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An Era of True Competitive Federalism

By Matt A. Mayer

With the release of his federal budget, President Donald Trump [appears to be making good](#) on his promise to send power back to the states.

This proposed devolution over federal programs, long demanded by the right (and, [after Trump's election, on the left](#)), pits theory and rhetoric against reality and governing. This power shift must come with tax reform that lowers the federal taxes on Americans and businesses, as well as a reduction in the federal bureaucracy connected to devolved programs. After all, it is fundamentally unfair for the federal government to devolve power but keep the money taxpayers send to it for that power and force states to fund the inefficient federal bureaucracy built up around these programs.

Some on the right promote the use of block grants, but that vehicle is a poor substitute for cutting federal taxes by the amount currently appropriated to those federal programs. Under block grants, the federal government still determines how much each state gets and ties strings to those grants. Block grants are better than the status quo, but we can do even better by cutting federal taxes and letting states determine how best to fund the programs they design with the funds that used to head to Washington, which now remain in the states.

With decentralization, federal tax cuts and shrinkage of the administrative leviathan, states will be able to compete against each other more meaningfully than at any point in the last 85 years. Specifically, under the current nationalized model, states really can only compete on the margins of areas like welfare, education, transportation and energy, as they are burdened by federal rules, regulations and mandates and limited to act based on the amount of funds they get from and waiver requests approved by Washington.

In a [truly decentralized system based on our constitutional principle of competitive federalism](#), states retain both the power over programs and the decisions on how much to tax their citizens to fund those programs. A core benefit of eliminating the bureaucracy in Washington is it will [save \\$0.15 to \\$0.35 of every dollar](#) allocated to programs, which means beneficiaries could see enhanced services at a lower total cost. It also means state tax increases could be offset by the federal tax cuts, which is a win for everyone. States then compete not just over the quality and efficacy of programs, but also over the costs. This system allows citizens to hold state elected officials accountable for poorly performing programs and/or high taxes when there is little to no return on

those taxes.

In most homes today, Americans don't sit around complaining about state income taxes, as those rates are fairly low (6 percent or less in 32 states); rather, they vent about how much of their paycheck gets swallowed by federal taxes, followed by property taxes. As a result, Americans focus their anger at and attention on the federal government and local school issues. State government usually only gets attention when it cuts funding to schools or tackles a big issue like public sector collective bargaining or the abortion issue.

At the same time, over the last 30 years, a greater share of state budget revenues has come not from state income or sales taxes, but federal funds. These funds arrive laden with strings and a costly bureaucracy attached. It isn't a misnomer that Medicaid has become the Pac-Man of state budgets, as it eats a growing share of the budget each passing year. As states budgets are driven increasingly by federal funds and mandates, the areas in which states can truly compete with each other have decreased.

A majority of Americans in November voted against more centralization in Washington and for more competition among the states. Americans love competition. In those rare instances in years past such as with [welfare reform](#) and [education](#) when states had the freedom to compete, great innovations occurred as states experimented with ideas to find what worked and what didn't. Those reforms moved millions from welfare to work and injected competition into K-12 education.

President Trump's proposed budget presents state leaders with another opportunity to prove who has the best ideas on delivering government goods and services to citizens at the lowest cost to their economies. Instead of using federal funds to eliminate competition between the states or to subsidize laggard states that want to shift the costs of their decisions or indecisions to other states' taxpayers via federal taxes, each state will be forced to design and to fund programs that fit their demographics and needs.

What does that mean exactly? It means states finally will have control over program and funding details, thereby permitting them to make programs as big or small as their citizens' demand. At the same time, it also means that more innovative states that can lower costs and enhance services will provide a more competitive environment than states that fail to rein in costs or provide inept or poor services.

These winning states will attract citizens and businesses from losing states as people vote with their feet and, by that activity, spur the losing states to reform or languish. Competitive federalism ensures all boats rise.

Imagine if we can totally flip the situation so that state taxes become the focus of citizens, as federal taxes take a smaller portion out of their paychecks. Imagine 50 governors and 50 legislatures comprehensively competing day-after-day to provide their taxpayers with the greatest return on their tax investments, instead of every American being largely dependent upon one president and one Congress. Imagine how less important federal elections would be and how much more important state elections would become when the bulk of the power over our lives resides in statehouses, not in far off Washington.

The fact that so few governors advocate for this approach just shows how dependent states have become on Washington. Our governors need to put their hands up, not out. It is time to break the chains that have bound the states since 1935. It is easy to talk tough when someone else sets the rules and pays the bills. When the buck truly stops with the governors, we will see which ones are legitimate innovators and which ones are mere posers.

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