A Closer Look at 'Federal Dependency' in Republican-Dominated States

Antonio R. Chaves

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A recent article by Steve Hanley in a website that showcases developments in green technology revisited the narrative that red states are on average more "financially dependent" on the federal government. This issue has been raised in the past to discredit fiscal conservatism and dismiss the role of efficient stewardship in states with lower taxes, presuming that it is their reliance on Washington that makes these policies "more affordable".

The most straightforward methodology for measuring "federal dependency" of states was presented by Ryan McMaken in the Mise Institute blog. Based on "federal spending per dollar paid", business-friendly states like Texas and Utah among the net *recipients* of federal funds. McMaken attributes the federal budgetary shortfall in states like these to differences in urbanization and federal land ownership.

Regression analysis supports McMaken's assertion that federal land ownership and urbanization play a large role in determining federal spending per dollar paid (Fig. 1 and 2). He rightly points out that urban economies generate more revenue than agriculture and federal monetary policies (such as low interest rates) favor urban investors at the expense of the "main street" households that predominate in rural states. Census data indicates that demographic differences (particularly differences in formal education) may also contribute to this disparity between urban and rural states.

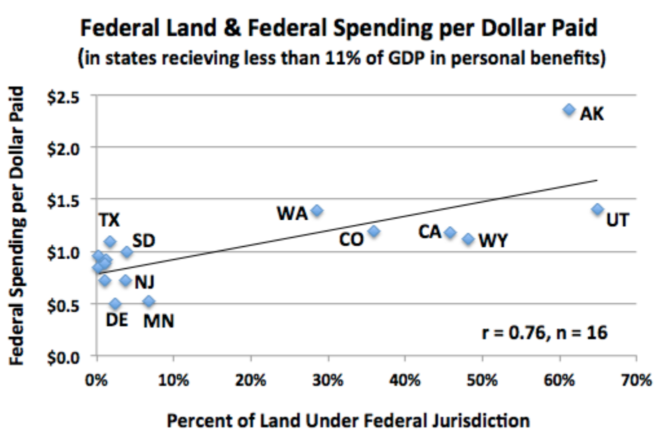

Fig. 1: Based on data from *Mises Wire*, *U.S. Congressional Research Service*, and *The Pew Charitable Trusts Research & Analysis Issue Brief*. Data adjusted for large differences in personal benefits (like Social Security and Medicare).

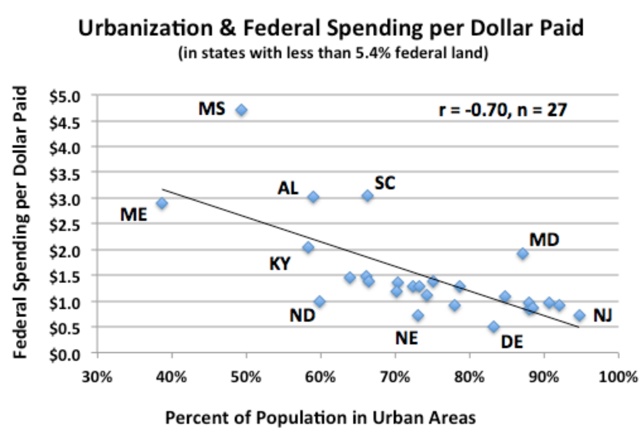

Fig. 2: Based on data from *Mises Wire*, *U.S. Congressional Research Service*, and *U.S. Census* as cited by *Iowa State University*. Data adjusted for large differences in federal land ownership.

Formal education is correlated to federal spending per dollar paid (Fig. 3 and 4). This is unsurprising because adults lacking a high school diploma or a college degree usually pay less taxes and consume more in federal nonretirement benefits like Medicare, food assistance, and unemployment. What is particularly noteworthy is how disproportionately college graduates are distributed between urban and rural states (Fig. 5). This no doubt contributes to the federal budgetary shortfall observed by McMaken in many of the less urbanized states. It is also worth noting that nine of the ten states with the lowest percent of college graduates all voted for Trump and that all of the ten states with the highest percent of graduates voted for Clinton in 2016.

