INSTITUTE BRIEF

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Restore Meaning to the 10th Amendment

by Amy K. Frantz

Dr. Dwight Lee highlights two problems with our democratic process in his chapter "Taxes, Grants, and Porkbarrel Politics: The Case for Decentralizing the Power to Tax" *in FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE*. The first is that the federal government is involved in too many activities that could or should be conducted by other governments or private entities. The second is that our tax system has too many loopholes and is subject to political whims.

Dr. Lee's solution to these problems is to link tax reform and devolution, sending back to the states the functions and the taxing authority of the federal government. While these two measures are usually considered independent of each other, Dr. Lee argues that "[d]evolution will be all sound and no substance without serious tax reform, and there can be no serious tax reform unless the power to tax is devolved to the states."

The federal government has grown from taking in 34.5 percent of all government receipts in 1929 to 66.4 percent in 1997. Dr. Lee highlights some of the problems that come with concentrating the power to tax in the government in Washington D.C.

Centralizing the power to tax leads to wasteful spending of tax dollars. U.S. Senators and Representatives work to get as many of those federal tax dollars for their state as possible, because their constituents' federal tax bill will not go down even if they say "no" to a larger piece of the federal tax pie. It is in their political best interest to bring home as much bacon as they can. This leads to federal spending on projects that may be economically unsound (be worth more than they cost) or are not something in which the federal government should be involved, such as funding for a baseball field in Alabama, bike paths in California, or a tennis complex in Michigan. Even those opposed to government waste may believe that as long as tax dollars are going to be wasted, they might as well be wasted in my state, says Dr. Lee.

Centralizing the power to tax leads to "threats as well as treats." The federal government sends money back to the states, but it usually attaches many strings, establishing restrictions on and requirements for spending the funds. The federal government can also use tax dollars against states to force them to take certain actions, such as the recent threat to force states to adopt a law establishing a blood-alcohol level at .08 percent for legal intoxication or risk losing federal highway funds. The federal government's blackmail techniques are an abuse of power that has rendered the 10th Amendment to the Constitution meaningless.

But doesn't federal funding of projects reduce the tax burden imposed by the state? Dr. Lee cites evidence that as the federal tax burden increases, so does the state tax burden. States must use

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funds to lobby in Washington D.C., competing with other states to receive federal funding. These funds would not be necessary if the states directly funded their own projects, without the federal government's involvement in first taking the money from the states and then returning it to them. Also, as the federal portion of the total taxes paid by a citizen grows, the less noticeable are changes in the state's portion of the total tax bill, making it easier for states to increase their tax burden.

To combat these problems created by centralizing the power to tax, Dr. Lee proposes a new political arrangement — reverse revenue sharing. Under reverse revenue sharing, "the federal government has no power to tax. All taxing authority resides within the states." The states send a set proportion of the tax revenue they collect to the federal government.

With reverse revenue sharing, the only means the federal government has to increase its revenue is to undertake actions that increase the general welfare of the country. The federal government will be hesitant to fund projects that benefit only one state or one local area. Federal funding of such projects reduces the need for state and local governments to raise revenue for these projects, potentially decreasing the amount of revenue the federal government will receive from a state.

If the federal government must rely on the states for its revenue, the federal government's ability to blackmail the states will be curtailed. "Clearly, under reverse revenue sharing the federal government has less money to return, and therefore less to threaten to cut off."

States will have an incentive to provide services more efficiently if they must raise all the revenue they spend, rather than receiving federal funding for many programs. Reverse revenue sharing will also enhance competition between the states. It will be easier to see which states provide services more efficiently and at less cost to the taxpayers. States that are inefficient and wasteful may lose citizens to more efficient states.

"Genuine federalism means that each state would have far more latitude to choose what is best for it rather than being forced into one-size-fits-all programs and approaches mandated by Washington authorities," says Dr. Lee. His reverse revenue sharing proposal would return power to the states, allowing the federal government to undertake only those tasks delegated by the United States Constitution, as prescribed in the 10th Amendment.

This Institute Brief is one in a series on the chapters of a just published book, FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE, *edited by Dr. Don Racheter, President of Public Interest Institute, and Dr. Richard Wagner, Economics Professor at George Mason University and Chairman of the Institute's Academic Advisory Board.* FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE *looks at the relationship between federalism and liberty and explores the substantive practice of federalism, particularly the centralizing processes at work and the opportunities for decentralization.*

The author of this chapter of FEDERALIST GOVERNMENT IN PRINCIPLE AND PRACTICE *is Dr. Dwight R. Lee, Ramsey Professor of Economics at the University of Georgia.*

This summary of Dr. Lee's chapter was written by Amy K. Frantz, a Research Analyst with Public Interest Institute.