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Federal aid largely smoke, mirrors

By James Quintero - Express-News Guest Voices

A worrisome article that appeared recently in USA Today points out that federal aid has now surpassed the sales, property, and income tax as the biggest revenue generator for the states.

In the first three months of 2009, money pouring out of the federal government to the 50 states grew by 15 percent, while sales tax revenue — typically the No. 1 source of state and local taxes — declined by 2 percent.

This trend marks a first for state finances and is troubling on a number of fronts.

First, the federal government is sprinting toward the fiscal abyss. As it stands today, the national debt stands at more than $11 trillion. If the nation's unfunded liabilities are factored in — Medicare, Social Security, etc. — the real national debt figure skyrockets to $56.4 trillion, or about $184,000 per person, according to the Peter G. Peterson Foundation.

With the federal government and its taxpayers so heavily indebted, and the nation in the depths of a recession, the funds being sent from the federal government to the states will either have to be borrowed or printed. Either option is bad policy.

Second, states risk their sovereignty by drawing so heavily on federal funds. Rather than making policy decisions strictly on the basis of the needs of their constituents, policymakers compromise their decision-making abilities by accepting the strings attached with federal dollars.

That is one of the big reasons why several governors have expressed their concern or rejected stimulus funds. There is truth behind the modern variation on the "Golden Rule": "He who has the gold makes the rules."

Lastly and perhaps most important, the federal government's aid to states distorts state and local government spending, and props up what would otherwise be unsustainable public sector growth.

As an economy grows and citizens enrich themselves, the size of government grows along with it. However, as the economy contracts and resources decline, the size of government tends to level off and shrink, especially at the state and local level, because people cannot continue to pay the same amount in taxes.

With the addition of federal funding, state and local government spending levels are propped up when they should be in decline. And when private sector prosperity eventually returns, government spending resumes at a higher level.

Even if Congress funds states on a temporary basis, the level of state and local government spending is maintained through recession and into recovery.

Understandably, Washington policymakers want to help people who have felt the full impact of the recession. But propping up state and local government finances with federal aid isn't the way back to prosperity.

Instead, Washington policymakers should focus on shrinking the size of the federal government, stopping the exodus of businesses and jobs by lowering taxes and putting more money back in the hands of those who have earned it.

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