The Center Square

Comparing Red/Blue state federal bailout money is a false comparison, economists, analysts argue

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The argument that some Democratic "blue states" should receive more federal bailout money than Republican "red states" because their residents pay more in federal taxes isn't really a comparison of apples to apples, economists and analysts note.

No state has the same budgetary or geographic-oriented needs and is not given equal amounts of federal subsidies even on a per capita basis, and several states have been operating failing fiscal policies for years before the coronavirus and even the Great Recession hit regardless of where their revenues came from.

Democratic Gov. Andrew Cuomo argues New York is the "number one giver" of federal tax revenue and has been "bailing out red states for decades" to justify why New York should receive more federal money. New York leaders have made this argument for roughly 100 years, because Wall Street earners have disproportionately earned far more than Americans in all other 49 states and therefore pay more in federal income taxes, yet do not need the federal subsidies generally created for the poor.

One chart being circulated on social media to support Cuomo's argument is **an analysis** published by the Tax Foundation, which shows federal money states receive as a share of their GDP. Blue state New York's share of 35.9 percent is comparable to red states Texas' 32.6 percent and Florida's 32.8 percent shares.

Taxpayers and debt fund federal subsidized spending, Cato Institute economist Chris Edwards, among others, explains.

"In 2020, the federal government will vacuum $3.6 trillion from taxpayer wallets in the 50 states and borrow $1 trillion from global capital markets," Edwards says. "Then it will turn on the leaf blower to scatter $4.6 trillion back across the 50 states, except for the cut the middleman in D.C. will keep for itself."

Blue state politicians who feel they are being short-changed "should be pressing for a less progressive federal income tax and for devolution of government activities back to the states," Edwards suggests. Instead, they demand more federal money.

States don’t receive the same amount of federal subsidies for varying reasons Pew Trust’s annual fiscal federalism project shows.

When it comes to defense spending, based on the most recent data available for fiscal year 2017, the federal government spent $483 billion in 50 states and the District of Columbia, or $1,484 per capita.

But on a state-by-state, per capita basis, federal defense spending ranged from $488 per resident in Michigan to $6,275 in Virginia, according to Pew, with the District of Columbia receiving the most of $9,033.

When it comes to the low-income home energy assistance program, LIHEAP, per capita federal spending ranged from $34 in North Dakota to $3 in Arizona in 2017 because “congressional budgeting decisions have continued to prioritize cold-weather states” since the 1980s, Pew notes.

In fiscal year 2016, LIHEAP was the third-largest federal block grant to states, **distributing more than $3.3 billion**. New England and upper Midwest states – regardless of whether they were red or blue states – received the most grant money per capita.

Another reason states don’t receive the same amount of federal funding is because of constitutional provisions, Charles Silver, McDonald Chair in Civil Procedure, School of Law, University of Texas at Austin, explains in **a WalletHub report** on federal dependency.

“The Constitution over-weights small states in the Senate,” Silver says. “Consequently, small states naturally enjoy greater federal largesse per capita than states with larger populations. Therefore, if ‘should’ means ‘given our Constitutional design’ then, yes, they should.

“But if ‘should’ means something else, the natural response is that federal dollars should be allocated so as to generate the greatest improvement in welfare for the dollar. We are, unfortunately, nowhere close to doing that. For example, we tax young people to pay for health care for old people, even though we would probably get more bang for the buck welfare-wise by doing the reverse. As it is, however, the Medicare program favors states with lots of old people, and all of those states are large (California, Florida, New York, Texas, et al.). Medicaid favors states with large numbers of people who are poor.”

How well a state government manages the money it has, regardless of where its revenue comes from, is not dependent upon how much taxpayers pay the federal government, other analysts argue, as states’ failed fiscal policies have been going on for decades.

At the beginning of the Great Recession in 2008, John Locke Foundation President John Hood warned about the dangers of the federal government bailing out failing state governments. In 2011, **in an article** published by National Affairs, he argued states’ budget crises were of their own making. If states, “are to have any hope of avoiding the twin nightmares of default and a federal bailout, governors and legislators must get serious about changing their ways,” he wrote.

The “fiscal calamity” state leaders found themselves in predated the previous economic slump before the Great Depression ever hit, Hood maintained.

“Their shaky financial foundations were in fact set long ago – through unsustainable obligations like retirement benefits for public employees, excessive borrowing, and deferred maintenance of public buildings and infrastructure," he said. "The result has been a long-building budget imbalance now estimated in the trillions of dollars."

Numerous economic reports point to similar state budget patterns prior to the coronavirus shutdown.

In New York, for example, well before the coronavirus hit, the state legislature voted to increase its and the governor's salaries by 60 and 40 percent, respectively, months before heading into a $6 billion shortfall.

In **a September 2019 report** by Truth in Accounting (TIA), New York found itself in the economic situation it was in largely because its "elected officials have made repeated financial decisions that have left the state with a debt burden of $136.6 billion."

If every taxpayer were to pay off the state's debt, they would owe $20,500 – and that was pre-coronavirus, TIA says.