

What The Federal Government Can Learn From Some of the States' 'Stand Aside' Policies

By: Veronique de Rugy – March 21, 2013

The Economist has a good article this week about the contrast between “the America that works” and “the America that doesn’t,” as they put it. Interestingly, the America that doesn’t work is in large part thanks to the federal government, and the America that works is mostly happening thanks to state polices. Here is a description of the dysfunctional half of America:

Its debt is rising, its population is ageing in a budget-threatening way, its schools are mediocre by international standards, its infrastructure rickety, its regulations dense, its tax code byzantine, its immigration system hare-brained—and it has fallen from first position in the World Economic Forum’s competitiveness rankings to seventh in just four years. Last year both Mr Obama and his election opponent, Mitt Romney, complained about the American dream slipping away. Today, the country’s main businesses sit on nearly \$2 trillion in cash, afraid to invest in part because corporate bosses cannot imagine any of Washington’s feuding partisans fixing anything.

But there’s also the America that works. It’s one starting to improve competitiveness without waiting for the federal government to do it for them. It’s composed of firms that aren’t waiting for the federal government to bail them out, and are instead going out and improving their existing business, starting new ones, and getting ahead of the competition. Here is an example:

Although many countries possess big reserves of oil and gas trapped in impermeable rocks, American businesses worked out how to free that energy and then commercialised that technology at a rapid pace; the resulting “shale gale” is now billowing the economy’s sails.

Some of the money for fracking technology came from the federal government, but the shale revolution has largely happened despite Mr Obama and his tribe of green regulators. It has been driven from the bottom up—by entrepreneurs and by states like North Dakota competing to lure in investors with notably more fervour than, say, France.

The America that works is also one where states have understood that it is time to try (ever so timidly) a new model:

This fits a pattern. Pressed for cash, states are adopting sweeping reforms as they vie to attract investments and migrants. Louisiana and Nebraska want to abolish corporate and personal income taxes. Kansas has created a post called “the Repealer” to get rid of red tape and pays a “bounty” to high schools for every vocational qualification their students earn in certain fields; Ohio has privatised

its economic-development agency; Virginia has just reformed its petrol-tax system.

In this second, can-do America, creative policymaking is being applied to the very problems Congress runs away from, like infrastructure spending. While the federal government twiddles its thumbs, states and cities, which are much shorter of cash, are coming up with new ways to raise money for roads, bridges and schools. Chicago has a special trust to drum up private funds to refurbish decrepit city buildings. Indiana has turned to privatisation to raise money for road-building.

Better yet, in the America that works, parents fed up with seeing their kids trapped in failing public schools are pushing education reforms in many states around the country.

As *The Economist* notes, “regulation, innovation, infrastructure, education: each of these is crucial to competitiveness. Put together the small things happening in the states, and they become something rather big. That is the essence of the America that works.” The federal government, therefore, should learn from the states and finally stand aside. The whole thing is here.

States still have a long way to go. On a related note, a few weeks ago in this space I mentioned a project led by Matt Mayer called Competitive Federalism, which is rightly pushing for the states to reclaim their independence from the federal government. Plenty of the free-market reforms have happened at the state levels, but often the federal government impedes progress by imposing mandates onto the states by luring them in with a free lunch. Fiscal federalism is mostly dead, but maybe, one hopes, this project could bring it back to life. (You can learn more about the Competitive Federalism project here.)

Also, see this great piece by Cato Institute Tad DeHaven about Force Feeding Fiscal Federalism.