State Leaders Say "No Thanks" to Federal Bailout

The undersigned organizations, policy leaders and elected officials believe the idea of the federal government "bailing out" the states would be harmful to taxpayers, federalism, and ultimately the states themselves. Share your voice, sign the ALEC letter.

While economic conditions remain dire due to government-mandated business closures during the pandemic, federal lawmakers have already granted a general $150 billion COVID-19 relief fund, a $30 billion education costs fund, a $45 billion disaster relief fund and more for state and local governments. We feel a federal bailout of state budgets would be counterproductive – rewarding states that have made poor financial decisions at the expense of those that have been fiscally responsible.

For instance, in recent years North Carolina lawmakers have done the difficult, but essential work to balance their budget while keeping spending in check. By doing so, they dramatically reduced the state's personal and corporate income tax rates, built up an empty rainy day fund to $1.17 billion and accumulated a balance of $3.9 billion in the Unemployment Trust Fund, after repaying more than $3 billion in debt. On the other end of the spectrum, Illinois' rainy day fund would only keep the state running for about 15 minutes. Illinois state debt and unfunded liabilities surpassed $486 billion ($38,000 per resident) — equal to 56 percent of the state's GDP.

History teaches us that federal bailouts are harmful to the states. During the 2009 debate on the Obama-era American Recovery and Reinvestment Act (ARRA), many ALEC legislators warned that the strings attached to federal dollars, like maintenance of effort requirements, would be far costlier than the "shovel ready projects." That explains why each dollar of federal aid to states has been shown to drive state taxes higher by 33 to 42 cents in the long-term.

In 2009 the national debt was roughly $10 trillion. Now, with the debt having just surpassed $24 trillion – enough is enough. Like the federal government, many states lack spending restraint after many good years of economic growth. Even after fully accounting for population growth and inflation, state and local government direct general expenditures ballooned by 88% over the past 40 years. In many states, true spending growth was even higher, due to the growth of spending in special funds.

While the economy has produced record revenues in recent years, sadly, states have also continued to accumulate massive amounts of debt and unfunded financial liabilities. A federal bailout would only encourage this cycle of debt and spending to continue. It would also send the wrong message to states that have made difficult spending choices and practiced fiscal discipline.

State and local government budgets may be out of balance but that does not mean they are out of cash. The most recent U.S. Census Annual Survey of State and Local Government Finances shows they had $1.66 trillion in cash and securities in 2017. That's just what Census classifies as 'other' and excludes cash in insurance trust funds, bond funds, and cash held to offset debt.

For the reasons outlined above, we believe a bailout of the states would be harmful. Doing so would not only increase the federal debt, it would lead to higher taxes and spending at the state level and cause an additional erosion of federalism. Instead, states should work to craft a priority-based budget. The American people are being forced to make difficult but fiscally responsible decisions during the pandemic, and states need to do the same.

I AGREE, THE FEDERAL GOVERNMENT SHOULD NOT BAIL OUT THE STATES:

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