Policy Analysis

CATO INSTITUTE

May 20, 2019 | Number 868

Restoring Responsible Government by Cutting Federal Aid to the States

By Chris Edwards

EXECUTIVE SUMMARY

The federal government has a large presence in state and local policy activities such as education, housing, and transportation. That presence is facilitated by "grants-in-aid" programs, which are subsidies to state and local governments accompanied by top-down regulations.

Federal aid spending was $697 billion in 2018, which was distributed through an estimated 1,386 separate programs. The number of programs has tripled since the 1980s, indicating that the scope of federal activities has expanded as spending has grown.

Rather than being a positive feature of American federalism, the aid system produces irresponsible policymaking. It encourages excessive and misallocated spending. It reduces accountability for failures while generating costly bureaucracy and regulations. And it stifles policy diversity and undermines democratic control.

Cutting federal aid would reduce federal budget deficits, but more importantly it would improve the performance of federal, state, and local governments. The idea that federal experts can efficiently solve local problems with rule-laden subsidy programs is misguided. Decades of experience in many policy areas show that federal aid often produces harmful results and displaces state, local, and private policy solutions.

This study describes the advantages of cutting federal aid. It discusses 18 reasons why it is better to fund state activities with state revenues rather than with aid from Washington. Shrinking the aid system would improve American governance along many dimensions.

Chris Edwards is the director of tax policy studies and editor of DownsizingGovernment.org at the Cato Institute.

> “The federal government generally kept out of state and local affairs for the first century and a half of the nation.”

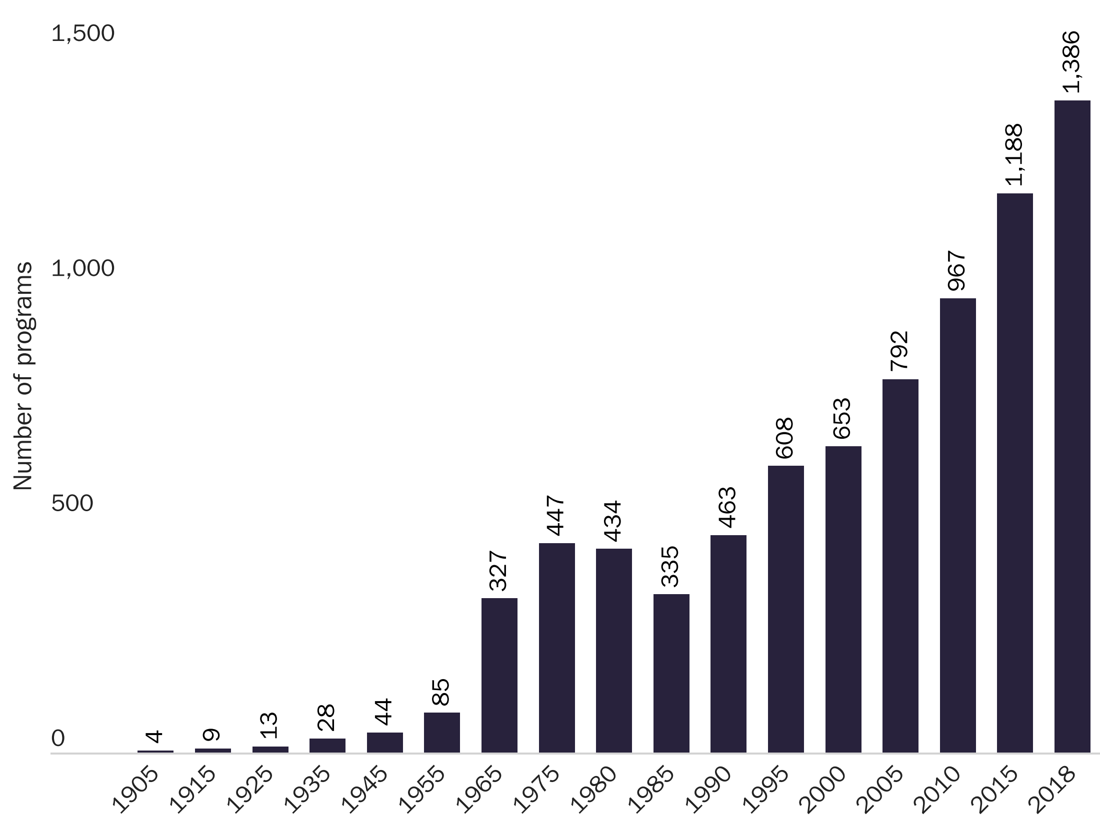
GROWTH IN FEDERAL AID

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 noted in *Federalist* 45.

The federal government generally kept out of state and local affairs for the first century and a half of the nation. But in recent decades, Congress has increasingly intervened in state and local activities with federal aid or grant programs. The expansion of the aid system has created advantages for elected officials, but it has created costs and few benefits for the public.

Figure 1 shows the number of federal aid programs for state and local governments over the past century.[1] In the 19th century, aid to the states was rare other than grants of federal land. In the early 20th century, the number of cash aid programs began growing steadily.[2] The biggest change came in the 1960s, when the aid system greatly expanded under President Lyndon Johnson. His administration added hundreds of programs for housing, urban renewal, education, and other local activities. Johnson and other policymakers at the time were optimistic that federal experts could solve virtually any local problem. At the same time, moves to decentralize decisionmaking within Congress empowered members to seek

Figure 1
Number of federal aid-to-state programs, 1905–2018



Source: Author's estimate for 2018 and Office of Management and Budget, Congressional Research Service, and Advisory Commission on Intergovernmental Relations for earlier years.

benefits for local activities in their states.[3]

The optimism of the 1960s was short-lived. President Richard Nixon in 1971 lambasted "the idea that a bureaucratic elite in Washington knows best what is best for people everywhere."[4] Nixon and subsequently President Gerald Ford pursued modest reforms to the aid system by turning narrow grants into broader block grants. After Ford, President Jimmy Carter promised a "concentrated attack on red tape and confusion in the federal grant-in-aid system."[5]

In academia, "the mainstream of economic research into fiscal federalism became increasingly critical of federal grants-in-aid in the late 1970s and early 1980s."[6] Also at that time, the Advisory Commission on Intergovernmental Relations (ACIR) was regularly publishing studies about the aid system's complexity and ineffectiveness.[7] The ACIR was a bipartisan body consisting of federal, state, and local officials that produced expert studies on federalism issues. It was abolished in 1996.

President Ronald Reagan came into office criticizing the "confused mess" of federal grants, and he pushed to cut the system under the theme of "New Federalism."[8] He had more success with reforms than his White House predecessors and was able to cut the number of grant programs in his first term by about one-quarter.[9]

Unfortunately, Reagan's efforts to trim the federal aid system were later reversed. The number of aid programs rose from 463 in 1990 to 653 in 2000. That increase happened despite promises by Republicans in 1995 to "return power to our states and our people," as Senate Majority Leader Bob Dole promised, and to "return money, power and responsibility to the states," as House Budget Committee chair John Kasich remarked.[10]

The number of federal aid programs jumped to 967 by 2010 and then to 1,386 by 2018. The 2018 figure is based on a new count of aid programs for state and local governments in the Catalog of Federal Domestic Assistance (CFDA).[11] The CFDA lists all federal benefit or subsidy programs, but the program count here includes only programs for state, local, and tribal government recipients that were funded in 2018.

Table 1 shows the number of aid programs and spending by federal department. Federal aid spending was $697 billion in 2018 and is expected to jump to $750 billion in 2019.[12] Aid programs allocate funds to the states either by mathematical formulas or by a competitive process as project grants.[13] Some aid is distributed as a lump sum, while other aid requires recipient states to partly match the federal funding amount.

The largest federal aid program is Medicaid, which accounts for 56 percent of overall aid. Other large aid programs are for highway funding, school breakfasts and lunches, rental housing, and K–12 education. Aside from these, there are many smaller aid programs for a vast range of activities, including rural housing, local police and fire services, nursing workforce diversity, boating safety, indoor radon, arts in education, sport fishing, brownfields redevelopment, healthy marriage promotion, and farmers markets.

All of this federal spending on state and local activities is misguided. Experience has shown that federal aid and related regulations are not effective at solving state and local problems. State and local funding and control of government programs is preferable, as this study discusses.

Cutting aid to the states should be a bipartisan goal. Cuts should appeal to conservative lawmakers because aid programs tend to be bureaucratic, inefficient, and beset by waste. Cuts should also appeal to liberal lawmakers because the aid system undermines democracy, diversity, choice, and local control in government.

The Trump administration has proposed trimming some aid programs, including programs for health, housing, and community development.[14] But the administration has also proposed new aid programs for infrastructure, even though infrastructure aid has the same shortcomings as other aid, as discussed below.

Table 2 contrasts two ways of funding state programs: federal aid and state funding. The

> **"The number of federal aid programs jumped to 967 by 2010 and then to 1,386 by 2018."**

> "The aid system undermines democracy, diversity, choice, and local control in government."

table essentially summarizes 18 disadvantages of federal aid compared to state funding, and these are discussed in order in the balance of the report. Federal aid distorts government spending levels and spending allocations, and it undermines program efficiency, program quality, and good governance.

In Table 2 and the balance of the report, the term "states" generally refers to both state and local governments.

EFFECTS OF FEDERAL AID

1. Deficit Effect

Supporters of federal aid often talk as if state governments lack resources to pursue spending programs, while the federal government has endlessly deep pockets. But every dollar of federal aid that supports state and local governments ultimately comes from taxpayers who live in the 50 states. There is no special, costless source of money that funds the federal budget.[15]

It is true that the federal government has a much greater ability to run deficits than state governments, which gives the illusion of deep pockets.[16] But the fact that the federal government can run large deficits is an argument against the aid system, not for it. By pushing funding for state activities up to the federal level, the aid system biases American government in favor of imprudent deficit financing.

It is better to fund state spending activities at the state level because state governments must generally balance their budgets and limit their debt issuance.[17]

2. Politics Effect

The aid system inflates the political benefits of spending and reinforces pro-spending advocacy. With a state-funded program, state policymakers must balance the benefit of the spending with the cost of raising taxes to pay

Table 1

Federal aid-to-state programs by department, 2018

Federal department	Number of programs	Outlays (billions of dollars)
Agriculture	178	38.7
Commerce	64	0.4
Education	88	40.8
Energy	27	0.3
Health and Human Services	410	470.4
Homeland Security	28	12.3
Housing and Urban Development	40	37.2
Interior	230	4.9
Justice	96	4.0
Labor	36	7.2
Transportation	61	64.7
Treasury	5	5.5
Veterans Affairs	4	2.1
EPA	77	3.9
All other agencies	42	4.1
Total	**1,386**	**696.5**

Source: Author's calculations for program count and Office of Management and Budget for outlays.

for it. But if a program is partly funded with federal aid, both federal and state policymakers can claim credit for the spending but may only be responsible for part of the tax cost. In this way, aid programs increase the ratio of the political benefits of spending to the tax costs, thus inducing excess spending.

One can notice this political effect when federal aid goes toward a project such as a local transit line or highway improvement. Federal, state, and local politicians all show up for photos at the groundbreaking and issue press releases claiming credit, yet each level of government may only pay part of the cost. Economist Gordon Tullock called this a kind of "double counting" benefit to politicians of aid programs.[18]

Support for aid programs is buttressed by the promotional efforts of multiple levels of government, and aid programs allow for multiple entry points into the legislative process for lobby groups. Even when the federal government pays all a program's costs, federal policymakers gain from the support of state policymakers and interest groups. In this case, aid programs still provide a "mutual profit for political purposes," as Tullock noted.[19]

When federal agencies hand out grants to

Table 2

Federal aid vs. state funding

	Federal aid	State funding
A. Spending levels		
1. Deficit effect	Federal borrowing fuels overspending	States balance their budgets
2. Politics effect	Aid inflates the political benefits of spending	States weigh spending against tax costs
3. Flypaper effect	Spending is increased on targeted items	States weigh spending against tax costs
4. Matching effect	Spending is increased because aid seems free	States weigh spending against tax costs
B. Spending allocations		
5. Across the states	Aid allocations do not match state needs	States decide on their own needs
6. Within the states	Aid distorts spending within the states	States allocate their own budgets
C. Program efficiency		
7. Bureaucracy	Large bureaucracies handle aid paperwork	Smaller bureaucracies at all levels
8. Waste	Weaker incentives to cut waste and fraud	Stronger incentives to cut waste and fraud
9. Regulations	Federal rules add costs and inflexibility	States adopt their own rules as needed
D. Program quality		
10. Management	Policymakers distracted by aid system	Policymakers can focus on management
11. Diversity	Programs are one-size-fits-all	Programs are tailored to local needs
12. Timeliness	Federal aid delays state projects	States pursue projects when needed
E. Good governance		
13. Freedom	Aid centralizes and concentrates power	Decentralization checks government power
14. Competition	States compete for federal subsidies	States compete for people and investment
15. Democracy	Decisions made by distant federal officials	Decisions made by elected state officials
16. Accountability	Politicians point fingers and dodge blame	Political responsibility is clear
17. Crowding out	Aid displaces state and private provision	States choose public or private provision
18. Trust	Citizens distrust the federal government	Citizens have more trust in the states

Source: Author.

