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Federal Aid-to-State Programs Top 1,100

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The federal government has a large and growing presence in state and local policy activities. This rising intervention has been facilitated by “grants-in-aid,” which are programs that combine federal subsidies with top-down regulations to micromanage state and local affairs.

A new analysis finds that the number of federal aid programs for state and local governments totaled 1,122 in 2010, or more than triple the number 25 years ago. Some of the most expensive federal aid programs are in the areas of education, housing, health care, and transportation.

With today’s massive deficits, the federal government can no longer afford to fund all of these state and local activities. Federal lawmakers would better serve the nation by focusing on national issues rather than trying to fix potholes and run the schools. Furthermore, aid ties up the states in bureaucratic knots and reduces state policy innovation. The \$646 billion aid system should be cut.

Federal Aid Undermines Freedom

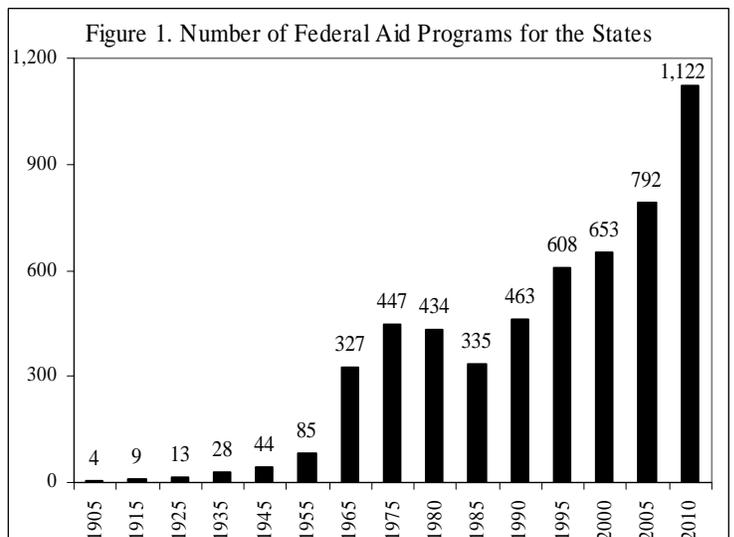
Under the Constitution, the federal government was assigned specific limited powers and most government functions were left to the states. To ensure that people understood the limits on federal power, the Framers added the Constitution’s Tenth Amendment: “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.” The amendment embodies federalism, the idea that federal and state governments have separate policy areas and that proper federal activities are “few and defined,” as James Madison said.

Federalism has acted as a safeguard of American freedoms. President Reagan noted in a 1987 executive order, “Federalism is rooted in the knowledge that our political liberties are best assured by limiting the size and scope of the national government.”¹ Sadly, policymakers have ignored federalism in recent decades as Congress has undertaken many activities through grants-in-aid that it has no legal or practical reason to be involved in.

Rapid Aid Expansion Since the 1960s

Figure 1 shows the number of federal aid programs for state and local governments over the last century.² In the 19th century, federal aid to the states was very rare outside of land grants. Then the number of aid programs began growing slowly and steadily in the first half of the 20th century. The big change came in the 1960s. The aid system exploded in size under President Lyndon Johnson. He added hundreds of programs for housing, urban renewal, education, and other local activities. Policymakers at the time had great optimism that federal experts could solve virtually any local problem

That optimism did not last. President Richard Nixon lambasted “the idea that a bureaucratic elite in Washington knows best what is best for people everywhere.”³ Then President Jimmy Carter proposed a “concentrated attack on red tape and confusion in the federal grant-in-aid system.”⁴ President Ronald Reagan criticized the “confused mess” of federal grants, and he had some success at cutting them.



Unfortunately, Reagan’s efforts to trim the federal aid empire were reversed after he left office, particular under Presidents George W. Bush and Barack Obama. The number of aid programs has soared from 653 in 2000 to 1,122 in 2010, based on my count of programs in the Catalog of Federal Domestic Assistance. A few dozen of the new programs are those enacted temporarily under the 2009 “stimulus” legislation, but the great majority are enacted as permanent programs.

