

# The Volokh Conspiracy

## The Dangerous Growth of State Dependence on Federal Funds

Ilya Somin • January 23, 2012 11:57 pm

Tad DeHaven of the Cato Institute has a [good post](#) highlighting the data on state governments' growing dependence on federal funds. Since 2001, federal grants have risen from 25.7% of state government spending to 34.1% today. Most of that growth has occurred since the present recession began in 2008.

One of the main distinctive benefits of American federalism is that, historically, state governments have had to raise most of their funds from their own taxpayers, rather than relying on grants from the feds. This gives states incentives to compete for taxpayers and improve the quality of their policies and public services, thereby increasing the effectiveness of [voting with your feet](#). I cover these points in more detail [here](#).

In most other federal systems, the central government provides the lion's share of subnational governments' funding. If present trends continue, the United States may join this trend. State governments will increasingly look to Washington for most of their funds, and incentives for competition and innovation will be undermined. It's possible that fiscal policy will return to "normal" as the economy improves. But state governments are likely to lobby for current grant levels to continue even after the recession ends. Current federal subsidy levels could easily become the new normal.