



Feds should cut spigot to states

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June 11, 2019

It's a hard lesson for some parents to learn: Foot the bill every time your adult child runs into financial trouble, and that child is more likely to continue running into trouble.

Cut off the flow of parental cash instead, and your child is more likely to learn responsibility for his own debts and obligations.

A recent report from the Cato Institute applies a similar principle to the federal and state governments.

Scholars at the nation's pre-eminent libertarian think tank might shudder at the comparison. They might not like to think of Washington as a parent enabling fiscally irresponsible state "children." Nonetheless, the analogy seems well suited to a report calling for "Restoring Responsible Government by Cutting Federal Aid to the States."

Federal aid spending is expected to reach \$750 billion this year, up from \$697 billion in 2018. Washington funnels that money to state and local governments through at least 1,386 programs, according to the Cato report. The money influences such key policy areas as education, housing, and transportation. Along with the cash, the feds attach "top-down regulations."

"The federal government has a giant budget deficit of over \$1 trillion now a year," said report author Chris Edwards during a recent edition of the John Locke Foundation's "HeadLocke" podcast. "We have to cut federal spending somehow. I think the best way to cut federal spending is to cut out the federal activities that are properly the responsibilities of state and local governments."

Cutting that spending would lead to the "double advantage" of reducing the federal deficit while ensuring more responsible government, said Edwards, Cato's director of tax policy studies.

Take, for example, local transportation programs.

"Americans across the country are taxed," Edwards said. "The money goes to Washington. Then the Washington bureaucracies spill back out money that funds your local city bus system. This

makes no sense to me. It seems to me that we ought to fund local activities ... locally. You get much more responsible and efficient government that way.”

Take away the federal subsidy, and it’s less likely that local officials will adopt programs their own constituents are unable or unwilling to pay for themselves.

Edwards looks back at least 100 years for the source of harmful federal meddling in state and local government issues. The problem became much worse under President Lyndon Johnson’s tenure in the 1960s.

“The federal government entered hundreds of new areas, passed hundreds of programs to intrude in state and city activities like urban redevelopment. That’s when the K-12 education subsidies started. That’s when the Medicaid subsidies started.

“Very quickly after these programs went in place, analysts began noticing how horribly inefficient it was to try to fund local activities from Washington,” Edwards said. “There’s the pork-barrel problem. The politicians in Washington just fight over the amounts of money sent to their districts. There’s no focus on efficiency or responsibility in these programs.”

State and local governments, like the spendthrift child, deserve part of the blame. While some have resisted federal involvement in their policy areas, “the lure of federal money essentially bought off state and local officials,” Edwards said. “This made sort of an end run around our Constitution.”

The 10th Amendment and other constitutional provisions were meant to keep the feds out of state activities.

The Cato report has implications for a current N.C. policy debate. As the state wrestles with Medicaid expansion, Edwards explains why the discussion ought to address problems linked to federal aid. “States have this incentive to endlessly expand their Medicaid programs,” he said. “If they spend \$2 more on Medicaid, they draw an extra dollar from Washington.

“Money from Washington seems to be ‘free,’ so state politicians spend it recklessly,” Edwards said.

It’s unlikely the federal government cut could the Medicaid cord abruptly. Edwards says reform could start instead with the feds converting existing funding into block grants.

“Give the states fixed chunks of money,” he said. “That would allow the federal government to control the costs. It would provide strong incentives for the states to deliver services more efficiently.”

As for many of the other federal aid programs, Edwards recommends a cleaner break.

“Hundreds of them are small programs that I’m sure most of your listeners have never even heard of,” Edwards told the “HeadLocke” audience. “They really only benefit the political class.

They don't benefit most citizens. So I think hundreds of these programs we could eliminate — abolish quickly, overnight — and no one would even notice.”

A parent can continue covering his child's bills indefinitely, as long as the money is available. A federal government carrying a multitrillion-dollar debt does not enjoy the same luxury.

In either case, Edwards' message of increased responsibility and accountability is worth hearing.