slashing and burning existing programs and ways of doing business.

Post-election surveys showed that voters, by nearly 2-to-1 margins, want to see cooperation and compromise in Washington. They overwhelmingly approved the first sign of cooperation, the bipartisan deal on taxes achieved by the White House and congressional Republicans in December. But there were few signs that the deal would herald more bipartisan action. It adds substantially to deficits, making the pivot to deficit and debt reduction even more challenging.

In the U.S. House, nearly all of the members of the freshman class, numbering more than one-third of the Republican majority, made clear that they will not vote in the spring of 2011 to increase the federal debt limit unless deep spending cuts were already achieved or voted for. There was near-unanimity on the desirability of ban-

ning earmarks, and incoming House Budget Committee Chairman Paul Ryan suggested that the House budget would begin by freezing discretionary domestic spending at 2008 levels.

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NEW POWER, NEW CHALLENGES

For incoming governors and state lawmakers, the new positions of power brought challenges in some ways greater than those of their predecessors, many of whom lost in the wave. For those predecessors, the difficulties of balancing state budgets in a deep recession were ameliorated by stimulus money. That money will run out, however, by the time the new leadership teams take over, and will not be supplemented by the new stimulus programs in the bipartisan tax deal. Nearly all those tax breaks go directly to individuals. At the same time, state governments have been through wave after wave of budget cutbacks, including all the fat and much of the muscle, leaving few easy choices. Continuing stubborn unemployment levels, along with sagging home prices and high foreclosure rates, have made the demand for state services, especially Medicaid, soar.

One side benefit of the tax deal for states and localities is the continuation for a year of unemployment benefits. If those benefits had ended, the pressure on Medicaid and on hospitals hit with surges in emergency room calls by those with no other health care option would have been greater yet, as would the demand on other social services.

But heavy demands will remain. No doubt, many Republican governors will turn to

their friends, colleagues and supporters in Congress for help when times get especially tough. Those Republican allies in Congress, however, will be going through their own agony as they search to find more acceptable budget cuts to fulfill their promise to reduce deficits and debt. They face a landscape in which tax increases are off the table and voters want to reduce deficits without painful cuts to Social Security, Medicare, defense or programs other than foreign aid. In the face of their own headaches, the willingness of Republicans in Congress, much less Democrats, to help out Republican governors and state legislators will be nearly nonexistent.

These aren't the only challenges for governors and state legislatures. Passage of the health reform act puts a series of requirements on states, including the need to create the insurance exchanges that are a core part of the bill. That is complicated by a combination of legal challenges to the constitutionality of the bill and especially to another core element, the individual mandate to purchase insurance. Couple that with the vow by incoming House Speaker John Boehner and his leadership team to try to delay or deter implementation of the health reform act, and states face deep uncertainty in their efforts to comply with a complex and moving target.

There is one potential bright side to the nasty and brutish governing times ahead. Senators Ron Wyden, an Oregon Democrat, and Scott Brown, a Massachusetts Republican, have introduced a bill to accelerate from 2017 to 2013 the date at which states can offer their own alternative plans for health reform and delivery to replace the system under the Affordable Care Act, so long as they meet the same standards of coverage and affordability.

Their idea has met with a positive response from many liberals and conservatives alike. That suggests there may be a broader coalition willing to move more in the direction of freedom for states to innovate. There may be room to create tradeoffs where, if states are not going to get federal subsidies at rates they have been promised or received in the past, they will have more freedom to experiment with their own efficiencies and different delivery systems.

At a time of even more belt-tightening and fiscal austerity, that may be scant comfort. But it may be all states have for at least the next two years. 