

Dr. Dave: There is persuasive evidence that in recent elections, the residents of states that receive more from the federal government than they pay in taxes voted for the anti-government party, while states that paid more to the federal government than they received voted for the pro-government party. Is this a case where everyone is voting against his or her economic self-interest?

A. Not exactly, but your question does raise an important issue. First, the facts: Of the 19 states that cast their electoral college votes for John Kerry in the 2004 election, 12 received less than a dollar from the federal government for each dollar they paid in taxes, and one (Oregon) broke even. Of the 31 states that voted for George Bush, 25 received more than a dollar for each dollar in federal taxes, and one (Florida) broke even.<sup>1</sup>

Eight of the top-ten state recipients of federal dollars, on a per capita basis, voted Republican.<sup>2</sup>

Put another way, over the last decade, blue states collectively paid \$1.4 trillion more federal in taxes than they received, while red states received \$800 billion more than they paid.<sup>3</sup> Blue states lost \$8,916 per capita, while red states gained \$8,499 per capita – a difference of \$17,415.

Why this difference? Dean Lacy, professor of political science at Ohio State University and past fellow at the Hoover Institution, analyzed relationships between federal spending, federal tax burden, and Electoral College votes in the 2000 and 1996 elections. He concluded, “as a state’s ratio of federal spending to taxes increases, Bush’s margin of victory increases.”<sup>4</sup>

One common assumption disproved by Lacy’s analysis is that military spending and the concentration of military bases in the South and West are a factor. After separating military spending from non-defense spending, there was no relationship between defense

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<sup>1</sup> Two organizations track federal spending and taxation by state. See Tax Foundation, [Federal Tax Burdens and Expenditures by State: Which States Gain the Most from Federal Fiscal Operations?](#) December 2004, and; Northeast Midwest Institute, [Federal Spending](#).

The Tax Foundation’s annual report compares federal tax burdens (individual income tax, corporate income tax, social insurance taxes, excise taxes, estate and gift taxes, and customs duties) with federal expenditures (retirement and disability, other direct payments, grants to state and local governments, procurement, salaries and wages, and “other”) for each state.

Approximately 87 percent of federal spending is accounted for. The category “other” is added to account for the 13 percent of federal outlays not allocable to the states – including interest payments, foreign aid – in determining the ratio of taxes paid to expenditures received. As a result, the Tax Foundation’s state rankings vary from those in the Consolidated Federal Funds Report.

<sup>2</sup> The two that did not are Hawaii and Maryland, both of which receive disproportionate amounts of federal wages and salaries, and procurement.

<sup>3</sup> The Great Divide, Chapter 2. These figures exclude Virginia and Maryland, where much of the federal government is located.

<sup>4</sup> Dean Lacy, [A Curious Paradox of the Red States and Blue States: Federal Spending and Electoral Votes in the 2000 Election](#), March 2002.

spending per state and the state's Electoral College vote. In other words, the amount a state receives in military spending does not significantly affect its voting patterns, and vice versa.

In fact, once defense spending was factored out, states that benefit the most from non-defense spending were even more likely to vote Republican. For each additional 10 cents per dollar of non-defense federal spending in a state, Bush's margin in the 2000 election increased by 2.9 percentage points.<sup>5</sup>

The difference also does not seem to be attributable to the number of retirees in a state. While this does influence both voting patterns and the flow of Social Security and Medicaid dollars to a state, it does mean that a state is a net beneficiary of federal dollars. Florida, for example, receives more in federal retirement and disability payments than any other state, yet it pays as much in federal taxes as it receives in total benefits.<sup>6</sup>

Income is a factor. High-income blue states pay more in federal taxes, both per capita and in absolute terms, than low-income red states. This is not just because of where corporate headquarters are located. In general, blue states pay relatively more per capita in individual income tax than corporate income taxes, while the reverse is true for red states.<sup>7</sup>

The progressivity of many federal programs helps lower income states the most. For example, for each state dollar spent on Medicaid, Mississippi gets about \$3.50 from the federal government while Minnesota gets \$1.00.<sup>8</sup> But low-income states like Mississippi are also especially stingy with benefits to low-income people, and the federal contribution is based on state spending. Wealthier states receive more in federal health and social welfare grants than poor states, even at lower matching rates, because they spend more of their own money on programs.<sup>9</sup>

William Ahern of the Tax Foundation argues that since blue states earn more money and pay more federal taxes, they should be in favor of undoing the progressive tax structure. Yet election results show the exact opposite. For each \$1000 per person increase in

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<sup>5</sup> *Ibid.*

<sup>6</sup> Arizona, another popular retiree destination, receives less per capita in retirement and disability payments than the national average. Both states receive less per capita than top-ranked Alabama.