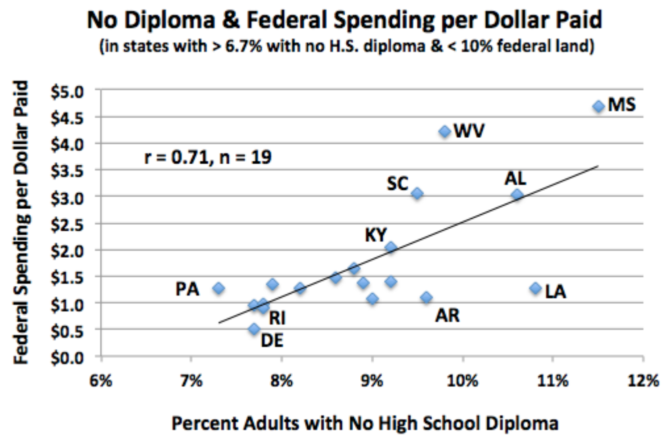

Fig. 3: Based on data from *Mises Wire*, *U.S. Congressional Research Service*, and *U.S. Census*. Data adjusted for large differences in federal land ownership and percent of adults lacking a high school diploma.

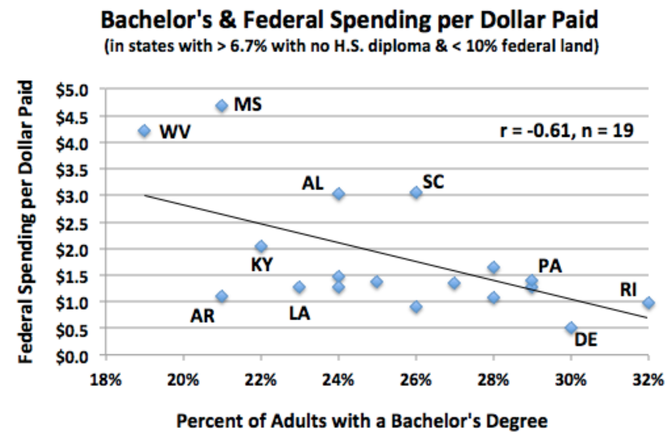

Fig. 4: Based on data from *Mises Wire*, *U.S. Congressional Research Service*, and *U.S. Census*. Data adjusted for large differences in federal land ownership and percent of adults lacking a high school diploma.

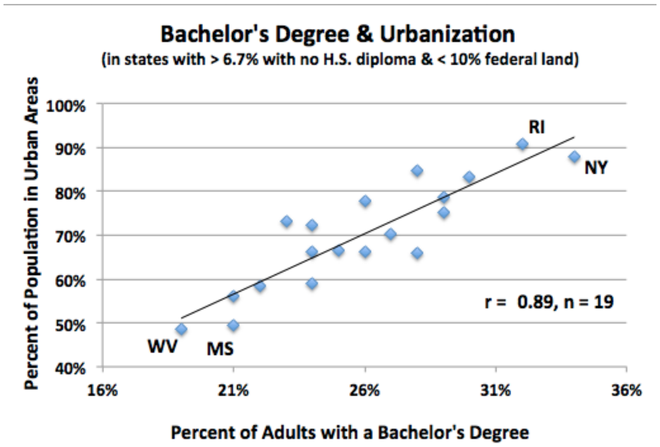

Fig. 5: Based on data from *Mises Wire*, *U.S. Congressional Research Service*, *U.S. Census*, and *U.S. Census* as cited by *Iowa State University*. Data adjusted for large differences in federal land ownership and percent of adults lacking a high school diploma.

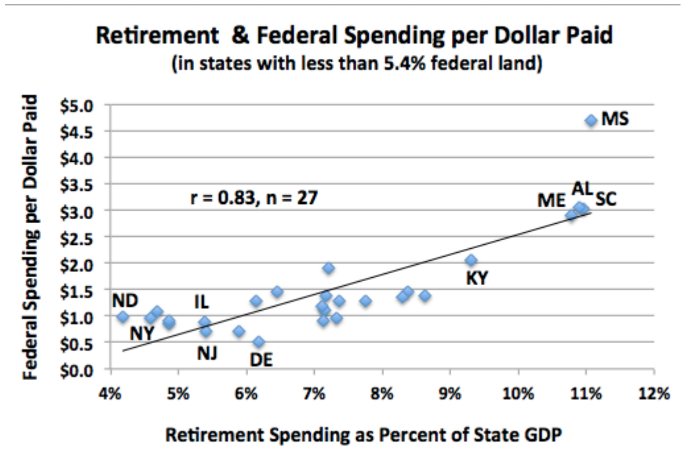

Fig. 6: Based on data from *Mises Wire*, *U.S. Congressional Research Service*, and *The Pew Charitable Trusts Research & Analysis Issue Brief*. Data adjusted for large differences in federal land ownership.