The 2010 health care legislation was the source of about two dozen aid programs in the new program count. Other legislation of recent years added a wide range of new programs, such as specialty crop block grants, beginning farmer and rancher development grants, second-chance prisoner reentry initiative grants, clean fuel vehicle purchase grants, and America’s marine highway grants.

Table 1 shows aid programs by federal department, based on the CFDA. Federal spending on these aid programs was \$654 billion in fiscal 2010 and \$646 billion in fiscal 2011, which is double the cost in fiscal 2001.⁵

Table 1. Aid-to-State Programs by Department, 2010

Federal Department	Number of Programs	Outlays (\$ billions)
Agriculture	118	36.7
Commerce	29	0.7
Education	109	86.5
Energy	24	5.4
Health and Human Services	297	356.7
Homeland Security	27	10.9
Housing and Urban Dev.	43	42.3
Interior	163	4.8
Justice	74	5.3
Labor	38	11.8
Transportation	59	72.1
Treasury	1	8.5
Veterans Affairs	3	0.9
EPA	87	6.1
All other agencies	50	5.0
Total	1,122	653.7

Eight Reasons to Cut Federal Aid

Federal aid-to-state programs undermine constitutional federalism, and they don’t make any practical sense. The theory behind aid is that the federal government can efficiently solve local problems, but decades of experience have shown that it cannot. Following are eight reasons to terminate federal aid-to-state programs.

1. No Magical Source of Federal Funds. Aid supporters bemoan the “lack of resources” at the state and local level and believe that Uncle Sam has endlessly deep pockets to help them out. But he does not—every dollar of federal aid sent to the states is ultimately taken from federal taxpayers who live in the 50 states. It’s true that the federal government has a greater ability to run deficits than state governments, but that’s an argument against the aid system. By pushing government funding up to the federal level, the aid system has tilted American government toward unsustainable debt financing.

2. Aid Spurs Overspending. Aid programs spur overspending by every level of government. Politicians at every level enjoy expanding programs to satisfy special interest groups, but with aid programs they rely on other levels of government to pay part of the cost. Thus, they get the political benefits of more spending but pay only part of the political cost of raising taxes. Aid programs often contain rules that encourage overspending. Some programs have a “matching” feature that rewards state politicians with more federal funds when they expand a program. Other programs have a “maintenance of effort” feature that prevents states from cutting program costs.

3. Aid Allocation Is Inefficient. The myth of aid is that impartial federal experts can rationally distribute funding to the most needy local communities and activities. But the aid system has never worked that way. A 1940 news report lamented: “The grants-in-aid system in the United States has developed in a haphazard fashion. Particular services have been singled out for subsidy at the behest of pressure groups.”⁶ It’s the same today. Politics substantially determines the activities and congressional districts that receive the most aid. For example, states with the greatest need for highway funding may get less federal aid than less-needy states if they have weak members of Congress.

Even if politics were taken out of the equation, the federal government does not have the knowledge to efficiently plan for the education, housing, and other needs of a diverse nation of 309 million people. Such knowledge is only generated in the private marketplace, which is the mechanism that allocates most goods and services. For services that must be provided by governments, they are generally allocated more efficiently by state and local policymakers without federal subsidies and interference.

4. Aid Reduces Innovation. Federal aid reduces state policy innovation because it comes with top-down rules that encourage or mandate policy conformity. State and local governments can’t be “laboratories of democracy” if they all operate under one-size-fits-all rules written in

Washington. The former 55-mile-per-hour national speed limit was the classic example of a federal mandate that ignored the states' diverse needs. More recently, the No Child Left Behind education law extended federal regulatory tentacles into local classrooms.