<sup>7</sup> For example, Connecticut's individual income tax per capita was 200 percent of the national average, but corporate income taxes were 138 percent of the national average. In Alabama those figures were 64 percent and 79 percent of the national average.

<sup>8</sup> The Federal Medical Assistance Percentages (FMAP) are used to determine federal matching funds for Medicaid and the State Children's Health Insurance Program. They range from 50 percent to 77 percent, and are often wrongly interpreted as the federal matching rate, i.e. a 50 percent match means the federal government chips in 50 cents for each dollar spent by the state. Each state's FMAP is actually the share of spending on these programs that the federal government will assume. So with a 50 percent match, the costs are split evenly; with a 66 percent match, the federal government covers two-thirds of the cost while the state covers one third.

<sup>9</sup> U.S. Department of Health and Human Services, [Spending on Social Welfare Programs in Rich and Poor States](#), July 2004, [Chapter 5](#).

federal taxes there was a 7.6 percentage point decline in Bush's vote margin in 2000.<sup>10</sup> The 1996 election results are a mirror-image of the 2000 data: states with higher federal tax burdens had a higher percentage of votes for Clinton, states that benefit most from federal spending had a lower percentage.

Who controls Congress significantly affects the direction (although apparently not the scale) of federal spending. In 1995, the last year the Democrats controlled the budget process,<sup>11</sup> Democratic districts received \$35 million more, on average, than Republican districts. In 2000, the average Republican congressional district received \$612 million more in federal money than the average Democratic district.<sup>12</sup>

Republican leaders were candid about the reasons behind the shift. "There is an old adage," House Majority Leader Dick Armey (R-Texas) declared. "To the victor goes [*sic*] the spoils."<sup>13</sup>

Part of this shift from Democratic districts to Republican districts was a byproduct of Republican budget strategies that decreased spending on social welfare programs and increased spending on farm subsidies, business and industrial loans, and crop insurance. "Rather than pork barrel projects for new GOP districts," reported the Associated Press, "the change was driven mostly by Republican policies that moved spending from poor rural and urban areas to the more affluent suburbs and GOP-leaning farm country, the computer analysis showed."<sup>14</sup>

The distribution of federal spending has become more important in recent years as state tax revenues have stagnated. The share of state general revenues that comes from federal redistribution is increasing. After declining since the 1970s, federal aid began to increase again in the mid-1990s and accounted for about 26 percent of state general funds in 1999. In 2002, the most recent data available, it had grown to 29 percent. Robert Tannenwald of the Boston Federal Reserve argues that this represents a long-term structural shift, as the shift from manufacturing to services, electronic commerce, and inter-jurisdictional competition may make state and local revenue systems obsolete.<sup>15</sup>

So where does that leave us? On the face of it we have a conundrum. Red states presumably want a smaller federal government that stops picking their pockets, but at

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<sup>10</sup> Lacy, *Op. Cit.*

<sup>11</sup> Budgets originate in the House of Representatives. In the 1994 election Republicans gained control of the House for the first time in 40 years.

<sup>12</sup> [Associated Press](#), August 6, 2002. As of March 2004, the web site of the [AP Federal Spending Project](#) states that it has been temporarily removed.

<sup>13</sup> Associated Press, August 6, 2002.

<sup>14</sup> I say "more" because the system was already tilted toward upper incomes: In 1991, households with incomes over \$100,000 received, on average, more in federal cash and in-kind benefits than households with incomes under \$10,000. U.S. Census Bureau data cited in "[Income Redistribution, GOP Style](#)," *Slate*, August 6, 2002.

<sup>15</sup> Robert Tannenwald, "[Are State and Local Revenue Systems Becoming Obsolete?](#)" *New England Economic Review*, Issue 4, 2001.

election time endorse a government that puts more money in their pockets than it takes. Blue states presumably believe that government spending should match society's needs, even when the government is picking their pockets and giving that money to the red states.

The data, while persuasive, is still open to interpretation. The web is awash with discussions about its validity and significance.

Without plumbing the data in more detail, it does seem that we might arrive at one tentative conclusion. In presidential elections, the red states vote against their principles but in their economic self-interest (at least from a federal spending perspective), while blue states vote for their principles and against their self-interest.

Wouldn't it be fascinating if a liberal presidential candidate declared his (or her) intention to require Washington to return to every state an amount that is within 5 percent of what it receives from that state in taxes and fees? Such a political platform would stimulate a most instructive and welcome conversation.