> **"Aid programs increase bureaucracy, reduce accountability, and create a vehicle to impose costly federal regulations."**

state and local governments, they coordinate with the related members of Congress so that the members can claim credit. The purpose of more than one-third of press releases from U.S. senators is to claim credit for federal spending in their states.[20] Members of Congress dedicate staff to helping local governments get aid, and they hold "grants workshops" in their districts.[21] At the same time, employees of federal agencies "make some grant awards strategically in order to maintain or expand political support for their program."[22] Aid programs are a team effort and federal agencies are the quarterbacks.

3. Flypaper Effect

The federal government creates state aid programs because it wants the states to increase spending on activities that federal policymakers think are important. Put bluntly, the purpose of aid is to "drag states into programs they would otherwise not pursue," notes federalism expert Michael Greve.[23] The sections below discuss why that top-down approach to policy is misguided. But we should first ask whether aid programs actually do raise state spending on the targeted activities.

Basic economic theory suggests that states will mainly use federal aid to reduce state taxes or increase other nontargeted spending in their budgets. Money is fungible, and aid is simply like a state receiving a boost in overall income. States will mainly use aid directed at, say, education to reduce state taxes and increase spending on other programs. That is the basic theoretical result for lump-sum or nonmatching aid programs.

However, decades of empirical studies find that this is not what actually happens. Federal aid aimed at a particular activity, such as education, mainly sticks on that target and is only partly reallocated to tax cuts or other spending. This is called the "flypaper effect." Empirical studies generally find that each aid dollar increases state spending on the targeted activity by about 50 cents or more.[24]

Economists have proposed numerous explanations for the flypaper effect. It may be simply that state policymakers decide that they get more political benefit from boosting spending on targeted activities than from using aid for other purposes.[25] Federal aid seems free to state policymakers, so there is no downside to spending all the aid they get. This includes spending it on activities chosen by the federal government that the states themselves view as lower value. Also, federal policymakers add features to programs to induce states to increase spending on the targeted activities. Many programs include maintenance of effort (MOE) rules, which bar states from reducing state funding of a program when they take federal aid for it. A problem with MOE rules is that they discourage states from finding efficiencies in programs and saving taxpayer money. For example, state-level reforms in Wisconsin allowed local governments to save hundreds of millions of dollars on teacher health insurance plans.[26] But federal MOE rules prevented school districts from using the savings to trim their budgets, so schools spent the extra cash on lower-value items.

Another spending dynamic to note is that states put large efforts into finding state costs that can be shifted to the federal government. It is common, for example, for states to hire consulting firms to mine their program databases for people currently receiving state-funded welfare who could be moved onto federally funded welfare. By shifting costs to the deficit-fueled federal budget, these efforts contribute to the overspending problem.

4. Matching Effect

Many federal aid programs include a matching feature to stimulate added state funding of an activity. Since the beginning of the aid system a century ago, a common match has been 50-50, meaning that for every dollar the federal government spends on a program, recipient states must chip in a dollar of their own. When the federal match is open ended, states can endlessly expand programs and draw additional federal cash. Matching aid programs stimulate more state spending than nonmatching programs.[27]

Medicaid is an open-ended matching aid

program. Currently, the federal government pays 60 percent of the overall program costs and states pay 40 percent.[28] So, on average, the states can proactively increase spending on Medicaid and send a bill to Washington for about 60 percent of the added costs. Because of this feature, state policymakers have a strong incentive to expand Medicaid eligibility and covered services, and a reduced incentive to cut waste and fraud because only part of such cost savings would go to state taxpayers.

Most matching aid programs use a closed-ended match, meaning that there is a cap on the federal contribution. The spending incentive is not as strong as on open-ended matching programs, but the purpose is the same—to induce states to increase their own funding of the targeted activities.[29]

Federal policymakers may require a high state match on a program to try to induce more state spending, but if the state match rate is too high it may prompt some states to reject the aid altogether. Grants may also vary in the stringency of MOE rules, and some education programs not only have MOE rules but also "supplement not supplant" rules to buttress state spending levels.

Whether spending is boosted or not, aid programs increase bureaucracy, reduce accountability, create a vehicle to impose costly federal regulations, and produce other harms as discussed below. Instead of federal funding, it makes more sense for state policymakers to directly balance the benefits of a spending program with the state tax costs. Thus, regardless of how much state spending is stimulated by federal aid, this study argues that aid programs are misguided.[30]

5. Spending Allocations across the States

Supporters of aid hope that federal experts can efficiently allocate funds to high-value activities across the nation. But there is little reason to think that federal officials are better able than state officials to target resources for education, housing, transportation, and other activities.

For one thing, the allocation formulas used in aid programs are blunt tools that do not measure need very well. One study found, for example, that highway aid formulas are biased against states that have larger highway systems and more highway use, and thus biased against states that have greater needs.[31] Some states with growing populations consistently get shortchanged. Texas, for example, has accounted for an average of 10 percent of gas taxes paid into the federal highway account over the past decade but has received only 8 percent of the spending from it.[32] One study found that the deadweight or inefficiency losses from federal highway aid misallocation amounted to 40 percent of the value of the spending.[33]

Numerous studies find that politics explains aid allocations better than public-interest theories.[34] In theory, aid should be targeted to the neediest states or targeted to fix interstate externalities, such as when one state's transportation policies affect neighboring states. But according to an Advisory Commission on Intergovernmental Relations (ACIR) study, "the record indicates that federal aid programs have never consistently transferred income to the poorest jurisdictions or individuals. Neither do most existing grants accord with the prescriptions of 'externality' theory."[35] And the ACIR noted, "The logrolling style . . . through which most grant programs are adopted frequently precludes any careful 'targeting' of fiscal resources."[36]

Summarizing the academic literature, economists Rainald Borck and Stephanie Owings noted that the public-interest view of aid "does not fare well in empirical studies. Most papers find more evidence for politically motivated transfers."[37] Borck and Owings, for example, point to evidence that a disproportionate amount of aid goes to rural and less-populated states.[38]

One can see this bias with federal aid for airports, which is tilted toward smaller rural airports and away from the largest airports where it would generate the most benefit.[39] There has been a similar bias in homeland security aid, whereby rural areas with low terrorism risks have received an unduly large share

"There is little reason to think that federal officials are better able than state officials to target resources for education, housing, transportation, and other activities."

“Federal aid programs have never consistently transferred income to the poorest jurisdictions or individuals.”

of the grants, which in the years after 9/11 resulted in much low-value spending.[40] This bias is caused by the power of smaller-population states in the U.S. Senate.[41] This small-state spending distortion has apparently grown in recent decades because of differences in population growth across the states.[42]

A large share of federal aid goes toward anti-poverty programs, including Medicaid, Section 8 housing, and Temporary Assistance for Needy Families (TANF). Program supporters want to target resources to the lowest-income parts of the nation. But every member of Congress wants a share of the aid, so anti-poverty programs usually expand into broad-based handouts that subsidize rich and poor congressional districts alike.[43] What economist Richard Nathan calls the “spreading effect” of sloshing aid money around for political reasons has always predominated over the desire to help the poorest areas.[44]

A 1946 study of the aid system by a Senate committee found that the 10 highest-income states received $70 per capita in federal aid, while the lowest-income states received $49 per capita.[45] A 1975 study found that “federal expenditures per capita were $1,059 in the nation’s poorest counties . . . while the counties with above-average incomes received an above average allocation of $1,665.”[46]

In a major 1981 study, the ACIR concluded that the “Robin Hood principle of fiscal redistribution—‘take from the rich, give to the poor’—has always received much more lip service than actual use in aid distribution. . . . Federal grant-in-aid dollars are commonly dispersed broadly among states and localities, including the relatively rich and poor alike.”[47] And the ACIR reiterated, “The record indicates that federal aid programs have never consistently transferred income to the poorest jurisdictions or individuals.”[48]

ACIR’s conclusions still hold today. For 2019, the federal budget estimates state-by-state data for $666 billion of federal aid spending.[49] By my calculations, the 10 highest-income states received $2,354 per capita while the 10 lowest-income received $2,068. That pattern holds for many individual aid programs, including Medicaid, Section 8 rental housing, public housing, TANF, and Community Development Block Grants (CDBG).

The website for the CDBG program states that the purpose is to “provide services to the most vulnerable in our communities.”[50] But an Urban Institute study found that the program’s allocation of funding to the neediest governments has diminished over time, and it is “uncertain” whether governments “adequately direct funding to low and moderate-income people.”[51] The 2020 federal budget said of the CDBG program, “Studies have shown that the allocation formula poorly targets funds to the areas of greatest need.”[52]

As for Medicaid, its allocation formula is based on state per capita income, so poorer states receive a higher federal match rate. However, the match has encouraged wealthier states to expand Medicaid more than poorer states, so wealthier states end up getting relatively more dollars.[53] This sort of adverse result for matching programs has been observed for decades. The 1946 Senate committee found, “as the matching principle came into use, the poorer states often found it impossible to match federal grants to the same extent as the wealthier states.”[54]

The main federal aid program for disadvantaged K–12 schools (Title 1) does provide more aid per capita to the poorest states, but nonetheless much of the funding goes to well-off school districts. A *U.S. News and World Report* investigation found that “billions of dollars end up in districts that are richer on average, while many of the nation’s poorest districts receive little Title I funding.”[55] For example, schools in Shelby County, Tennessee, received $926 per poor child in 2016 in federal aid, but schools in Philadelphia received $2,000 per poor child.

Even when aid programs appear to target need or demand, the outcome is not necessarily efficient. Consider federal disaster aid. Some states—such as Florida and Texas—are hit by many hurricanes and receive more federal disaster aid than other states.[56] Disaster aid seems to follow need.

The problem is that federal disaster aid encourages people to live in dangerous places, such as on hurricane-prone seacoasts. Federal subsidies for the seacoasts include funds for disaster rebuilding, beach replenishment, flood control structures, and flood insurance—all of which have encouraged development in risky areas. Partly as a result, the number of Americans living in official flood hazard areas has increased 60 percent since 1970.[57] So federal subsidies can have the negative effect of undermining prudent state and local decisionmaking.

In sum, federal aid tends not to be allocated the way that public interest theories suggest it should be. Aid is often allocated bluntly and has never followed the Robin Hood principle consistently, even if that were a good idea.[58] Finally, even in cases where aid distribution does seem to match state needs, it may undermine prudent decisionmaking by state policymakers.

6. Spending Allocations within the States

Federal aid warps state and local spending decisions. It induces states to spend more on federally subsidized activities, and less on other activities that state residents may value more. For example, the rapid growth in state Medicaid spending—induced by generous federal matching payments—has likely squeezed out other activities in state budgets.

Urban transit provides another example of how aid warps state budgets. Since the 1970s, federal aid for transit has been mainly for capital costs, not for operations and maintenance. That has induced dozens of cities to purchase systems with big up-front costs, which usually means expensive rail systems rather than cheaper bus systems, even though the latter are usually more efficient, flexible, and safer.[59] The number of U.S. cities with rail transit has grown from eight in 1975 to 42 today, and the construction costs of nearly all these new systems were subsidized with federal aid.[60]

One consequence of the bias toward rail is that many cities are now getting stung by huge rail maintenance costs years after federal aid induced them to build the systems. U.S. transit systems have deferred maintenance costs of more than $90 billion, and systems across the nation are suffering from breakdowns, delays, and safety hazards.[61] The New York City and Washington, DC, subway systems, for example, are in poor shape. Yet those cities have been prompted by federal aid to keep expanding their systems rather than ensuring the good performance of the lines they already have.