5. Aid Is Intensely Bureaucratic. The aid system imposes a huge paperwork burden on all three levels of government. Federal agencies that hand out state aid consume roughly 10 percent of the value of the aid in administration. That money stays in Washington. For state and local governments, each of the 1,122 aid programs involves tasks such as filling out applications, filing reports, auditing, litigation, and regulatory compliance. For each program, federal rules can run from dozens to thousands of pages in length.

6. Aid Distracts Federal Politicians. The huge scope of the aid system means that federal politicians spend much of their time on local issues. Rather than focusing on truly national issues, such as defense and security, they are busy steering funds to their districts for local projects. President Calvin Coolidge was prescient in arguing that state aid should be cut because it was "encumbering the national government beyond its wisdom to comprehend, or its ability to administer" its proper roles.⁷

7. Aid Breeds Irresponsibility. The three levels of government would work more efficiently if they resembled a tidy layer cake with separate functions. Instead, they are like a marble cake with jumbled lines of accountability, and that makes it difficult for citizens to know who is in charge of each policy activity and outcome. When every government has a hand in an activity, no government is responsible, as we saw, for example, in the disastrous lead-up to, and aftermath, of Hurricane Katrina in New Orleans.

8. Common Problems Aren't Necessarily Federal. Politicians and special interest groups often claim that certain state, local, and private activities need federal aid because they are "national" priorities. The Bush administration, for example, claimed a "compelling national interest" in providing federal aid for the K-12 schools.⁸ But the schools are a "national interest" only in the sense that many families are interested in them.

In Canada, families are also interested in K-12 education. But in that nation, the federal government is generally not involved in the schools, and yet their kids do much better on international tests than do U.S. kids.⁹ Thus, the desire of members of Congress to try to solve state, local, and private problems needs to be tempered with an understanding that federal involvement is usually counterproductive.

Conclusions

The federal aid system is a roundabout funding system for state and local activities that undermines frugal and accountable government. Under the aid system, federal politicians spend money on a range of special interest activities and then blame other levels of government when policy failures occur.

The aid system does not deliver efficient and high-quality public services to citizens. It delivers bureaucracy, overspending, and regulatory micromanagement from Washington. It also creates a political tug-of-war between the states over funding. By contrast, when spending and taxing decisions are made together at the state and local levels, policy tradeoffs are likely to better reflect the local preferences of citizens.

The federal aid system should be scaled back and ultimately abolished. The explosive growth in the aid system is turning once proud and diverse states into little more than regional subdivisions of an all-powerful national government. But with huge and ongoing federal deficits, there is simply no room in the budget for state and local activities. Congress should revive federalism and begin terminating its huge catalog of 1,122 aid programs.

¹ Ronald Reagan, Executive Order 12612, October 26, 1987.

² The figure for 2010 is based on my analysis of the Catalog of Federal Domestic Assistance, available at www.cfda.gov. I included programs of type A, B, and C for state, local, and tribal governments, while excluding programs for private-sector recipients. Programs with zero obligations were excluded. For a discussion of data sources for the chart, see Chris Edwards, "Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy," Cato Institute Policy Analysis no. 593, May 22, 2007. Thanks to Amy Mandler for her assistance.

³ Richard Nixon, State of the Union Address, 1971.

⁴ Quoted in Advisory Commission on Intergovernmental Relations, "The Intergovernmental Grant System: An Assessment and Proposed Policies," January 1978, p. 24.

⁵ *Budget of the U.S. Government, FY2005, Analytical Perspectives*, p. 113.

⁶ B. Putney, "Federal-State Relations Under Grants-In-Aid," *CQ Researcher*, July 30, 1940.

⁷ Quoted in Charles Warren, *Congress as Santa Claus or National Donations and the General Welfare Clause of the Constitution* (New York: Arno Press, 1978), p. 103.

⁸ Margaret Spellings, "10 Facts about K-12 Education Funding," Department of Education, June 2005.

⁹ Nick Anderson, "U.S. Students in Middle of Global Pack," *Washington Post*, December 7, 2010.