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'Free' money from feds spurs higher Oklahoma spending

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EDMOND — At an Oklahoma Council of Public Affairs speech in Tulsa last year and in other public forums, Indiana Gov. Mitch Daniels has said: “Never take a dollar from a free citizen through the coercion of taxation without a very legitimate purpose. We have a solemn duty to spend that dollar as carefully as possible, because when we took it we diminished that person’s freedom.”

With the new fiscal year now under way — a fiscal year in which our state’s political leaders are spending more than \$500 per second (see the Spend-O-Meter at ocpathink.org) — it is important to ask if there is indeed “a very legitimate purpose” behind all this government spending. Is each dollar being spent “as carefully as possible”?

Even as President Barack Obama is the biggest government spender in world history, Oklahoma’s current political leaders are the biggest government spenders in state history. Total state spending continues to increase every year. Analysts at both liberal and conservative think tanks in Oklahoma agree on this point.

State appropriations account for less than half of this total state spending. Much of the spending is federal money, which many in the political class seem to think of as “free” money. It’s not. As Manhattan Institute fellow Heather Mac Donald recently pointed out: “The federal government’s biggest con game is promoting the fiction that federal dollars doled out to states and localities are ‘free’ money — whether the Medicaid funds at stake in the Obamacare decision, food-stamp reimbursements, job-training money or grants to local colleges for minority education in the sciences. ...

“Federal transfers are not even a zero-sum proposition; they are a negative-sum proposition, leaking value at every step of the way, thanks to the costs of collecting federal tax dollars, then trickling them back out to the states’ own costly bureaucracies via federal paper-pushers who write and oversee grant programs.

“And yet this massive Ponzi scheme allows the federal government to wield enormous power in the illusion that it is conferring on states and cities free money from some mysterious external source outside of their own businesses and residents. (The only

arguable source of such money from beyond local sources would be money borrowed from China, say, which then gets magnanimously doled out to the states by wise federal bureaucrats, but even there, we — not ‘Washington’ — pay the interest on the borrowed funds.)”

Some Oklahoma politicians object that they shouldn’t take the rap for their spending spree because this federal money is the federal government’s problem. But of course that doesn’t wash. No one is forcing state policymakers to chase all this federal money. Moreover, chasing the federal money spurs higher state spending.

Fortunately, these undeniable truths are now front and center in Oklahoma, thanks to the recent Supreme Court ruling on the president’s health care law. “Our state will have to make some tough decisions,” Oklahoma City University law professor Andrew Spiropoulos recently wrote. “The toughest will be whether to accept the (health-care law’s) bribe to radically expand our state Medicaid program.”

Cato Institute analyst Tad DeHaven, a former budget policy adviser to Sen. Tom Coburn, says state policymakers have become “dangerously reliant on federal money.” In a very real sense, Oklahoma policymakers receive federal bailouts every year. They either don’t know or don’t care that, as Dr. Coburn says, “America is already bankrupt.”

And what are all these federal bailouts accomplishing? What government spending is so important that it justifies borrowing all this money from China?

One of the chief culprits fueling our national debt — and our Oklahoma spending spree — is Medicaid. My colleague Jonathan Small has pointed out that in Oklahoma, “it is the federally induced welfare programs, such as Medicaid, that require ever-increasing state funding matches for the programs’ exploding costs.” That’s why, even before the health-care ruling, OCPA has suggested many reforms to reverse this trend. Unfortunately, state politicians have chosen instead to exacerbate the trend — even resorting to gimmicks and tax hikes to do so.

The econometrics firm Arduin, Laffer & Moore has noted that “federal funds are not ‘free’ and, in fact, contribute a great deal to the unsustainable growth of state government and a resulting decline in economic growth.”

Even the Tulsa World has recognized (albeit in another context) that sometimes federal money is quite simply “generosity we can’t afford.” Certainly conservatives know this. OCPA economists Scott Moody and Wendy Warcholik have shown that chasing federal dollars spurs higher state spending. Indeed, absent the recent run-up in federal grants to Oklahoma, our state’s political leaders nearly would have been able to eliminate the individual income tax.

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