A 2017 *New York Times* investigation of the Metropolitan Transit Authority found lavish spending on new projects—subsidized by federal aid—and at the same time a shocking neglect of subway maintenance. The result has been declining service quality, fires, derailments, and other disasters. The *Times* noted:

> The estimated cost of the Long Island Rail Road project, known as East Side Access, has ballooned to $12 billion, or nearly $3.5 billion for each new mile of track—seven times the average elsewhere in the world. The recently completed Second Avenue subway on Manhattan's Upper East Side and the 2015 extension of the No. 7 line to Hudson Yards also cost far above average, at $2.5 billion and $1.5 billion per mile, respectively. The spending has taken place even as the M.T.A. has cut back on core subway maintenance.[62]

Meanwhile, the Washington, DC, metro system is building a $5.8 billion subway line to Dulles airport, with $2.9 billion coming from federal grants and loans.[63] That dubious expansion is going ahead even though the system has suffered from appalling maintenance and safety failures in recent years and ridership is declining. Delays plague the system, and there have been crashes and dozens of incidents of smoke in tunnels in recent years.[64] It is a similar story with the Massachusetts Bay Transportation Authority, which faces $7 billion in maintenance backlogs, but continues to build new lines.[65]

A recent boondoggle in Albuquerque, New Mexico, illustrates how federal aid can also encourage cities to spend on ill-suited

> **"Federal aid induces state and local governments to make decisions that are divorced from the actual needs of their own citizens."**

“Aid programs need legions of federal and state administrators, accountants, consultants, and lawyers.”

bus systems. City leaders sprang for an expensive $133 million electric bus system because federal subsidies covered more than half of the costs. But the *Los Angeles Times* reports that the “project resulted in parts of what’s now Central Avenue being ripped up to host dedicated lanes for the electric buses, which are currently out of commission and have so many problems that [Mayor] Keller freely calls them ‘a bit of a lemon.’”[66] Residents did not want the buses, local businesses hated them, and dozens of businesses along the dedicated bus route have closed.

Another recent boondoggle is a 20-mile rail project in Honolulu, which has soared in cost from $5 billion to more than $9 billion. The *Wall Street Journal* reported on some of these problems in 2019:

> Honolulu pushed ahead before fully planning the project. . . . Officials misled the public about the train line’s shaky finances . . . [and] an audit by the city found HART’s [Honolulu Authority for Rapid Transportation] financial plan in disarray, with hundreds of millions of dollars unaccounted for.[67]

This wasteful project was likely only approved because of the lure of federal aid secured by Hawaii’s late senator Daniel Inouye.

Federal aid induces state and local governments to make decisions that are divorced from the actual needs of their own citizens. A classic example was the urban renewal or “slum clearing” wave of the mid-20th century, which used billions of federal aid dollars beginning in 1949 to bulldoze poor neighborhoods in favor of grand development schemes.[68] A 1963 analysis of these federally driven projects found that “wholesale clearance of slum areas and pillar-to-post relocation of the families who lived there have generated wide discontent. Members of racial and ethnic minorities who have seen the slum buildings they occupied replaced by luxury apartment houses have grown resentful of city planning that rarely seems to make adequate provision for their needs.”[69] At the time, urbanist Jane Jacobs said of these projects: “This is not the rebuilding of cities. This is the sacking of cities.”[70]

One infamous federal-aid project in the early 1980s was the demolition of the Poletown neighborhood of Detroit. The City of Detroit condemned more than 1,300 homes over 465 acres and removed 4,200 people through eminent domain so that General Motors could build a new plant. The city demolished 143 businesses and 16 churches.[71] Economist William Fischel argues that the Poletown expropriation would not have happened without hundreds of millions of dollars of federal grants and loans as well as state subsidies.[72] Many residents protested, but Ralph Nader noted that citizen activists were “muzzled by the grants machine that Washington provided city governments.”[73] Local politicians would be much more cautious before proceeding with grandiose and harmful projects if they had to balance the expected benefits with local tax costs.

The dangling of federal and state money causes cities to make decisions that their own citizens do not want. Fischel, for example, says that grants to cities encourage the excessive use of eminent domain, and he points to the 2005 *Kelo v. City of New London* case in Connecticut as another example of top-down subsidies inducing a local government to expropriate private property for the sake of developers. Federal and state subsidies prompt city politicians to disenfranchise their own residents and spend on dubious projects that the cities would not pursue if they had to raise their own local funds.

7. Bureaucracy

Experts have been criticizing the large bureaucracy of the aid system for decades. As the system has grown, new programs are overlaid haphazardly on old programs, and few are ever repealed. A 1946 report by a Senate committee found:

> The present situation on federal grants to state and local governments is extremely chaotic. . . . One federal-aid

> program has been piled on top of another—without sufficient effort to appraise the general effect of federal aid upon state and local activities or to achieve coordination among the innumerable federal-aid programs. . . . The net effect of our present federal-aid program, which has simply grown like Topsy, is a wild morass of red tape and administrative confusion.[74]

In 1980, an ACIR report on federalism concluded that the aid system is a "bewildering maze" in which the federal government's role has become "more pervasive, more intrusive, more unmanageable, more ineffective, more costly, and above all, more unaccountable."[75] At the time, there were 434 aid programs; today there are 1,386.

More recently, the Government Accountability Office (GAO) said, "The federal grant system continues to be highly fragmented, potentially resulting in a high degree of duplication and overlap among federal programs."[76] The auditing agency, for example, identified 80 federal aid programs that provide funding for local economic development.[77]

Aid programs need legions of federal and state administrators, accountants, consultants, and lawyers to prepare and review applications, draft program plans and procedures, file reports, submit waivers, audit recipients, litigate disagreements, and comply with regulations. The federal rules for each aid program can run to thousands of pages. The Individuals with Disabilities Education Act (IDEA) is a good example. The statute is 94 pages long, while the regulations are more than 1,700 pages long.[78] A recent annual report to Congress from IDEA's administrators is 328 pages of dense text.[79] Federal aid programs are not just simple, costless transfers of money to the states.

The federal administrative costs of aid programs range from a few percent of the value of the aid to more than 10 percent. That includes the costs of federal salaries, benefits, travel, office rent, and supplies. For example, federal administrative costs were about

- 5 percent of the value of the Department of Housing and Urban Development's aid of $38 billion in 2018;[80]
- 7 percent of the value of school lunch and breakfast programs aid of $24 billion in 2018;[81]
- 13 percent of the value of the Economic Development Administration's aid of $299 million in 2018;[82] and
- 18 percent of the value of the federal disaster aid to the states in a typical year.[83]

On top of federal costs, there are state and local administrative costs. Bureaucracy expert Paul Light estimated that federal grants directly support 1.6 million state and local employees such as schoolteachers.[84] In addition, he figured that roughly 4.6 million state and local government jobs exist to carry out federal mandates—both the rules tied to federal aid programs and other regulations for environmental, labor, and other social policies.[85]

Light's estimate of 4.6 million may be too high, but there do appear to be millions of state and local government employees tethered to the federal government. Consider that between 1960 and 1980 the aid system and the number of federal social mandates were growing rapidly, and state-local government employment correspondingly doubled from 5.6 million to 11.2 million.[86] Then, during the 1980s, aid spending and mandate production slowed and state-local employment in turn was flat.

Consider the large bureaucracy for Community Development Block Grants (CDBGs). The GAO found that local governments spent an average of 17 percent of CDBG funds on administration.[87] You can appreciate where the money goes by looking at the State of California's CDBG webpage.[88] It has more than 170 links to forms, documents, and spreadsheets that local governments within the state must deal with for the program—applications, procedure guides, compliance instructions, reporting templates, certifications, demographic analyses, verifications, checklists, training videos, and much more. Note that, as a block grant, the CDBG program is

"Competitive grants generate a particularly large amount of bureaucratic waste."

> "Urban transit has suffered from bloated costs since the 1960s when federal aid began and private systems were taken over by city governments."

supposed to be a simpler type of grant with fewer rules than normal categorical grants.

Now consider federal aid for K–12 schools, which flows from the federal government to state bureaucracies to local school agencies and then to schools. In a study for Wisconsin, the Badger Institute found that state-level administration consumed about 7 percent of the federal aid flowing to local school agencies.[89] In a poll, two-thirds of K–12 school administrators and board members found that the reporting requirements for federal aid programs were "very" or "extremely" "time-consuming."[90]

The Badger Institute investigated the funding sources of employee salaries. In Wisconsin's Department of Public Instruction, for example, 49 percent of the employees are paid with federal funds, while in the Department of Workforce Development, 73 percent are paid with federal funds. Across a number of departments, Badger found that the function of a bit less than one-third of these employees was simply to handle federal paperwork.[91]

Competitive grants generate a particularly large amount of bureaucratic waste. That is because state and local agencies must prepare lengthy proposals to request grants, but then many of the requests are denied. For example, in three rounds of TIGER grants the Department of Transportation (DOT) awarded $2.6 billion for 172 projects, but more than 3,000 state and local agencies sent in applications.[92] Thus, the efforts of 2,800 or so agencies were wasted.

In 2018, the DOT handed out $1.5 billion in BUILD grants to 91 out of 851 applicants. The DOT said that BUILD "applications were evaluated by a team of 222 career staff in the department."[93] One of the winning projects was a $14 million grant to widen Highway 157 near Cullman, Alabama. A local newspaper noted, "Mayor Woody Jacobs said a lot of time and expertise was used to prepare the grant application."[94] Another city official said, "It is a critical need that's been important to us a long time."[95] But if that is true, then Alabama should have funded the project itself.

The Obama administration handed out $4.3 billion in Race to the Top school grants. In the first round, just 2 of the 40 states that applied received aid, and in the second round just 10 of 30 states received aid.[96] The state applications for Race to the Top were generally more than 600 pages long, which would have required large teams of state employees to complete.[97]

Finally, consider the federal Assistance for Arts Education Development and Dissemination program. In 2018, it awarded $12 million to school boards in 22 grants out of 96 applications received.[98] Each application was more than 50 pages in length.[99] That is a large paperwork effort for a small amount of federal money.

In sum, funding state and local government programs from Washington adds a substantial bureaucratic cost that would be avoided if state and local governments funded their own programs.

8. Waste

Many federal aid programs suffer from high levels of waste, fraud, and abuse. State administrators have little incentive to reduce such costs because the funds come "free" from Washington. At the same time, members of Congress have little incentive to reduce waste in aid programs because all federal spending in their districts is generally seen as a political positive.

The largest aid program, Medicaid, has huge amounts of fraudulent and erroneous spending, referred to as "improper payments." The GAO estimates that $37 billion in Medicaid spending in 2017 was improper, which was 10 percent of the program's total cost.[100] As a matching program, the incentive for state administrators to reduce Medicaid waste is low because they would need to find more than two dollars of waste to save state taxpayers one dollar. Indeed, the states themselves abuse Medicaid with dubious schemes to inflate the matching dollars they receive from Washington.[101]

The school lunch and breakfast programs are subject to widespread abuse, with families taking benefits they are not eligible for. The improper payment rate for school lunches is 16 percent and for breakfasts is 25 percent.[102] Local governments do little verification of recipient eligibility because they have no incentive to.[103] Indeed, school administrators have been caught illegally inflating the number of children receiving benefits.[104] When federal auditors have examined applications in detail, they have found that about half of them claim excessive benefits.[105]

Government infrastructure funded by federal aid is plagued by cost overruns. Boston's Big Dig highway project more than quadrupled in cost from $2.6 billion to $14.6 billion, of which $8.5 billion came from the federal government.[106] Cost overruns are common on small projects as well. In Arlington, Virginia, the local government built a single bus shelter that cost $1 million, whereas a "typical bus shelter costs between $10,000 and $20,000" noted the *Washington Post*.[107] Arlington chose to build a Taj Mahal bus shelter—with heated floors—because the federal and state governments were paying 80 percent of the costs.[108]

Urban transit has suffered from bloated costs since the 1960s when federal aid began and private systems were taken over by city governments. Construction cost overruns have averaged 43 percent on 64 major rail projects tracked by the federal government since 1990.[109] With respect to operating costs, excessive union pay in transit systems has been sustained by large subsidies, while productivity has plunged. Transit trips per operating employee across U.S. cities fell from about 60,000 in the 1960 to fewer than 30,000 today.[110]

The unneeded imposition of federal bureaucracy on local infrastructure projects causes delays that push up costs. The GAO points to the "fragmented approach as five DOT agencies with 6,000 employees administer over 100 separate programs with separate funding streams for highways, transit, rail, and safety functions. This fragmented approach impedes effective decision making."[111] New York's World Trade Center rail station, completed in 2015, doubled in cost from $2 billion to $4 billion. A *Wall Street Journal* investigation pointed to bureaucratic delays and complexities: "In public and private clashes," federal, state, and local government agencies "each pushed to include their own ideas, making the site's design ever more complex, former project officials said. These disputes added significant delays and costs to the transit station."[112]

In their 600-page book on fiscal federalism, Robin Boadway and Anwar Shah describe the general perception across countries of the wastefulness of aid from national to subnational governments:

> Perceptions of intergovernmental finance are generally negative. Many federal officials believe that giving money and power to subnational governments is like giving whiskey and car keys to teenagers. They believe that grant moneys enable these governments to go on a spending binge and the national government then is faced with the consequences of its reckless spending behaviors.[113]

The authors are not necessarily saying they agree with these perceptions, just that these are the sorts of views on federal aid they have come across in their studies of numerous countries.

