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New York is not Arkansas

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By Seth H. Giertz

When she declared her candidacy for the U. S. Senate from New York, First Lady Hillary Rodham Clinton, as expected, promised to fight for an ever larger federal government—in part by expanding programs targeting children and the poor and opposing Republican tax cuts. But, Mrs. Clinton also drew attention to another issue when she declared: "It is just wrong that today New York sends $15 billion more in taxes each year to Washington than New York gets back." Mrs. Clinton must believe that the net return of federal tax dollars to New Yorkers is unrelated to the size of the federal government—or at least believes that New York voters believe this.

The fact is that New York and other wealthy states pay considerably more in taxes to the federal government than they receive back in federal expenditures. This is not a topic you'll likely hear about in an Arkansas Senate race or from an Arkansas governor. Nor is it a lament that one would expect to hear from a prominent child advocate, who consistently argues for the expansion of welfare state. It should come as no surprise, however, that the topic caught Mrs. Clinton's eye now, as she declares her candidacy for one of New York's U. S. Senate seats.

In 1998, when it comes to returns on their federal tax dollars, Arkansas fared much better than New York. For every dollar Arkansas sent to Washington, it received $1.33 back. That's not too shabby. On the other hand, New York received just $0.88 on the dollar. (All data are from the *Flow of Federal Funds to the States: Fiscal 1998*, Northeast-Midwest Institute.)

Mrs. Clinton wants to change this and promises to "fight for a fair share for New York." She does not, however, say that New York's gain should come at the expense of poor states such as New Mexico, West Virginia, and Arkansas—states that now receive large net surpluses.

Mrs. Clinton wants to have her cake and eat it too. If she truly opposes the redistribution of federal tax dollars between states, then she should also favor reigning in government redistributive programs and lessening the progressivity of the federal tax system since these are the two main factors driving the disparity between states. But we know that these issues are not on her agenda.

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The First Lady's view of government and its role in society is crystal clear and unwavering. It is no secret that she champions Big Government and large-scale social programs run from Washington. For evidence, one needn't look any further than her failed attempt to socialize nearly one-seventh of the nation's economy with her health care plan. Despite this earlier setback on the healthcare front, Mrs. Clinton remains undaunted. At her official announcement, in Purchase, New York, she promised to fight for an expanded Medicare, for a patients' bill of rights and for "smart new ways to help the least fortunate among us."

In regard to federal spending, New York holds its own receiving about 105 percent of the national average in per capita terms. When it comes to grants from Washington to state and local governments, New York already does quite well receiving 60 percent more than the national average in per capita terms, thanks largely to New York City's political clout. The state even does fairly well in terms of payments to individuals (such as Social Security), receiving about the national average.

New York does not do so well when it comes to defense spending and government employment. But, New York has numerous thriving industries and few would argue that focusing on defense and other federal government services at the possible expense of these vibrant enterprises (such as legal and financial services) would be wise.

New York is a big loser when it comes to taxes, however, paying 18 percent more on a per capita basis than the national average. This is because the state is prosperous with per capita income fourth highest in the nation and because of the progressivity of federal taxes, especially the individual income tax. On this issue, the First lady has remained firm, stating her opposition to any serious tax cut by arguing that any such plan would be a detrimental to both New York and the nation.

In general, the wealthier states fare poorly in the net return of federal taxes not because they receive so little, but because they pay so much. This should come as no surprise to anyone, since our income tax system is structured such that top fifth of earners pay nearly three quarters of all federal income taxes while the bottom 50 percent pay less than 5 percent. The First Lady's proposed expansion of federal programs and opposition to general tax cuts will only increase the disparity between states—even if wealthy states like New York receive a good chunk of the new spending.

If elected to the Senate, Mrs. Clinton has promised to "try to create a coalition of the big states to stand up for our interests." Since the chief causes of the disparity between states are redistributive social programs and the progressive federal income tax, we should expect Mrs. Clinton to lead this coalition by advocating a slowing of the growth of government spending (for example, by reducing federal taxes), making the federal tax system less progressive, and by reducing various federal programs that go disproportionately to the poor. Voters who bet on that are going to receive a lot less than New York's $0.88 to the dollar.

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