



THE VIEW

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FEDERALISM: A SOLUTION OR A PERFECT STORM

BY

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A big question mark continues to loom over the nation's financial condition, causing more than a little bit of speculation about if and/or when old devil inflation and sky high interest rates are going to be loosed on the populous. Meanwhile, in Mississippi Governor Haley Barbour, as anticipated, used his authority to impose a round of 5% budget cuts. Because education consumes nearly 64% of the State budget the hit absorbed by education at all levels was virtually unavoidable if the budget were to be cut. Mississippi joins nearly all of the other states in the union in dealing with some stage of a budget crisis.

In making the announcement of the budget cuts Governor Barbour alluded to the fact that the Federal stimulus package passed in the early days of the Obama administration shored up education coffers sufficiently enough to stave off even more draconian cuts. This has been the subject of much ink over the last few days. That ominous dark clouds are gathering on the horizon is almost unmistakable. The facts are these. In two years the stimulus dollars will be gone. We will then all discover that the stimulus, while being a virtual life saver, nonetheless hid the fact that our old revenue systems were not producing sufficient dollars to support expanding demands for education, and that a seemingly annual series of events that had kept Medicare and Medicaid from falling over the cliff have probably come to an end. The combined post-stimulus reality of just these two major chunks of the Mississippi budget may be more than most Mississippians can physically or fiscally stomach.

A review of how our federal system of government operates may assist in the anticipation of where the action will take place. By definition, "Federalism" is a system of government where there are two or more levels of government, each having powers unique to a specific level. For example, in the United States, the national government deals with such things as the national defense, health, economic well being including agriculture production and commerce, national transportation infrastructure, international trade and many others. State governments have their own programs dealing with roads and bridges, health and mental health, education, economic development and public safety. Local governments deliver programs where the people live. They address such things as public safety and local public works, education, and recreation as well as building codes and zoning ordinances that guarantee the livability of communities. Central to the powers of each of these levels of

government is the power to raise the money necessary to carry out programs for the respective constituencies of each of these levels. There are income and excise taxes at the national level, income and sales taxes at the state level, and property and sales taxes at the local levels.

It is when we put all of these systems in motion that things can become frightening. One should think of a giant set of interlocking gears grinding into motion. No one of these three levels of government acts independently of the other. Action at the national level can profoundly affect the state and local levels. Action at the state level can affect both of the others, but like action of the national level is often implemented on the ground at the local level. Everything comes to the end of the line at the local level. There are two key issues here. First, virtually all domestic programs are implemented at the local level and, secondly, in case the reader has not guessed where this was leading, the citizen who pays the bill at the national level, the citizen who pays the bill at the state level, and the citizen who pays the bill at the local level is one in the same person.

Thus, if we demand that a federal program that is implemented at the local level be abolished then we must ask ourselves as taxpayers if we are prepared to do without, or whether we will pick up the tab with either state or local dollars. The same holds true for things like the stimulus dollars. When we fuss about the advisability of the stimulus package, are we prepared to do without the several hundred million dollars flowing into the state which are currently propping up the shaky budget? Mississippians should remember that even in good times we get nearly \$2.00 back for every \$1.00 we send to Washington. Like it or not, this may be Mississippi's best investment.

So we had best begin pondering the difficult choices that will face us beginning in 2011. Do we live with less revenue in a state where most of our tax dollars go for education and health care, or do we raise taxes at the State and local levels? What about the projected \$13 trillion federal deficit? Remember, it is the same individual citizen at the National, State, and Local levels that will be called upon to pay up to preserve programs or do without at all of these levels.



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