For the United States, such views are well founded. Government programs funded through federal aid tend to be executed inefficiently. State administrators do not treat federal money in a frugal manner, and the involvement of multiple levels of governments in programs adds costs, complexity, and delays.

9. Regulations

The regulations that come part and parcel with federal aid create a great deal of inefficiency. Since the first aid program in 1862 for land-grant colleges, the federal government has imposed on states detailed rules for operating programs and for reporting to Washington. The aid system includes rules that are tied to particular programs, as well as rules that apply to a broad range of programs, which are called cross-cutting regulations.

"The unneeded imposition of federal bureaucracy on local infrastructure projects causes delays that push up costs."

"At more than $4 trillion, the federal budget is 100 times larger than the average state government budget of about $40 billion."

The latter type greatly increased in the 1960s and 1970s as the federal government imposed dozens of labor, environmental, safety, and other social requirements on aid recipients.[114]

Federalism expert John Kincaid says that during the 1960s and 1970s, the "conditions of aid, mandates, preemptions, and federal court orders experienced unprecedented increases. Consequently, state and local governments took on the mantle of administrative arms of the federal government."[115]

The rules tied to federal aid raise state and local costs. For example, Davis-Bacon labor rules require that workers on federally funded construction projects be paid "prevailing wages," generally meaning higher union wages. These rules increase wage costs on highway projects by an average of 22 percent, while also slowing projects and piling paperwork on contractors.[116]

Federal environmental rules tied to aid push up construction costs and cause delays. A report for the Obama administration found that the average time to complete federal environmental studies for infrastructure projects increased from 2.2 years in the 1970s to 6.6 years in recent years.[117] The number of federal environmental laws and executive orders that transportation projects must comply with increased from 26 in 1970 to about 70 today.[118]

In education, the Bush administration's No Child Left Behind (NCLB) law of 2002 imposed many costly rules. To receive NCLB grants, for example, the states had to implement extensive testing structures, create complex measurement systems, and adopt new rules for teacher qualifications. The National Conference of State Legislatures found that the Act's requirements cost the states about $10 billion more per year than the federal government covered with aid funding.[119]

Perhaps some NCLB rules made sense for some schools in some states, but the law bluntly imposed a large array of costly rules on schools nationwide. Many education experts argued that NCLB did not just generate bureaucracy, but also caused active harm.[120] Teachers and state policymakers revolted against NCLB, and dozens of states passed resolutions and statutes to counter the federal law.

The Obama administration pursued its own micromanagement of the nation's schools. The 2009 economic stimulus bill provided the administration funding for its Race to the Top grants, which required recipient states to impose all kinds of changes, including—essentially—the adoption of the Common Core national standards.

The administration also used "waivers" on aid programs in a uniquely aggressive manner to micromanage the schools. The states were clamoring for waivers from the costly NCLB rules, so the administration created 18 "sets of policy commitments" that states had to agree to before waivers were granted.[121] One of the commitments was, essentially, to adopt Common Core.

Waivers have long been used as a pressure valve to release the states from costly federal rules, but the Obama administration used them for the opposite purpose—to impose new rules on America's schools. Education scholar Rick Hess said that the Obama administration's "aggressive approach politicized nearly all that it touched, leaving in its wake unnecessarily divisive national debates over issues like Common Core."[122]

A final example of the cost-increasing effect of federal aid concerns the Federal Emergency Management Agency (FEMA) grants for local firefighting agencies, which total more than $600 million a year. The grants fund the employee compensation and capital costs of local fire departments. A few years ago, San Diego was ready to break ground on two new fire stations funded by local revenues. Then the city heard that it could apply for a federal grant to pay for the buildings. The city eventually received the federal aid, but its new stations were far behind schedule and cost $2.2 million more than they would have without the aid because of aid-related regulations.[123]

10. Management

Federal aid programs tend to be poorly managed by both federal and state governments.

Federal policymakers are too distracted to investigate failures and pursue improvements, while state policymakers cannot manage programs effectively because they are tied in federal regulatory knots. The GAO has noted with respect to aid programs that the "sheer number of actors creates immense coordination problems" and that "high costs appear inevitable" in the aid system.[124]

At the federal level, the huge size and scope of the government overwhelms the ability of lawmakers to oversee programs. At more than $4 trillion, the federal budget is 100 times larger than the average state government budget of about $40 billion. Economist Milton Friedman observed, "Because government is doing so many things it ought not to be doing, it performs the functions it ought to be performing badly."[125] Federal bureaucracy expert Paul Light has found that the number of major federal failures has increased over the past three decades.[126]

Congress is supposed to oversee the 1,386 aid programs it has enacted, but members do not have the time or the expertise to do so effectively. Committees hold occasional oversight hearings, but most members attend only briefly and make a few perfunctory comments aimed at the home-state media. Members often miss their committee hearings altogether.[127]

Economist Alice Rivlin observed that with the proliferation of programs, the federal government resembles "a giant conglomerate that has acquired too many different kinds of businesses and cannot coordinate its own activities or manage them all effectively from central headquarters."[128] In markets, business conglomerates are forced to shed low-value activities, but in government there is no similar mechanism.

When the aid system was initially expanding in the early 20th century, lawmakers naïvely thought that federal programs would be superior to state programs. President Woodrow Wilson and other Progressives favored centralization so that experts could plan activities for the nation. Wilson thought that power was too "dispersed" in America and ought to be concentrated.[129] Economist and later U.S. senator Paul Douglas was also optimistic about the expansion of aid. In a 1920 essay about federal aid, he said that it "insures relatively economical expenditure of federal funds and prevents their misuse" while being "purely voluntary" for the states.[130]

In a 1928 book about the growing federal aid system, political scientist Austin Macdonald captured the spirit of the times: "The old line of division between state and national powers is manifestly unsuited to present-day conditions" and the "bewildering patchwork" of state policies is unsatisfactory.[131] Diversity is old-fashioned—the modern approach to government management is national standards imposed with "infinite tact and skill" by federal officials, claimed Macdonald.[132]

Not everyone was convinced. Gov. Albert Ritchie of Maryland pushed back hard against aid, saying in 1925, "the system ought to be abolished, root and branch."[133] The same year, President Calvin Coolidge warned in his State of the Union address that federal encroachment on local governments created the danger of "encumbering the national government beyond its wisdom to comprehend, or its ability to administer" sound policies.[134] And in 1926, Coolidge opposed spending $109 million that was budgeted for state aid, saying:

> I am convinced that the broadening of this field of activity is detrimental both to the federal and state governments. Efficiency of federal operations is impaired as their scope is unduly enlarged. Efficiency of state governments is impaired as they relinquish and turn over to the federal government responsibilities which are rightfully theirs. I am opposed to any expansion of these subsidies.[135]

Coolidge turned out to be right. Federal lawmakers have far too much on their plates these days. In his 2014 book on federalism, former U.S. senator James Buckley noted, "Congress's current dysfunction is rooted in

> **"Former U.S. senator James Buckley noted, 'Congress's current dysfunction is rooted in its assumption of more responsibilities than it can handle.'"**

"In America's federal system, state and local governments can maximize value by tailoring policies to the preferences of their residents."

its assumption, over the years, of more responsibilities than it can handle."[136] Rather than focusing on national issues such as defense, members are focused on securing grants to fill hometown potholes. Buckley writes that grants "absorb major portions of congressional time, thereby diverting Congress from its core national responsibilities."[137]

Members are focused on the amount of spending in their districts, not on sound program management. In a 2012 report on FEMA grants, then senator Tom Coburn of Oklahoma said that his colleagues are preoccupied with the amount of spending in their states, not on "how the money is spent, or whether it is needed in the first place."[138] State officials are similarly distracted from sound management. Referring to federal aid, political scientist Steven Teles noted that "the multiplicity of overlapping and bewildering federal programs for K-12 education creates a compliance mentality among school leaders . . . pushing them to focus on staying on the right side of the rules rather than on improving their schools."[139]

State policymakers are distracted by the need to lobby the federal government. State governments have long had lobbying offices in Washington, and hundreds of local governments hire Washington lobbying firms.[140] The number of local governments hiring federal lobbyists "has been on an upward trend for more than 30 years."[141] State and local leaders do regular "fly-ins" to Washington to twist arms on Capitol Hill.

There are nationwide lobbying groups, such as the National League of Cities; there are regional groups, such as the Northeast-Midwest Institute; and there are state-specific groups, such as the California Institute for Federal Policy Research. All these groups track federal aid and try to increase their share of funding. Some state governments have special state offices that track federal aid, and there is an industry of consulting firms that train people on how to secure federal grants.[142]

There are also many lobbying organizations representing state and local government employees who rely on federal aid. The National WIC Association, for example, lobbies the federal government on behalf of the 2,000 state and local government agencies that administer the $6 billion Women, Infants, and Children program. And a slew of government-related groups lobbies the federal government to spend more on "economic development" programs, including the National Association of Development Organizations, the National Association for County, Community, and Economic Development, and a dozen others. The federal Economic Development Administration helpfully lists these lobbying groups on its website.[143] Federal bureaucracies and these state groups have the same interest in higher federal aid spending. But for state officials, such lobbying distracts from what they should be focused on, which is efficiently managing state and local services.

Federal aid has also undermined efficient state management by creating new layers of government. Thousands of water authorities, public housing authorities, conservation districts, air quality regions, and other government entities have been created as a requirement of receiving federal aid.[144] The number of such "special district" governments in the nation increased from 12,000 in 1952 to 35,000 by 2002.[145] Transportation aid provides an example of such "capacity building" in government:

> [Federal transportation law] requires that a Metropolitan Planning Organization (MPO) be designated for each urbanized area with a population of more than 50,000 people in order to carry out the metropolitan transportation planning process, as a condition of federal aid. As a result of the 2010 decennial Census, 36 new urbanized areas were identified. These areas will either have to establish and staff a new MPO, or merge with an existing MPO.[146]

The proliferation of such structures has tied the hands of elected state and local policymakers. They are blocked from reallocating funds and restructuring programs because of the rules tied to aid. Federal aid has balkanized state and local governments. The GAO found, for example, that an array of 16 separate federal aid programs for first responders has created fragmented disaster response planning.[147] The rise in federal aid has produced disjointed and uncoordinated state and local management.

11. Diversity

Residents of each state may have different preferences for policies on education, highways, transit, and other items. They may have different views on taxes and spending. In America's federal system, state and local governments can maximize value by tailoring policies to the preferences of their residents.[148] At the same time, individuals can improve their own lives by moving to jurisdictions that suit them best. Economist Gordon Tullock noted, "The fact that people can 'vote with their feet' and thus sort themselves out into different areas with different collections of public goods is one of the great advantages of federalism."[149]

Federal aid and related regulations undermine such beneficial state policy diversity. A good example was the 55-mile-per-hour national speed limit, which was enforced between 1974 and 1995 by federal threats of withdrawing highway aid. Such one-size-fits-all rules destroy value because they ignore state variations in geography, traditions, and resident preferences.

