ISSUES IN PERSPECTIVE

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Leadership, Cultural Values and the Financial Crisis in the States

Each time I travel to Washington, D.C., I make it a point to visit the Lincoln and the Jefferson memorials; they are my favorite places in our nation's capital. Each memorial causes me to think of great men, who exercised power in the service of high ideals and who knew how to use power for the good of others. As the columnist David Brooks argues, recent memorials in our nation's capital have avoided memorializing the topics of strength and power in leadership. For example, the FDR memorial transforms a president who led this nation through two of the most important crises in our history—the Depression and World War II. But in the memorial, he is depicted as a grandfather figure, not a great leader. Strength and power are not memorialized in his memorial. The World War II memorial is also quite disappointing because it seems to avoid remembering why and how this nation used its power to defeat the monstrous evil of fascism. The proposed Eisenhower memorial avoids his greatness in World War II and as president, opting instead for memorializing his innocent boyhood years in Kansas!! These recent, terribly unfortunate memorials in Washington reflect a significant shift in cultural values—and that shift has not been positive. Let me explain.

Arguably, Brooks contends, today American culture finds "it easier to assign moral status to victims of power than to those who wield power." Most of our stories are about victims who endured oppression, racism and cruelty. Further, as a culture, we have a fervent devotion to equality, "to the notion that all people are equal and deserve equal recognition and respect. It's hard in this frame of mind to define and celebrate greatness, to hold up others who are immeasurably superior to ourselves." The result of these worthy focal points is that we seem incapable of thinking about how power should be used. Brooks argues compellingly that power involves a series of paradoxes: ". . . that great leaders have to wield power while knowing they are corrupted by it; that great leaders are superior to their followers while also being of them; that the higher they rise, the more they feel like instruments in larger designs." But the typical American citizen, so enamored by personal autonomy, is now conditioned to question and oppose virtually all authority. The common assumption is that those in power are always hiding something and are in public life for selfish reasons. Cynically, Brooks comments: "Those people at the top are nowhere near as smart or as wonderful as pure and all-knowing Me." Hence, you have the Occupy Wall Street and Tea Party movements that distrust authority, and reject hierarchies and leaders because they do not trust them. In a sense, the "whole world should be like the Internet—a disbursed semianarchy in which authority is suspect and each individual is king." So, in American culture today, we not only have a leadership problem, we have a follower problem. For over two centuries, Americans have been committed to equality but have also understood that there are extraordinary leaders to whom we legitimately defer and in whom we trust. We trust their judgment and their discretion—and in the end are thankful for good public servants who have earned our trust. But today, we are bereft of good leaders and good followers.

One of the most powerful illustrations of this vacuum of good leaders and good followers is what is occurring in the various states that make up this union. Since 2010, former New York Lieutenant Governor, Richard Ravitch, and former Federal Reserve Chairman, Paul Volcker, have been scrutinizing the balance sheets of six states—California, Illinois, New Jersey, Pennsylvania, Texas and Virginia. The conclusions of the State Budget Crisis Task Force are riveting and demonstrate that it is not only the national government that has both a leadership but also a follower-ship problem; so do the states. Basically, they argue that "the storm warnings are very serious" and that the "existing trajectory of state spending, taxation and administrative practices cannot be sustained." Here are the problems:

1. **Medicaid**: This state-federal program that increasingly is paying for middle-class health care is the major challenge. Spending has grown faster than the economy every year since the 1960s—7.2% over the last decade. It is now the largest part of the state budgets—24% on average and "the imbalance (or structural budget gap) can no longer be absorbed without significant cuts to other essential state programs like education or unpopular tax increases or both." The panel concluded that these costs are driven by states choosing to increase enrollment and create new benefits, rather than by underlying medical costs. One in four New Yorkers is on Medicaid and 70% of those covered are not required by federal law. In California, 29% are on Medicaid, while the national average is 15.8%. New York spends more on Medicaid than Florida, Texas and Pennsylvania combined.

2. **Pensions**: Unlike federal entitlements, state pension obligations almost always are constitutionally protected—"non-modifiable contracts, not merely political promises." California has 62 state and local pension systems, Texas 75, and Illinois 457. The 1990s and 2000s witnessed a reckless benefits "build-out"—with California even increasing pensions for people who had already retired! The states are supposed to prefund these obligations but most do not. Using quite conservative assumptions, the task force calculates that the unfunded liabilities in the six states studied are about $386.2 billion, "or about a quarter of every dollar they will eventually be required to spend." The task force also summarizes the retiree health insurance benefits, which states (unlike corporations) are not required to disclose. At a minimum, the panel calculates that the six states here owe $539 billion, with no plan to deal with this imminent crisis—they simply cannot fund these obligations!!

3. **Budget Gimmicks**: The panel concludes that "no one knows for sure how deep these problems run, because the states are running bookkeeping cons that disguise fiscal realities." The task force uncovered "chronic dependence" on gambits like assets sales, "temporary" raids on rainy-day funds, and shifting current spending to future years "as an ongoing budget strategy."

Editorially, the *Wall Street Journal* recently concluded: "The message of the Ravitch-Volcker report is that some large portion of the states are replicating the dysfunctions of Washington—adding to entitlements that crowd out priorities like schools and bridges, and then concealing the real danger when they're not ignoring it."

The solution to all this is obvious. There must be coordination with the federal government on Medicaid and a much more transparent and honest system of state finances. Further, both significant tax and entitlement reform is mandatory—neither can be ignored. But, to accomplish any of this, leaders must be honest and propose significant and meaningful plans to deal with this massive crisis. And then there must be wise followers who will get behind their leaders and do the hard thing!! For all practical purposes, states such as California and Illinois are today insolvent. To deal with the ghastly crisis in these two states, plus similar ones in the others, we need wise leaders and committed followers. At present, with a few exceptions (e.g., Scott Walker and the state of Wisconsin), there is not much hope for wise leaders and even less for committed followers. May God grant us wise leaders and tenacious followers.

See David Brooks in the *New York Times* (12 June 2012); editorial in the *Wall Street Journal* (4-5 August 2012) and the news report on this task force by Mary Williams Walsh and Michael Cooper in the *New York Times* (18 July 2012).