



Ensuring State Oversight of Federal Funds

House Select Committee on Budget Transparency and Reform in Support of HB 86

by Thomas K. Lindsay, Director

In recent years, federal funds have come with stipulations, mandates, and consequences designed to manipulate state and local governments to conform to the will of the federal government. Since the New Deal, states have lost significant power to the federal government through progressive bargaining with the Washington, D.C.—a trade of control for money. As the federal government increased regulations and continued to hand out funds, it slowly gained unprecedented control of the states through both regulatory jurisdiction and the increased loyalty of financially dependent states. In Texas, well over one-third (35 percent) of the state budget comes from federal funds, making it the 11th highest state in terms of federal funds as a share of state government spending.

Federal funds inflate the state budget, and as legislators appropriate this money year after year, the federal government ensures the compliance of the states upon the threat of the withdrawal of funds. This constricts liberty at every level of society. In order to protect the sovereignty of Texas under the 10th Amendment, and with it, the rights of the citizens of Texas, we must have a strategy to deal with federal overreach, funding inflation, and fiscal coercion. To design and implement such a strategy, we need the information and recommendations of the committee that would be created by HB 86 (“Relating to the creation of a select committee to evaluate the effects of a reduction in or the elimination of federal funding on the state budget due to federal fiscal policy”).

The elimination or reduction of federal funding is only a matter of time, given the facts about national debt. At \$17 trillion, the national debt now amounts to \$140,000 for every household in America.¹ China’s Treasury holdings amount to about \$1.28 trillion, or 7.6 percent of the total U.S. debt. China is the United States’ largest overseas creditor, ahead of Japan, which holds more than \$1.1 tril-

lion in Treasuries.² The U.S. national debt on January 1st, 1791 was just \$75 million dollars. Today, the U.S. national debt rises by that amount about **once an hour**.³ The U.S. government has to borrow 41 cents of every dollar that it currently spends.⁴ The U.S. government spent over 430 billion dollars just on interest on the national debt during FY 2014.⁵ If the federal government began at this moment to repay the U.S. national debt at a rate of one dollar per second, it would take over 470,000 years to pay off the national debt.⁶

Please allow me to close by rehearsing the chief points on this subject that appeared in Mario Loyola’s essay, “[Reclaiming Liberty](#).” Loyola is a Senior Fellow at the Texas Public Policy Foundation. He begins with the unsettling fact that, “because of the infusion of federal funds, states are able systematically to spend almost 40 percent more than they generate in taxes.” This is hardly a formula for sober budget-making. Loyola has also found that “this state fiscal surplus accounts for virtually the entire federal deficit. Since the early 1980s, federal assistance to the states has averaged about 3 percent of GDP. During the same period, the federal deficit has averaged 3.4 percent of GDP.” That these percentages are virtually identical is no accident, for as Loyola concludes: “At the most basic level, it is the federal government that needs the states’ help—to expand its power while escaping accountability for the results. So it raises huge deficits in order to purchase control over state governments, by inflating their budgets to the point of utter dependency.”

The time has come for states to awaken to the dangers posed by these federal practices; HB 86 represents the first, indispensable step toward restoring fiscal sanity and states’ constitutional prerogatives. Thank you. I am happy to answer any questions you might have. ★

NOTES

- ¹ [Solutions 2014, “Federal Spending, Budget, and Debt.”](#)
- ² [Pew Research Center, “Five facts about the national debt: What you should know.”](#)
- ³ [CBS Money Watch, “18 Scary U.S. Debt Facts.”](#)
- ⁴ *Ibid.*
- ⁵ [TreasuryDirect, “Interest Expense on the Debt Outstanding.”](#)
- ⁶ [Business Insider, “34 Facts About The National Debt That Should Set America On Fire With Rage.”](#)

About the Texas Public Policy Foundation

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The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