President Reagan's 1987 executive order on federalism noted, "The nature of our constitutional system encourages a healthy diversity in the public policies adopted by the people of the several states according to their own conditions, needs, and desires. In the search for enlightened public policy, individual states and communities are free to experiment with a variety of approaches to public issues."[150] But the states cannot be free to experiment if Washington is calling the shots.

Reagan was a conservative, but diversity is also a social ideal championed by liberals. It was liberal Supreme Court justice Louis Brandeis who said that with federalism each state can "serve as a laboratory; and try novel social and economic experiments without risk to the rest of the country."[151] Unfortunately, most policymakers on the left have been strong supporters of the federal aid system even though it undermines diversity and local choice.

Brandeis put his finger on something important—it is less risky to pursue policy experiments at the state level than at the federal level. Federalism expert Adam Freedman notes, "When states are in charge, policy mistakes are localized," but "when the federal government is in charge, all mistakes are Big Mistakes."[152] By contrast, he writes, with decentralization, "the failures stay local while the successes go national," as states freely copy good ideas from other states.[153]

A good example of a Big Mistake was federal aid for high-rise public housing projects in the mid-20th century. Those projects are now widely regarded as a policy disaster.[154] The projects bred crime and social dysfunction, and government housing authorities allowed buildings to deteriorate rapidly. Why did many major American cities bulldoze neighborhoods in slum-clearing operations and erect unsightly concrete fortresses for the poor? Because the federal government was paying for it and promoting it.

A more recent example of a Big Mistake generated by federal aid is light-rail transit. Since the 1970s, federal aid has induced dozens of cites to install these expensive systems even though they are less efficient and flexible than buses. In city after city, aid-backed rail systems have had large construction-cost overruns, a fraction of the riders originally promised, and severe maintenance problems.[155] Many cities would not have made the mistake without subsidies from Washington. Instead, they would have likely explored other transportation options better tailored to local circumstances.

12. Timeliness

Dependence on federal aid causes delays in state and local projects such as infrastructure.

> **"Most policymakers on the left have been strong supporters of the federal aid system even though it undermines diversity and local choice."**

> **"Federalism is rooted in the knowledge that our political liberties are best assured by limiting the size and scope of the national government."**

Governments may stall needed projects for years as they wait for federal grants to be approved. And then after aid is received, aid-related regulations can raise costs and delay completion.

Charleston, South Carolina, has long needed to dredge its seaport to accommodate larger ships. Completion of the project is crucial to the state's economy, but the project has moved slowly while the state has been waiting for federal funding.[156] The federal government finally kicked in money for the dredging in 2017. A local news source reported:

> The Charleston Harbor deepening project has been allocated $17.5 million in federal funding, enabling construction to begin. . . . The project will deepen Charleston Harbor to 52 feet. It is estimated to cost $509 million; the state already set aside $300 million for it. The federal dollars bring the full amount of allocated funds to $317.5 million—roughly $192 million short of the total cost. The federal dollars are crucial, though; construction could not begin this year without them. "The significance of this funding for the timeline of our deepening project cannot be overstated—it is tremendous news for Charleston," S.C. State Ports Authority President and CEO Jim Newsome said in a news release.[157]

If the federal government withdrew from seaport dredging entirely, state and local governments would proceed with projects when needed with their own funding. Other nations, such as the United Kingdom, have shown that seaports can be funded, operated, and dredged privately without subsidies.[158] But because much of U.S. infrastructure is dependent on federal subsidies, upgrades and modernization can lag the privatized infrastructure elsewhere. As another example, the government-run U.S. air traffic control system lags behind the privatized Canadian system on technology upgrades because of federal funding shortfalls and bureaucratic mismanagement.[159]

Federal aid and related regulations can impede the response to and recovery from natural disasters.[160] FEMA's main role is to hand out money, but the rules it imposes can slow and even block state, local, and private disaster response efforts. During Hurricane Katrina in 2005, federal supply efforts failed, communications broke down, and federal political appointees were plagued by indecision and confusion about complex federal rules and procedures. FEMA obstructed the relief efforts of charitable groups, businesses, doctors, and others who rushed to New Orleans to help.

A *New York Times* article during Katrina said there was "uncertainty over who was in charge" and "incomprehensible red tape."[161] Today's disaster-response system "fractionates responsibilities" across multiple governments, one expert noted.[162] Another noted that "during the past 50 years, Congress has created a legal edifice of byzantine complexity to cope with natural disasters."[163] FEMA is an unneeded extra layer of bureaucracy that impedes first responders, who mainly work for state and local governments.

Rebuilding after disasters can also be slowed as communities wait for federal funding. It takes FEMA time to review the thousands of projects submitted to it for approval after storms. Disaster expert James Fossett noted that FEMA "requires local governments to obtain advance approval for each project and pay for each project up front before getting federal reimbursement for their costs, which must be exhaustively documented. These lengthy, complex processes inevitably delay recovery and make it difficult to spend money in a timely fashion."[164]

In 2019, $4 billion of federal aid for Texas to rebuild after a 2017 hurricane was delayed by the usual bureaucratic slowness in Washington, which caused Texas politicians to be "up in arms," according to the *Wall Street Journal*. The Texas leaders were "increasingly worried that the delay is leaving Gulf Coast communities still recovering from Hurricane Harvey vulnerable to more destruction just as another hurricane season is set to begin."[165]

But Texas has a massive $1.7 trillion economy, so the state could have easily afforded to fund the $4 billion of improvements itself, rather than waiting for Washington to act.

13. Freedom

The structure of American government is based on subsidiarity, meaning that "responsibility rests first with the lowest authority, the individual; then, if necessary, with local, state, and finally national officials."[166] At the nation's founding, that structure "maximized liberty by keeping authority as close to the individual as possible."[167]

In discussing how federalism would restrain government power, James Madison said, "A double security arises to the rights of the people. The different governments will control each other; at the same time that each will be controlled by itself."[168]

More recently, the idea that federalism undergirds our freedoms was articulated in a 1987 executive order by President Ronald Reagan. The order was aimed at restraining federal overreach and stated: "Federalism is rooted in the knowledge that our political liberties are best assured by limiting the size and scope of the national government. . . . The people of the States are free, subject only to restrictions in the Constitution itself or in constitutionally authorized Acts of Congress, to define the moral, political, and legal character of their lives."[169]

Alas, we have strayed far from the Founders or even Ronald Reagan's vision of a decentralized federation. The federal government has used aid programs to expand into many areas that should be left to states, businesses, charities, and individuals. That expansion is creating a top-down bureaucratic society that is alien to American traditions. Cutting federal aid and related regulations would reverse the tide. It would expand freedom by limiting government power and moving its exercise closer to the people.

14. Competition

In his book *The Upside-Down Constitution*, legal scholar Michael Greve says that the Founders did not have a fully articulated view of how federalism would restrain government.[170] Nonetheless, he argues, the Constitution they produced enshrined competitive federalism, which was a powerful restraint mechanism. Most government functions were left to the states, and then the states were put in competition with each other.

The Constitution assigned the federal government specific limited powers, while the states had broader powers and could pursue different policies to fit their needs. At the same time, the Constitution ensured open flows of trade, investment, and migration between the states. It also allowed the states to choose their own tax bases and rates, thus setting up interstate tax competition.

Each state can choose a unique package of taxes and public services. States that do not tailor their policies to match resident needs will lose people and investment to other states. The experiences of different states over time will indicate what works and what does not. Such competitive federalism enhances freedom by creating choice and encouraging the states to be responsive to their residents.

Greve's book discusses how competitive federalism held sway until the early 20th century but has since been undermined by growing federal aid and regulations that impose conformity. Supporters of federal intervention call it "cooperative federalism," but Greve calls it "cartel federalism" because it undermines diversity and competition. Like business cartels, cartel federalism has inflated costs and reduced performance.

Cartel federalism has turned the states as "laboratories of democracy" from a positive to a negative for limited government. These days, Congress takes state-level experiments in government expansion and imposes them on the whole nation.[171] A good example was the 2010 Affordable Care Act, which was partly modeled on a 2006 Massachusetts healthcare law.

Economist Richard Nathan echoes Greve in observing that the "ratcheting-up theory of U.S. federalism" is an important pattern that has developed in federal-state interactions.[172]

"The aid system replaces healthy interstate policy competition with an unhealthy competition for federal aid dollars."

"'Citizens are effectively disen-franchised' because of the aid system, noted former U.S. senator James Buckley."

Government expansion through aid programs is akin to "venue shopping" in the judicial world. Advocates find the most favorable jurisdiction to enact a program first, then they move to other states, and ultimately create momentum for a federal takeover through an aid-to-state program.[173]

The aid system replaces healthy interstate policy competition with an unhealthy competition for federal aid dollars. Aid programs often favor some states over others, which creates an uneven playing field. States that receive more aid for highways, airports, and seaports, for example, gain an economic edge over other states. While state competition over policies generally encourages efficiency, state competition over federal handouts generates little more than unproductive lobbying.

15. Democracy

One of the casualties of the growth in federal aid has been democracy. With aid programs, policy decisions are often made by unelected officials in Washington rather than by elected officials locally. Aid programs move decisions away from the nation's more than 500,000 elected state and local officials to thousands of unknown and inaccessible federal agency employees.

In theory, the 535 elected members of Congress oversee aid programs, but they have delegated much of their power to the federal bureaucracies. If you do not like a policy in your child's public school, you can voice your concern to local officials. But if the policy was imposed by Washington, you will have a hard time making your concerns known.

Furthermore, the sheer size of the federal government works against democratic involvement. There is empirical evidence that "both citizen influence and effort increase as the size of the government declines."[174] The federal budget is 100 times larger than the average state budget, so federal policymakers have only a fraction of the time state policymakers would have to handle citizen concerns about a particular program.

The federal government controls a substantial share of state policy. Federal aid accounts for one-quarter of state and local government revenues.[175] Another measure of control comes from a study that looked at the share of all state agencies across the nation that receive at least some federal aid. That share increased from one-third in the mid-1960s to four-fifths today.[176]

Yet another measure of federal control comes from a large project that analyzed 22 policy areas across the 50 states and the federal government every decade between 1790 and 2010.[177] With this data, John Kincaid found that nearly all policy areas remained exclusively, or almost exclusively, state controlled from 1790 to 1900. But by 2010, none of the 22 areas were exclusively state controlled, and nearly all areas were a heavy mix of federal and state. The largest expansion in federal control occurred during the 1960s and 1970s.

Interestingly, a separate study using a similar method looked at Canada and found that since that nation's founding in 1867, the government's structure has become slightly more decentralized.[178] Today, Canada is a substantially more decentralized federation than is the United States, with a larger share of overall taxing and spending at the subnational level.[179] Canada has only a handful of federal grants to subnational governments, and they are structured as block grants. The upshot is that centralization is not inevitable. Canada is a high-income democracy with more decentralized governance than the United States.

In the United States, state leaders do not control a substantial part of their own governments anymore. "Citizens are effectively disenfranchised" because of the aid system, noted former U.S. senator James Buckley.[180] A similar view about aid comes from Richard Epstein and Mario Loyola: "When Americans vote in state and local elections, they think they are voting on state and local policies. But often they are just deciding which local officials get to implement the dictates of distant and insulated federal bureaucrats, whom even Congress can't control."[181]

Many state employees really "work for" the federal government because that is who funds their salary in full or in part. State agencies know that "even if only a small percent of an employee's salary or program resources comes from federal aid, loss of that portion can result in a job loss or program cutback."[182] Federal aid is the tail that wags the dog in terms of program control.

Organizations representing state employees funded by federal aid routinely lobby for federal policies counter to the positions of the elected officials of their own states.[183] State employee organizations have long been a pro-centralization lobby—state highway officials, for example, were a key lobbying group behind passage of the first federal highway aid bill in 1916.[184] The main teachers' union has pushed for federal subsidies for more than a century.[185]

Former Nebraska governor Ben Nelson expressed his dismay at the limitations of his office: "I honestly wondered if I was actually elected governor or just a branch manager of the state of Nebraska for the federal government."[186] The U.S. Constitution guarantees to each state a "Republican form of government," meaning a representative democracy, but that promise is undermined when the states are just "branch managers."[187] In his book on federalism, Adam Freedman says that the rise of federal aid and related regulations is an "assault on democracy because the point of such measures is to coerce states into doing things that their voters do not want, or at least would not be willing to pay for themselves."[188]

16. Accountability

Federal aid requirements have spawned the creation and expansion of state and local government agencies. As noted, these agencies relying on aid often have substantial autonomy from state elected officials, and so aid has fragmented state government horizontally.[189]

At the same time, federal aid has jumbled American government vertically. Originally, the three levels of government were like a tidy layer cake with each layer handling separate functions. Citizens knew whom to praise or blame for policy actions. But with the rise of aid, American government has become like a marble cake with responsibilities mixed across layers.[190] Federal, state, and local governments play intermixed roles in such areas as education, housing, and transportation.

