

# THE HUTCHINSON NEWS

online edition

November 23, 2008

## **Should the Feds Bail Out the States?**

*By Jonathan Williams*

First it was \$700 billion for the financial sector, then President-elect Barack Obama came out in favor of a \$50 billion bailout of the automobile industry. Now, elected officials across the nation are lining up to support a federal bailout of the states. Kansas' own Kathleen Sebelius has already begun to lobby Congress for financial assistance.

There is little question many states are in dire financial straits today. Roughly 30 states faced budget deficits for fiscal year 2009 and more than 20 states already face shortfalls for the upcoming fiscal year, which begins on July 1 for most states. Analysts are projecting a \$141 million shortfall for Kansas by the end of the current fiscal year. Even more worrisome is the forecast of a potential \$1 billion budget shortfall by the end of fiscal 2010.

While the rosy fiscal times enjoyed by the states over the past few years have clearly disappeared, important questions need to be addressed before rubber stamping a multibillion dollar bailout of the states: (a) What was the cause of the current budget problems in the states? (b) Should the federal government spend taxpayer dollars to bailout the states in this economic downturn?

States are not facing budget deficits because they don't tax enough. The real problem facing states is the fundamental issue of overspending taxpayer dollars. State spending has grown at an unsustainable rate over the past decade. In fact, state spending is up 124 percent over where it was just 10 years ago, and state debt increased by 95 percent during that same period. In many cases, the states that are facing the worst fiscal climates are the very same states that engaged in reckless spending.

The federal government should not be in the business of rewarding states that have simply overspent taxpayer dollars. Over the past few years, many states have spent money like drunken sailors. It's not right to expect the American taxpayer to pick up the tab. As legendary economist Arthur Laffer recently wrote in the Wall Street Journal, "Whenever the government bails someone out of trouble, they always put someone into trouble." In this case, a bailout for the states means trouble for taxpayers.

There is another very good reason why state officials should be worried about a federal bailout. When has the federal government ever given money to the states without countless strings attached? A study conducted by the American Legislative Exchange Council during the post-9/11 economic downturn estimated that "every one dollar more of federal assistance increases state and local budget deficits by over 62 cents." It is clear that the many strings accompanying federal dollars impose significant burdens on the states.

State budgets have faced financial duress many times before because of overspending and probably will again in the future. History suggests federal bailouts are not the answer, as they decrease state sovereignty, incentivize future fiscal irresponsibility and reward fiscally imprudent states at the expense of fiscally responsible states.

Economist Richard Vedder said it best: "In short, federal bailouts are not a solution. They are the equivalent of giving booze to alcoholics - providing at best some temporary respite, but aggravating fundamental problems, in this case overspending."

Unfortunately, the "do something" disease will continue to plague Washington for the foreseeable future. If this results in spending additional taxpayer dollars to rescue states that mismanaged taxpayer dollars in the first place, it will only spiral them into a cycle of federal dependency, further encouraging fiscal irresponsibility. Let's hope that is not the case.

Williams is a Fiscal Policy Fellow with the Kansas-based Flint Hills Center for Public Policy and Director of Tax and Fiscal Policy at the American Legislative Exchange Council. He can be reached at [williams.jonathan.p@gmail.com](mailto:williams.jonathan.p@gmail.com).

**Circulation: 31.592**  
**Hutchinson News**

**November 23, 2008**  
**Guest Columnist**