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Washington Poised to Become Largest Source of State Funds

On what basis does Larson, a research fellow with the Wyoming Liberty Group, make such a charge? Simply this: "This year, Federal Funds may on average become the single largest fund in state budgets, for the first time passing General Funds as the prime source of state spending."

"State general funds," explains the *Pelican Post's* Fergus Hodgson, "are for the ordinary expenses of the executive, legislative, and judicial departments, for debt servicing, and for capital outlay. Other funds include program specific taxes and fee revenues that are not available for discretionary spending."

In 2010, Larson notes, "the federal government on average supplied 34.1 percent of state spending" compared to the 36 percent supplied by general funds. With the trend being for federal funds to increase and state general funds to decrease, federal funds are likely to overtake general funds as a percentage of state spending in 2011.

Federal funds are already the primary source of spending in 27 states. In Oklahoma and Louisiana they account for at least 50 percent of spending, and in 10 other states they account for at least 40 percent.

In 2005, however, Louisiana was "the only state above 40" percent dependency on federal funds, Larson says. Since then, state revenues have declined and federal funds to states have grown, especially via the "stimulus" law's expansion of existing federally funded programs and creation of new ones. (These programs, of course, will be expected to continue, with ever-increasing budgets, indefinitely.) In fact, the growth in the sheer number of federal aid-to-state programs, from 335 in 1985 to 792 in 2005 and then to 1,122 in 2010, is a major factor in the increasing state dependence on federal funds, as the Cato Institute's Chris Edwards pointed out in a recent *Tax & Budget Bulletin*.

Furthermore, writes Larson, since 2005 "every state has increased its dependency on Federal Funds, and low-dependency states have increased their dependency the most. In other words: there is growing fiscal consensus among states that dependency on the federal government is tolerable, even desirable."

There are two major problems with this dependence on federal funds.

First, it turns states, which, under the 10th Amendment, are supposed to retain most of the power, into "nothing more than puppets of the federal authorities," as the Independent Institute's Robert Higgs told Hodgson. Given that reality, it is something of a miracle that states are fighting back against ObamaCare and other federal intrusions at all.

Second, as Hodgson notes, federal aid is largely "debt-financed" while state general funds are primarily tax-financed. While high state taxes certainly have negative effects, they are relatively short-term and quite visible to taxpayers (and easily reversed by cutting taxes). Debt financing — and inflation, still another means of financing federal spending — has many long-term, often invisible consequences. The more federal funding of states grows, the longer-lasting and more harmful these consequences become.

Larson told Hodgson that he believes that increasing individual dependence on government is leading the United States to "a critical breaking point" in the near future. Those dependent on government handouts clamor for more and more, and politicians are only too happy to give it to them in exchange for votes. Eventually, he maintains, "the productive sector can no longer keep up with the tax obligations that government puts on it," and the tax base begins to shrink. The result is ever more deficit spending and inflation and, ultimately, the inability of government to meet its obligations — in other words, Greece.

The only way to head off this seemingly inevitable collapse is to begin slashing government at all levels mercilessly. At the federal level this could be accomplished simply by adhering to the highest law of the land, the U.S. Constitution. Doing so would cut the federal behemoth down to the size of an ant, eliminating individual and state dependence on Washington. With states and localities forced to finance their own budgets, they would have no choice but to mend their free-spending ways.

As painful as all this cutting would be in the short term, the alternative is far worse. Unfortunately, as Larson wrote, generations of welfare-state dependents, and the politicians who enable them, have made "rethinking the entire welfare-state structure … as alien to the political main stream as unicorns." With the mess the donkeys and elephants have made of the country, perhaps it's time to give the unicorns a chance to do things right.