In his 1983 budget message, Reagan argued, "During the past 20 years, what had been a classic division of functions between the federal government and the states and localities has become a confused mess."[191] The mess has made it harder for citizens to hold government officials accountable. In the 1780s, one of the concerns of the Anti-Federalists about the U.S. Constitution was the complexity it would add to government. Complex governments "seem to bid defiance to all responsibility . . . as it can never be discovered where the fault lies," noted one leading Anti-Federalist.[192]

The Anti-Federalists were right. Today's marble cake structure of government allows politicians to point fingers of blame at other levels of government when failures occur. That was clear in the aftermath of Hurricane Katrina in 2005, and it was evident during the water crisis in Flint, Michigan, a few years ago. When every government has a hand in an activity, no government takes responsibility for failures.

Budget expert James Capretta noted that "Medicaid's current federal-state design also undermines political accountability. Neither the federal government nor the states are fully in charge. As a result, each side has tended to blame the other for the program's shortcomings, and neither believes it has sufficient power to unilaterally impose effective reforms."[193] He concludes that "the fundamental problem in Medicaid is that neither the federal government nor the states are fully in charge."[194]

The ACIR noted that the aid system "has become too big, too broad, and too deep for effective operation or control. Where all responsibilities are shared, no one is truly responsible. And, if everyone is responsible for everything, none can fulfill their obligations."[195]

Political scientist Steven Teles coined the

"When every government has a hand in an activity, no government takes responsibility for failures."

> "State and local governments—supported by federal aid—displaced entrepreneurs from major parts of America's transportation industries."

word "kludgeocracy" to describe a system in which the "complexity and incoherence of our government often make it difficult for us to understand just what the government is doing."[196] Kludgeocracy, he says, creates a "hidden, indirect, and frequently corrupt distribution of" costs, while aiding "those seeking to extract rents from government because it makes it hard to see just who is benefitting and how."[197] The aid system, Teles says, is a key part of the problem. "The complexity of our grant-in-aid system makes the actual business of governing difficult and wasteful," he concludes.[198]

17. Crowding Out

In many policy areas, the federal government's role appears to be crucial because state and local governments and the private sector are not currently addressing public needs. But that is often the case only because the federal government has partly or fully displaced (crowded out) state, local, and private efforts.

For better or worse, the states have usually led the way on expansions in government services over the past century.[199] Modern limited-access highways, for example, were pioneered by the states before the federal government passed the Interstate Highway Act of 1956. The Pennsylvania Turnpike opened in 1940, and its success prompted more than a dozen states to launch their own superhighway programs.[200] The idea of weaving together state highways into a larger national system also predated the 1956 federal highway law. State efforts to build interstate highways included the Dixie Highway from the Midwest to Florida, the Lincoln Highway from New York to San Francisco, and the Bankhead Highway from Washington, DC, to San Diego.[201]

Section 3 discussed the extent to which federal spending either displaces or adds to the amounts that states spend on targeted activities. Federal spending on interstate highways likely did increase overall highway spending initially and only partly crowded out state efforts. But, either way, federal aid for highways has come with negative effects, such as raising construction costs, misallocating investments, and creating bureaucracy.

As a separate matter, a less examined phenomenon is how federal aid induces state and local governments to crowd out or displace the private provision of services. This negative effect of federal aid is clear in the provision of transportation infrastructure.

Federal aid has crowded out private highway bridges. A 1932 survey found that nearly two-thirds of 322 toll bridges in the United States were privately owned.[202] But then federal and state governments began handing out subsidies to government-owned bridges during the 1930s, and that put private bridges at a competitive disadvantage, as Robert Poole discusses in *Rethinking America's Highways*. Because private bridge owners did not receive subsidies and were already suffering from revenue declines during the Great Depression, many succumbed to government takeovers.

Urban transit systems in most American cities were privately owned and operated until the 1960s, but then the private share started falling rapidly. Of the systems in the 100 largest U.S. cities, the private share fell from 90 percent in 1960 to just 20 percent by the late 1970s.[203] The rise of automobiles undermined transit; transit firms had difficulty cutting costs because they were unionized; and local governments resisted allowing transit firms to end unprofitable routes. The nail in the coffin for private transit was the Urban Mass Transportation Act of 1964, which provided federal aid to government-owned bus and rail systems. That encouraged state and local governments to take over private systems, and a century of private transit investment came to an end.[204]

A similar thing happened in aviation. About half of U.S. airports were privately owned in the early years of commercial aviation in the 1920s and 1930s. The main airports in Los Angeles, Miami, Philadelphia, Washington, DC, and other cities were for-profit business ventures. These airports were successful and innovative, but they lost ground from unfair government competition. City governments could issue bonds exempt from federal tax to finance their own airports, giving them a financial edge over private airports. Private airports had to pay taxes while government airports did not. The federal government began handing out aid to government-owned airports during the New Deal, and then the Airport Act of 1946 began regular federal aid funding of government-owned airports. Today, virtually all U.S. commercial airports are in government hands.

Sadly then, during the 20th century, state and local governments—supported by federal aid—displaced entrepreneurs from major parts of America's transportation industries. Federal aid for government infrastructure, combined with the tax-free status of government bonds, has created a strong bias in favor of government ownership. The effect of the bias is clear when you consider that the global privatization trend in airports of recent decades has mainly bypassed the United States.[205]

Federal aid has supported the states in crowding out private provision in other areas. The expansion of Medicaid has crowded out private healthcare. Estimates vary, but roughly every two persons added to the program has reduced private health coverage by one person.[206] Medicaid long-term care aid has induced many families who would have otherwise paid privately to take advantage of government benefits.[207]

Government-supported schools have long crowded out private schools, and federal aid has exacerbated the problem. School-choice programs are on the rise in many states, but generally parents wanting to escape a poor-quality public school have had to pay private tuition on top of paying taxes to fund the public system. One of the earliest federal aid programs, passed in 1917, was for subsidizing vocational schools—but only schools owned by governments.[208] So federal aid supporting the crowding out of private education goes way back.

As a last example, increasing federal aid for natural disasters may be crowding out state, local, and private efforts. After the 1994 Northridge, California, earthquake, U.S. House and Senate reports concluded that the availability of federal aid had encouraged state and local governments to neglect disaster preparation and mitigation.[209] Around the same time, a report from Vice President Al Gore's "reinventing government" initiative warned that "the ready availability of federal funds may actually contribute to disaster losses by reducing incentives for hazard mitigation and preparedness."[210]

In the wake of Hurricane Katrina in 2005, Florida governor Jeb Bush warned against increasing federal intervention. He said, "As the governor of a state that has been hit by seven hurricanes and two tropical storms in the past 13 months, I can say with certainty that federalizing emergency response to catastrophic events would be a disaster as bad as Hurricane Katrina."[211] And, he said, "if you federalize, all the innovation, creativity and knowledge at the local level would subside."[212]

When states need help during natural disasters, a better alternative than federal aid is aid from other states. Indeed, the states do help each other with manpower and resources under the Emergency Management Assistance Compact (EMAC), which expedites the legal process of mutual aid. Local governments also share police and fire assets during emergencies, and electric utilities across the nation routinely aid one another with crews and equipment after storms. The EMAC is one of more than 200 interstate compacts in place today.[213]

When tackling problems that affect multiple states, policymakers should consider state cooperation first before they call for a top-down imposition from Washington. As Governor Bush noted, when the federal government gets involved, it displaces the innovation, creativity, and knowledge that come with nonfederal efforts.

18. Trust

The rise of federal aid and the centralization of power in Washington have coincided with falling trust in the federal government.

"The aid system imposes one-size-fits-all policies on the nation when there is no national consensus."

"Reviving competitive federalism by reducing federal intervention would help heal political divisions."

Public polls show that the share of people who trust the federal government has plunged from about 70 percent in the 1960s to about 20 percent today.[214] It is an irony that Americans have grown less fond of the federal government as the number of federal programs ostensibly created to serve them has increased.

Polls find that general anger toward federal policies has increased. A 2015 poll by Pew Research found that 22 percent of Americans feel "angry" about the federal government, and an additional 57 percent or so feel "frustrated" by it, leaving just 18 percent "contented."[215] The anger and the fall in trust may reflect the increasing dysfunction of the federal government as it has expanded.[216]

The rise in federal aid and top-down regulations have likely contributed to today's anger and partisan divisions by trying to force policy conformity on a diverse country. The aid system imposes one-size-fits-all policies on the nation when there is no national consensus. The grassroots anger over the attempted imposition of Common Core school standards is a good example of the backlash against enforced conformity.

As John Kincaid noted about the rise of federal intervention into state affairs,

> [It] is the root cause of polarization because it has nationalized so many issues, especially sensitive social and cultural issues such as abortion and education that were previously diffused across the fifty state political arenas. The cooperative federalism advanced by the nationalist school of federalism requires a national consensus on such issues, but there is no consensus. Requiring state electorates to implement sometimes hotly contested national policies appears to have considerably exacerbated national conflict in ways that threaten the institutional fiber of the republic.[217]

Reviving competitive federalism by reducing federal intervention would help heal political divisions. Large majorities of Americans prefer state rather than federal control over education, housing, transportation, welfare, healthcare, and other activities.[218] Americans think that state and local governments provide more competent service than the federal government.[219] And when asked which level of government gives them the best value for their tax dollars, two-thirds of people say state and local governments and just one-third say the federal government.

For these reasons, there has been a shift in public opinion in recent decades in favor of decentralizing government power.[220] Americans are in favor of reviving federalism, but the hard part is convincing federal policymakers to start returning power to the states and private sector.

CONCLUSIONS

The $750 billion aid system is a roundabout way to fund state and local activities that the deficit-ridden federal government cannot afford. The aid system does not deliver efficient public services, but rather delivers bureaucracy, overspending, and federal micromanagement. It undermines policy diversity and political accountability.

The states are entirely capable of funding and operating their own programs. President Reagan's 1987 executive order on federalism noted, "In most areas of governmental concern, the states uniquely possess the constitutional authority, the resources, and the competence to discern the sentiments of the people and to govern accordingly."[221]

President Trump's most recent budget proposed small cuts to federal aid. But that proposed reform provoked a prominent liberal think tank to issue a study defending aid. The study's first sentence was, "Federal funds that go to state and local governments as grants help finance critical programs and services on which residents of every state rely."[222] But if aid funds "critical" programs, then federal cuts would prompt the states to fill the void with their own programs, and those programs would likely be superior for the reasons discussed.

It is understandable that federal policymakers are eager to try and fix the nation's many ills. But they should appreciate that the states can handle domestic policies by themselves and that federal intervention is often counterproductive. The optimism of previous decades about the ability of federal aid programs to efficiently solve state and local problems was misguided.

Congress should work with the Trump administration to identify and eliminate low-value federal aid programs. Over the longer run, the aid system should be fully phased out. Americans want more responsive and effective government, and they can get it by devolving power to the states and reviving competitive federalism.

NOTES

1. Counts of the number of aid-to-state programs by various sources are somewhat rough. Figure 1 uses counts from the Advisory Commission on Intergovernmental Relations for 1905–1975, the Office of Management and Budget for 1980–2005, the Congressional Research Service for 2010–2015, and my own count for 2018 based on the OMB method. See endnote 11. Emma Wei assisted with the 2018 count.

2. For the early history of aid, see Chris Edwards, "Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy," Cato Institute Policy Analysis no. 593, May 22, 2007. And see Paul H. Douglas, "The Development of a System of Federal Grants-in-Aid I," *Political Science Quarterly* 35, no. 2 (June 1920): 255–71; Austin F. Macdonald, *Federal Aid: A Study of the American Subsidy System* (New York: Thomas Y. Crowell Company, 1928); and Sam J. Ervin, Jr., "Federalism and Federal Grants-In-Aid," *North Carolina Law Review* 43, no. 3 (1965): 487–501.