Relocation demographics shows that people who move in search of jobs and personal fulfillment may intensify economic and cultural disparities between red and blue states. In recent years, many college graduates have left Rustbelt and Heartland states and moved to coastal states with large cities that offer cultural amenities. In contrast, many of their less formally educated counterparts have moved to states that offer manufacturing jobs and lower housing expenses. This not only reinforced federal spending differences between blue and red states but political polarization as well: According to the National Center for Higher Education Management Systems, the top six destinations in 2007 for adults ages 22-39 with only a high school diploma were states that voted for Trump. Four of these states have minimum wages from $5.15 to $7.25. The primary state they fled was New York, where the minimum wage is currently $9.00 and labor union membership is higher than in all of the other 49 states. Right to work laws have been credited for the recent surge in manufacturing jobs in Southern and Rustbelt states. This recovery has bypassed states like New York where union membership is mandatory. In contrast, many college graduates relocated to New York in 2007 and four of their top six destinations were states that voted for Clinton in 2016.

Another group that should not be overlooked are retirees because they consume Social Security and Medicare. Consequently, retirement benefits (as percent of state GDP) are correlated to federal spending per dollar paid (Fig. 6). The following seven states are cross-listed in three out of four sources as the ten best for retirement; Arizona, Colorado, Florida, Idaho, South Dakota, Virginia, and Utah. The following five states are similarly cross-listed in Bankrate, Forbes, Kiplinger, and Wallet Hub as the ten worst; Alaska, Connecticut, Maryland, New York, and Rhode Island. Based on this compilation it is unsurprising that Republican-dominated states make up nine of the ten states with the most retirement benefits as percent of GDP.

In his aforementioned article, Steve Hanley proposes a “new federalism” that empowers states to “set (more of) their own policies” and “keep more of their money”. Hanley believes this would in the long run, compel Republican-dominated “taker states” to adopt more progressive policies, presumably because:

> *People would simply move to whatever states have a culture that most suits their own world view … If the taker states suddenly find themselves with no one left to do the work that needs to be done, they may have to do the unthinkable — raise wages and benefits in order to convince people to stay! How sweet would that be?*

In effect, Hanley believes this “new federalism” would lead to a mass migration of less affluent Americans to progressive states, where they would presumably enjoy the blessings of higher benefits and “living” wages.

It should be noted that Hanley resides in Rhode Island; a state where the minimum wage is currently $9.60 and the regulatory environment ranks 49 out of 50 for business favorability. In 2014 Forbes listed Providence among five “laggards” that lost blue collar jobs. This has been blamed by other sources on this state’s “soaring” minimum wage. This may also explain why in 2007 Rhode Island lost a net total of nearly 2000 adults who had only a high school diploma. Mr. Hanley’s friends and acquaintances were probably unaffected because in that same year, nearly 400 with graduate or professional degrees moved in. The consequences of this ongoing relocation may play a role in the groupthink that compels progressives like Hanley to write columns expressing contempt for conservatives (particularly white Southerners), while overlooking the effect that progressive policies have had on blue collar jobs in his own state.

In the final analysis, the federal spending disparity between red and blue states is a red herring that fails to discredit conservative policies. If anything it makes a strong case for turning over public federal lands to the states and overhauling the Bureau of Indian Affairs (Indian reservations are federal property and the BIA has an extensive reputation for financial mismanagement). While governors cannot set boundaries for federal land, they can attract private investment, retirees, and help to prevent local military bases from being closed. Unfortunately, only private investment generates a net gain in the federal treasury. Though it is reasonable to criticize policymakers who fight to prevent the closure of military bases that no longer serve the national interest, such critiques do not apply to governors who make their states more attractive to retirees through smart policies that curb crime, state taxes, and the cost of living. After all, this does not increase the net total of retirees nor their consumption of Social Security. Furthermore, governors who bring manufacturing jobs to their states deserve only praise, even when they attract workers who generate less tax revenue and consume more federal benefits. It is to their credit that these states provide opportunities to less affluent Americans relocating for jobs instead of handouts. Nevertheless, the simultaneous relocation of college graduates to blue states only furthers the cultural disconnect between college and non-college educated. This makes it even less likely that professionals like Steve Hanley will ever come around to praising the pro-growth policies that are providing job opportunities for the people who are fleeing his own state.

Links (in case the hypertext does not work):

1. https://www.americanthinker.com/articles/2017/03/a_closer_look_at_federal_dependency_in_republican dominated_states.html

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