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From: Tracy Mehan
Sent: Wed 7/5/2017 1:40:10 PM
Subject: Politics as Lagging Indicator or Why Washington Is the Way It Is
Politics as a Lagging Indicator Mehan June 2017.pdf

Dear Colleagues,

Attached is a short article of mine based on remarks I made to AWWA's Board of Directors at ACE '17 in Philadelphia. I thought you might find it of interest.

All the best.

Tracy

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Attachment

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POLITICS AS A LAGGING INDICATOR

Why Washington is the way it is.

By

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June 2017

This column is derived from remarks delivered to the AWWA Board of Directors at ACE '17 in Philadelphia, PA this summer.

Washington, D.C. is sometimes referred to as 68 square miles surrounded by reality. An old joke for sure, but things are unusually unsettled in the Federal City these days for a variety of reasons, many of which having to do with the last election. But there are other trends, longstanding and persistent, welling up from the very nature of contemporary American society that are driving current political behavior with often unsettling outcomes. There are also disturbing elements of the federal government's fiscal situation making everything more contentious as liberals and conservatives, Republicans and Democrats face an endless stream of lose-lose choices when it comes to funding their preferred yet competing priorities.

This needs to be kept in mind as the water sector pursues new initiatives, say, for water infrastructure financing, in the days ahead. Every federal dollar spent for every purpose faces scrutiny and even good ideas rarely make it out of the political scrum. The fact that the Water Infrastructure Finance and Innovation Act, AWWA's signature legislative achievement, was funded for the first time this year is something to celebrate. Further, with budget cuts looming large, State Revolving Loan Funds have remained largely untouched and have even grown. This is good news, and perhaps a rare glint of common sense in today's troubled political waters.

The Blue State-Red State divide is not a purely political phenomenon. It is, at root, cultural, religious, social, racial and economic. The fact that now President Donald Trump pulled together a coalition, a plurality not a majority, sufficient to win the Electoral College was a stunning electoral event universally

testified to by all. My home state of Missouri normally is a bellwether state. Between 1904 and 2004 it always goes with the winner except for Adlai Stevenson and Barack Obama.

Trump won all but four Missouri counties. He lost Jackson (Kansas City), Boone (Columbia, the university town), St. Louis County and St. Louis City (a county-level jurisdiction). In the other 111 counties, he won all but 4 by margins of 60 percent or better, many in the 70-80 percent range. Urban, middle-class, racially diverse and more secular communities, were overwhelmed by white, rural, small-town counties, many suffering from the loss of light manufacturing due to globalization. The President won the state with 56.4 percent of the vote versus Secretary Clinton's 37.9 percent. Mitt Romney won by 9.4 percent in 2012.

Recall too that, nationally, President Trump won over 80 percent of Evangelicals.

So it should not come as a surprise that only 20 percent of Americans today "say they can trust the government in Washington to do what is right 'just about always' (4%) or 'most of the time' (16%)," according to the Pew Trust's National Election Study. Pew has been doing these surveys since 1958. Then, "about three-quarters of Americans trusted the federal government to do the right thing almost always or most of the time."

What makes these data even more challenging is that so many citizens distrust the government for different reasons. What agitates a Bernie Sanders voter is very different from what a Ted Cruz supporter finds disturbing. Thus, consensus is illusive. Again, this is all compounded by regional, cultural and economic differences and a general sense of disconnection from Washington. With one exception. Most Americans receive, or expect to receive, substantial transfer payments from the federal government. It is not an accident that President Trump, Secretary Hillary Clinton and Senator Bernie Sanders pledged not to touch or cut entitlements during their respective political campaigns.

Polarization and gridlock are not just functions of a nation divided by culture, economics, religion, race and the like. There is a sharp divide on budget and fiscal matters due to the straight jacket created by resistance to more taxation and a disinclination to restrain the cascade of entitlement spending- Medicare, Medicaid and Social Security, mandatory not discretionary spending, along with payment on the national debt with low interest rates soon to rise if the Federal Reserve is to be believed.

According to the Congressional Budget Office's (CBO) report, *The Budget and Economic Outlook: 2017-2027* (January 2017), things are not looking so good for the federal fisc: "The Congressional Budget Office projects that over the next decade, if current laws remained generally unchanged, budget deficits would eventually follow an upward trajectory-the result of strong growth in spending for retirement and health care programs targeted to older people and rising interest payments on the government debt, accompanied by only modest growth in revenue collections," states the CBO. "Those accumulating deficits would drive debt held by the public from its already high level up to its highest percentage of gross domestic product (GDP) since shortly after World War II."

While we are talking big numbers here, a \$559 billion budget deficit for FY 2017 and a national debt of over \$19 trillion (with a "t"), this is just the bond debt held by the public. It is entitlement spending, as noted above, which is the very real Death Star looming over the nation and the economy.

Niall Ferguson, a Harvard economic historian and host of the PBS television documentary, "The Ascent of Money," argues in his book, *The Great Degeneration: How Institutions Decay and Economies Die* (2012), that "the statistics commonly cited as government debt are themselves misleading, for they encompass only the sums owed by the government in the form of bonds."

"But the official debts in the form of bonds do not include the often far larger unfunded liabilities of welfare schemes [*sic*] like...Medicare, Medicaid and Social Security," writes Ferguson. "The best available estimate for the difference between the net present value of federal government liabilities and the net present value of future federal revenues is *\$200 trillion, nearly thirteen times the debt as stated by the U.S. Treasury.*" (Emphasis added).

Everyone in Washington wants more of something but, again, usually very different things: more benefits, more tax cuts, more defense spending, more infrastructure, more subsidies. But the inherent limits of the budget process, along with current law, rigorous budget scoring congressional rules (PAYGO or "Pay-As-You-Go"), are forcing tough trade-offs. Any new spending requires a reduction in spending elsewhere or new revenue. There is no rising tide to lift all the boats to flip Jack Kennedy's famous quote on its head. The budget process is barely functioning anymore and is another fraught political interaction between the Democratic and Republican caucuses looking for very different things for their respective Blue and Red constituencies.

These are not harmonious times in Washington, D.C. and the nation at large. Politicians are as much a result of the current national distemper as a cause. Politics in the nation's capital is a lagging indicator. AWWA's voice, advocating for smart water policy and promoting public health and the environment, has never been more critical.