3. Robert P. Inman, "Federal Assistance and Local Services in the United States: The Evolution of a New Federalist Fiscal Order," National Bureau of Economic Research Working Paper no. 2283, June 1987. In explaining the growth in aid to states, Inman says, "Congress as an institution for fiscal policy underwent a major transformation in structure from 1969 to 1972, evolving from a legislative body dominated by a few major decision-makers with firm control over fiscal affairs to a largely decentralized forum of individual deal-makers each required to maximize his or her own net gain from legislative decisions."

4. President Richard Nixon, State of the Union Address, 1971.

5. Memorandum from President Jimmy Carter, September 9, 1977. Quoted in David B. Walker, *The Rebirth of Federalism: Slouching toward Washington* (New Jersey: Chatham House Publishers, 1995), p. 143.

6. Daniel P. Schwallie, *The Impact of Intergovernmental Grants on the Aggregate Public Sector* (New York: Quorum Books, 1989), p. 132. There was a shift from the previous view that grants could efficiently solve externalities to the new view that rent-seeking, fiscal illusion, and bureaucratic behaviors better explained the structure of intergovernmental grants.

7. ACIR publications are available at https://digital.library.unt.edu/explore/collections/ACIR.

8. For a discussion of Reagan's New Federalism, see *Editorial Research Reports* (*CQ Researcher*), "Reagan's New Federalism," April 3, 1981.

9. The Office of Management and Budget and the Advisory Commission on Intergovernmental Relations have somewhat different historical counts of the number of grants, but in both cases the drop was about one-quarter mainly resulting from the Omnibus Budget Reconciliation Act of 1981.

10. Quoted in Kenneth Jost, "The States and Federalism: Should More Power Be Shifted to the States?" *CQ Researcher*, September 13, 1996.

11. The figure for 2018 is based on my analysis of the Catalog of Federal Domestic Assistance (CFDA), available at https://beta.sam.gov (formerly 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. Emma Wei assisted with the count. Federal aid program counts should be considered rough, and past counts by the ACIR and OMB differed. The Congressional Research Service provided

a count for 2017 of 1,319. See Robert Day Dilger, "Federal Grants to State and Local Governments: A Historical Perspective on Contemporary Issues," Congressional Research Service, R40638, May 7, 2018.

12. This is a fiscal year estimate from the *Budget of the U.S. Government, FY2020, Analytical Perspectives* (Washington: Government Publishing Office, 2019), p. 232.

13. Aid programs can also be categorized as either categorical grants or block grants. Most are categorical grants, which target a narrow range of activities and include detailed rules for states to follow. By contrast, block grants fund a broader range of activities and give states more flexibility.

14. *Budget of the U.S. Government, FY2020, Analytical Perspectives* (Washington: Government Publishing Office, 2019), chapter 17.

15. A recent study by a prominent liberal think tank arguing against President Trump's proposed aid cuts said, "State and local governments do not have the funds to replace the magnitude of funds that could be lost through cuts." Yet the federal government is running a $900 billion deficit and does not "have the funds" either. See Iris J. Lav and Michael Leachman, "At Risk: Federal Grants to State and Local Governments," Center on Budget and Policy Priorities, March 13, 2017.

16. Federalism expert John Kincaid notes, "Just as grants create the illusion of free money for state and local taxpayers, federal deficit spending encourages state and local officials to try to shift costs to the federal government because it appears to be costless and because state and local officials face comparatively hard budget constraints in the forms of constitutional or statutory tax, expenditure, and borrowing limits." John Kincaid, "The Eclipse of Dual Federalism by One-Way Cooperation Federalism," *Arizona State Law Journal* 49, no. 3 (Fall 2017): 1075. The first book about the new and growing federal aid system published in 1928 captured the political appeal of federal funding: "The voters have clamored loudly for better standards of service—more and better schools, more and better teachers, more and better roads. At the same time they have voiced no less insistently their demand for lower taxes. State legislators . . . have cast about for new sources of revenue. One of the richest finds has been the federal treasury." Austin F. Macdonald, *Federal Aid: A Study of the American Subsidy System* (New York: Thomas Y. Crowell Company, 1928), p. 5.

17. In addition to legal limits on debt issuance, state budgeting is disciplined by credit ratings on state bond debt. Some states have large unfunded obligations in their worker retirement plans, and so they are not fiscal saints. However, state and local debt and unfunded obligations are a smaller problem than federal government debt and unfunded obligations. Also, some states are quite prudent and have very low debt and unfunded obligations.

18. Gordon Tullock, *The New Federalist* (Vancouver, Canada: The Fraser Institute, 1994), pp. 74, 128.

19. Tullock, *The New Federalist*, pp. 74, 128.

20. Dino P. Christenson, Douglas L. Kriner, and Andrew Reeves, "All the President's Senators," *Legislative Studies Quarterly* 42, no. 2 (May 2017): 3.

21. For example, Rep. G. K. Butterfield (D-NC) holds annual grants workshops. See https://butterfield.house.gov/services/grants.

22. Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 50.

23. Michael S. Greve, "Big Government Federalism," Federalist Outlook no. 5, American Enterprise Institute, March 2001.

24. James R. Hines, Jr. and Richard H. Thaler, "Anomalies: The Flypaper Effect," *Journal of Economic Perspectives* 9, no. 4 (Fall 1995): 217–26. And see Robert P. Inman, "The Flypaper Effect," National Bureau of Economic Research Working Paper no. 14579, December 2008. And see Jason Sorens, "Vertical Fiscal Gaps and Economic Performance: A Theoretical Review and an Empirical Meta-analysis," Mercatus Center, February 2016. There may be a time dimension to the flypaper effect. That is, grants may initially raise state spending, but over the longer term the stimulus may subside. See Nora Gordon, "Do Federal Grants Boost School Spending? Evidence from Title I," *Journal of Public Economics* 88 (2004): 1771–92.

25. Robert P. Inman, "The Flypaper Effect," National Bureau of Economic Research Working Paper no. 14579, December 2008.

26. Mike Nichols, *Federal Grant$tanding: How Federal Grants Are Depriving Us of Our Money, Liberty, and Trust in Government—and What We Can Do about It* (Wisconsin: Badger Institute, 2018), p. 49.

27. Shama Gamkhar and Wallace Oates, "Asymmetries in the

Response to Increases and Decreases in Intergovernmental Grants: Some Empirical Findings," *National Tax Journal* 49, no. 4 (December 1996): 501–12.

28. Robin Rudowitz, "Medicaid Financing: The Basics," Kaiser Family Foundation, December 2016.

29. With a closed-ended grant, the state spending incentive depends on whether spending is below or above the cap amount. If spending is above the cap amount, further increases do not trigger additional funds from Washington.

30. Economists who support federal aid point to two main advantages. They argue that aid may address externalities or spillovers that states may impose on one another and that redistribution is better carried out by the central government. See Wallace E. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37, no. 3 (September 1999): 1120–49. But to properly address spillover effects, federal planners would need detailed local information that they usually do not have, and they would need to be guided by the public interest, not political pressures. Experience over the past century shows that aid programs are generally not created and designed to address spillovers. Also note that many actual spillovers, such as those relating to interstate water resources, can be handled by interstate compacts rather than federal programs. Regarding redistribution, aid programs do not redistribute resources to low-income states in many cases, even if that were a good idea. On these two theoretical advantages of aid, the ACIR concluded in a major 1981 study on federalism, "The record indicates that federal aid programs have never consistently transferred income to the poorest jurisdictions or individuals. Neither do most existing grants accord with the prescriptions of 'externality theory.'" Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 94. And see pp. 53, 54. Finally, note that any possible advantages of aid need to be balanced by the disadvantages, as discussed in this study. A thorough, cross-country examination of the pros and cons of aid is in Robin Boadway and Anwar Shah, *Fiscal Federalism: Principles and Practice of Multiorder Governance* (New York: Cambridge University Press, 2009).

31. Pengyu Zhu and Jeffrey R. Brown, "Donor States and Donee States: Investigating Geographic Redistribution of the U.S. Federal-Aid Highway Program 1974–2008," *Transportation* 40, no. 1 (January 2013): 203–27.

32. Author's calculation for 2006 to 2015 of the HTF's highway account. See Federal Highway Administration, "Highway Statistics 2015," August 2016, Table FE-221B.

33. This is Inman's interpretation of Knight's statistical results. Robert P. Inman, "The Flypaper Effect," National Bureau of Economic Research Working Paper no. 14579, December 2008; and Brian Knight, "Parochial Interests and the Centralized Provision of Local Public Goods," National Bureau of Economic Research Working Paper no. 9748, June 2003.

34. Some studies that have found political biases in aid allocations include: Dino P. Christenson, Douglas L. Kriner, and Andrew Reeves, "All the President's Senators: Presidential Copartisans and the Allocation of Federal Grants," *Legislative Studies Quarterly* 42, no. 2 (May 2017); Thomas A. Garrett and Russell S. Sobel, "The Political Economy of FEMA Disaster Payments," *Economic Inquiry* 41, no. 3 (July 2003): 496–509; David Albouy, "Partisan Representation in Congress and the Geographic Distribution of Federal Funds," National Bureau of Economic Research Working Paper no. 15224, August 2009; Pengyu Zhu and Jeffrey R. Brown, "Donor States and Donee States: Investigating Geographic Redistribution of the U.S. Federal-Aid Highway Program 1974–2008," *Transportation* 40, no. 1 (January 2013): 203; and Massimiliano Ferraresi, Gianluca Gucciardi, and Leonzio Rizzi, "The 1974 Budget Act and Federal Grants: Exploring Unintended Consequences of the Status Quo," May 29, 2018, available at SSRN.com.

35. Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 94.

36. Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System," p. 106.

37. Rainald Borck and Stephanie Owings, "The Political Economy of Intergovernmental Grants," *Regional Science and Urban Economics* 33, no. 2 (2003): 140. Similarly, Robert Inman concluded: "Two alternative hypotheses are examined. The first—that aid is allocated to correct market or political failures in the local public economy or to equalize the provision of meritorious local public goods—generally fails to account for the distribution of federal aid over the past thirty years. The second hypothesis—that aid is allocated to ease the fiscal pressure in the state-local sector when, and only when, it is in the political interests of congressional representatives to do so—is supported by the recent data." Robert P. Inman, "Federal Assistance and Local Services in the United States," National Bureau of Economic Research Working Paper no. 2283, June 1987.

38. Rainald Borck and Stephanie Owings, "The Political Economy of Intergovernmental Grants," *Regional Science and Urban Economics* 33, no. 2 (2003): 140.

39. Clifford Winston, "On the Performance of the U.S. Transportation System: Caution Ahead," *Journal of Economic Literature* 51, no. 3 (September 2013): 790.

40. Dean E. Murphy, "Security Grants Still Streaming to Rural States," *New York Times*, October 12, 2004. And see Chris Edwards, "Terminating the Department of Homeland Security," DownsizingGovernment.org, Cato Institute, November 1, 2014.

41. Richard Johnson, "Weighing the Costs: The Unequal Impact of Equal State Apportionment in the United States Senate," Nuffield College, Oxford, October 20, 2012.

42. Adam Liptak, "Smaller States Find Outsize Clout Growing in Senate," *New York Times*, March 10, 2013.

43. For example, the number of governments receiving Community Development Block Grants has increased over the years. See Tracy Gordon, "Harnessing the U.S. Intergovernmental Grant System for Place-Based Assistance in Recession and Recovery," Hamilton Project, Brookings Institution, September 2018, p. 8.

44. Quoted in Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 50.

45. Cited in K. Lee, "Apportionment of Federal Grants," *CQ Researcher* (formerly *Editorial Research Reports*), October 16, 1946.

46. A 1975 Congressional Budget Office study cited in Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 49.

47. Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 48.

48. Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System," p. 94.

49. *Budget of the U.S. Government, FY2020, Analytical Perspectives* (Washington: Government Publishing Office, 2019), Table 17-4.

50. "Community Development Block Grant Program—CBDG," HUD.gov.

51. Brett Theodos, Christina Plerhoples Stacy, and Helen Ho, "Taking Stock of the Community Development Block Grant," Urban Institute, April 2017, pp. 6, 8.

52. *Budget of the U.S. Government, Fiscal Year 2020, Major Savings and Reforms* (Washington: Government Publishing Office, 2019), p. 50.

