

WISCONSIN

A vast literature has examined the impact of federal grants on state and local spending. Recent academic peer-reviewed research finds a “ratchet” effect in which federal transfers to the states are associated with increased state and local taxes and charges. Research points to several reasons why additional federal funding would lead to greater state and local own-source spending:

- A “flypaper” effect, in which federal funds are accepted as a supplement to, rather than a substitute for state and local taxes and charges.
- A “stimulus” effect in which matching fund and maintenance of effort requirements tied to federal funds require increased spending from state and/or local funds. In addition, matching requirements may stimulate state and local spending by encouraging projects that would not have been undertaken without the matching funds.

Recent academic research finds that each dollar of additional federal grants to states is associated with a total increase of 54–86 cents in *new* state and local taxes. The research presented in this report supports the published finding. Our statistical study is the most comprehensive analysis to date, using information from U.S. states spanning the period from 1972 to 2012 and controls for state-by-state differences in economic and demographic factors.

Our results clearly demonstrate that federal transfers to state and local governments result in higher own source revenue and taxes. **Across states as a group, each dollar of additional federal grants to states is associated with a total increase of 82 cents in *new* state and local taxes.**

Wisconsin has a larger ratchet effect than states as a group. Statistical analysis controlling for the economic and demographic factors that vary across states and over time indicates that—holding other variables constant—**each additional dollar of federal intergovernmental transfers to Wisconsin is associated with \$1.34 in additional taxes, charges, and other state and local own source revenue.**

In 2012, Wisconsin state and local governments received \$10.1 billion in federal intergovernmental transfers and spent \$39.2 billion raised from state and local sources.

- A hypothetical 10 percent increase in federal transfers to Wisconsin would amount to about \$1 billion more federal money to the state.
- The statistical analysis indicates that this would be associated with approximately \$1.3 billion more in spending from state and local own sources, or **an additional \$230 per person in taxes and charges.**