53. Joseph Antos, "The Structure of Medicaid," in *The Economics of Medicaid*, ed. Jason J. Fichtner (Arlington, VA: Mercatus Center, 2014), p. 9.

54. Quoted in K. Lee, "Apportionment of Federal Grants," *CQ Researcher* (formerly *Editorial Research Reports*), October 16, 1946.

55. Lauren Camera and Lindsey Cook, "Title 1: Rich School Districts Get Millions Meant for Poor Kids," *U.S. News and World Report*, June 1, 2016.

56. Victoria L. Elliott, "Stafford Act Declarations 1953–2016: Trends, Analyses, and Implications for Congress," Congressional Research Service, R42702, August 28, 2017.

57. Since 1970, the estimated number of Americans living in coastal areas designated as Special Flood Hazard Areas by FEMA increased from 10 million to more than 16 million. See Chris Edwards, "The Federal Emergency Management Agency: Floods, Failures, and Federalism," DownsizingGovernment.org, Cato Institute, December 1, 2014.

58. It is true, however, that the aid system is funded by the graduated or progressive federal income tax.

59. Randal O'Toole, *Romance of the Rails: Why the Passenger Trains We Love Are Not the Transportation We Need* (Washington: Cato Institute, 2018), Chapter 13.

60. O'Toole, *Romance of the Rails*, pp. 165, 168, 215.

61. O'Toole, *Romance of the Rails*, p. 213. And see the transit section of www.infrastructurereportcard.org.

62. Brian M. Rosenthal, "The Most Expensive Mile of Subway Track on Earth," *New York Times*, December 28, 2017. And see Brian M. Rosenthal, Emma G. Fitzsimmons, and Michael LaForgia,

"How Politics and Bad Decisions Starved New York's Subways," *New York Times*, November 18, 2017.

63. Lori Aratani and Katherine Shaver, "Trump Budget Plan Would Deal Blow to Washington Region's Transit; Purple Line at Risk," *Washington Post*, March 16, 2017.

64. O'Toole, *Romance of the Rails*, p. 209.

65. O'Toole, *Romance of the Rails*, p. 211.

66. Gustavo Arellano, "Albuquerque's $133 Million Electric Bus System Is Going Nowhere Fast," *Los Angeles Times*, February 17, 2019.

67. Dan Frosch and Paul Overberg, "How a Train through Paradise Turned Into a $9 Billion Debacle," *Wall Street Journal*, March 22, 2019.

68. The Housing Act of 1949 launched a large federal effort of urban renewal, slum clearing, and public housing projects.

69. W. B. Dickinson Jr., "Urban Renewal under Fire," *CQ Researcher* (formerly *Editorial Research Reports*), August 21, 1963.

70. Jane Jacobs, *The Death and Life of Great American Cities* (New York: Random House, 1961), p. 4.

71. James T. Bennett, *Corporate Welfare: Crony Capitalism That Enriches the Rich* (New Brunswick, NJ: Transaction Publishers, 2015), chapter 5.

72. William A. Fischel, "Before *Kelo*," *Regulation* 28, no. 4 (Winter 2005): 32–35.

73. Quoted in James T. Bennett, *Corporate Welfare: Crony Capitalism That Enriches the Rich*, p. 134.

74. Quoted in K. Lee, "Apportionment of Federal Grants," *CQ Researcher* (formerly *Editorial Research Reports*), October 16, 1946.

75. Advisory Committee on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," December 1980, Introduction. This is the "In Brief" summary volume.

76. Government Accountability Office, "Federal Assistance: Grant System Continues to Be Highly Fragmented," GAO-03-718T, April 29, 2003.

77. Government Accountability Office, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue," GAO-11-318SP, March 2011, p. 42.

78. The statute is 20 U.S.C. § 33. The regulation page count is mentioned in National Education Association, "NEA Assesses Final IDEA Regulations," http://www.nea.org/home/18903.htm.

79. U.S. Department of Education, "40th Annual Report to Congress on the Implementation of the Individuals with Disabilities Education Act, 2018," December 2018.

80. This is HUD's entire costs of compensation and purchases ratioed for the share of HUD outlays that was for state aid in 2018. *Budget of the U.S. Government, Fiscal Year 2019, Appendix* (Washington: Government Publishing Office, 2018).

81. Calculated based on data in *Budget of the U.S. Government, Fiscal Year 2019, Appendix* (Washington: Government Publishing Office, 2018), p. 159.

82. Calculated based on data in *Budget of the U.S. Government, Fiscal Year 2019, Appendix*, p. 182.

83. Government Accountability Office, "Federal Disaster Assistance: Improved Criteria Needed to Assess a Jurisdiction's Capability to Respond and Recover on Its Own," GAO-12-838, September 2012, p. 41.

84. Paul C. Light, "The True Size of Government," The Volcker Alliance (website), October 2017.

85. Paul C. Light, "Fact Sheet on the New True Size of Government," Brookings Institution 2003. And see Paul C. Light, *The True Size of Government* (Washington: Brookings Institution, 1999), pp. 26–36.

86. From 1960 to 1980, state-local spending from federal aid grew rapidly while state-local spending from state-local own-source revenues grew slowly. See *Budget of the U.S. Government, Fiscal Year 2019, Historical Tables* (Washington: Government Publishing Office, 2018), Table 14.3. Between 1960 and 1980, state-local spending from own-source revenues increased from 8.4 percent to 9.5 percent of gross domestic product, but state-local spending from federal aid jumped from 0.7 percent to 2.4 percent. For

employment data, see U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 6.5B.

87. Government Accountability Office, "Community Development Block Grants: Program Offers Recipients Flexibility but Oversight Can Be Improved," GAO-06-732, July 2006, p. 14.

88. "Grants and Funding Program Forms," California Department of Housing and Community Development, hcd.ca.gov.

89. Mike Nichols, *Federal Grant$tanding: How Federal Grants Are Depriving Us of Our Money, Liberty and Trust in Government—and What We Can Do about It* (Wisconsin: Badger Institute, 2018), p. 69.

90. Nichols, *Federal Grant$tanding*, p. 32.

91. Nichols, *Federal Grant$tanding*, p. 17.

92. Congressional Budget Office, "Federal Grants to State and Local Governments," March 2013, p. 31.

93. U.S. Department of Transportation, "U.S. Department of Transportation Secretary Elaine L. Chao Announces $1.5 Billion in BUILD Transportation Grants to Revitalize Infrastructure Nationwide," December 11, 2018.

94. David Palmer, "Cullman Seeks $14 million Grant for Alabama 157 Widening," *Cullman Times*, July 17, 2018.

95. Palmer, "Cullman Seeks $14 Million Grant for Alabama 157 Widening."

96. Patrick McGuinn, "From No Child Left Behind to the Every Student Succeeds Act: Federalism and the Education Legacy of the Obama Administration," *Publius: The Journal of Federalism* 46, no. 3 (2016): 396.

97. For example, California's application was 606 pages in length and Colorado's was 762 pages.

98. This program is CFDA 84.351D. Information on it is at https://innovation.ed.gov.

99. This figure is from a sampling of applications for 2014. Recent award applications are not posted.

100. Government Accountability Office, "Medicaid: Further Action Needed to Expedite Use of National Data for Program Oversight," GAO-18-70, December 2017.

101. Healthcare provider taxes are a widely criticized example, but there are also other dubious schemes. Regarding provider taxes, see Brian C. Blase, "Medicaid Provider Taxes: The Gimmick That Exposes Flaws with Medicaid's Financing," Mercatus Center, February 2016.

102. Government Accountability Office, "School-Meals Programs: USDA Has Enhanced Controls, but Additional Verification Could Help Ensure Legitimate Program Access," GAO-14-262, May 2014, p. 15.

103. Government Accountability Office, "School-Meals Programs," p. 9. A scandal in Chicago public schools made this clear. See Monica Eng and Joel Hood, "School Free-Lunch Program Dogged by Abuses at CPS," *Chicago Tribune*, January 13, 2012.

104. Eng and Hood, "School Free-Lunch Program Dogged by Abuses at CPS."

105. U.S. Department of Agriculture, Office of Inspector General, "FNS-National School Lunch and School Breakfast Programs," April 2015, p. 4.

106. Chris Edwards and Nicole Kaeding, "Federal Government Cost Overruns," DownsizingGovernment.org, Cato Institute, September 1, 2015.

107. Patricia Sullivan, "Arlington County to Hire Independent Contractor to Review $1 Million Bus Stop," *Washington Post*, June 24, 2013.

108. Chris Edwards, "Update on Arlington's $1 Million Bus Stop," DownsizingGovernment.org, Cato Institute, June 26, 2013.

109. Randal O'Toole, *Romance of the Rails: Why the Passenger Trains We Love Are Not the Transportation We Need* (Washington, DC: Cato Institute, 2018), p. 217.

110. O'Toole, *Romance of the Rails*, p. 141. See also Randal O'Toole, "Charting Public Transit's Decline," Cato Institute Policy Analysis no. 853, November 8, 2018, p. 10.

111. Government Accountability Office, "Opportunities to Reduce Potential Duplication in Government Programs, Save

Tax Dollars, and Enhance Revenue," GAO-11-318SP, March 2011, p. 48.

112. Eliot Brown, "Complex Design, Political Disputes Send World Trade Center Rail Hub's Cost Soaring," *Wall Street Journal*, September 3, 2014.

113. Robin Boadway and Anwar Shah, *Fiscal Federalism: Principles and Practice of Multiorder Governance* (New York: Cambridge University Press, 2009), p. 354.

114. David B. Walker, *The Rebirth of Federalism: Slouching toward Washington* (New Jersey: Chatham House Publishers, 1995), p. 238.

115. John Kincaid, "The Eclipse of Dual Federalism by One-Way Cooperation Federalism," *Arizona State Law Journal* 49, no. 3 (Fall 2017): p. 1070.

116. James Sherk, "Repealing the Davis-Bacon Act Would Save Taxpayers $10.9 Billion," Heritage Foundation, February 14, 2011.

117. AECOM and Build America Investment Initiative for the Department of the Treasury, "40 Proposed U.S. Transportation and Water Infrastructure Projects of Major Economic Significance," December 2016, p. 7.

118. Associated General Contractors of Alaska, *The Alaska Contractor*, Fall 2012, p. 10.

119. National Conference of State Legislatures, "Mandate Monitor," vol. 6, no. 1, April 1, 2008.

120. Valerie Strauss, "Are States Really Trying to Overcome the Harmful Legacy of No Child Left Behind?," *Washington Post*, February 12, 2018.

121. Patrick McGuinn, "From No Child Left Behind to the Every Student Succeeds Act: Federalism and the Education Legacy of the Obama Administration," *Publius: The Journal of Federalism* 46, no. 3 (2016): 399.

122. McGuinn, "From No Child Left Behind to the Every Student Succeeds Act," p. 408.

123. Chris Edwards, "The Federal Emergency Management Agency: Floods, Failures, and Federalism," DownsizingGovernment.org, Cato Institute, December 1, 2014.

124. Government Accountability Office, "Perspectives on Intergovernmental Policy and Fiscal Relations," GGD-79-62, June 28, 1979, pp. 2, 9.

125. Milton Friedman, "Why Government Is the Problem," Hoover Institution Essays in Public Policy no. 39, 1993.

126. Paul C. Light, "A Cascade of Failures: Why Government Fails, and How to Stop It," Brookings Institution, July 14, 2014.

127. Luke Rosiak, "Many House Members Miss More Than Two-Thirds of Their Committee Meetings," *Washington Examiner*, September 29, 2014.

128. Quoted in Kenneth Jost, "The States and Federalism: Should More Power Be Shifted to the States?," *CQ Researcher*, September 13, 1996.

129. Quoted in Adam Freedman, *A Less Perfect Union: The Case for States' Rights* (New York: Broadside Books, 2015), p. 243.

130. Paul H. Douglas, "The Development of a System of Federal Grants-in-Aid II," *Political Science Quarterly* 35, no. 4 (December 1920): 540, 542.

131. Austin F. Macdonald, *Federal Aid: A Study of the American Subsidy System* (New York: Thomas Y. Crowell Company, 1928), pp. 4, 12.

132. Macdonald, *Federal Aid*, p. 267.

133. Macdonald, *Federal Aid*, p. 238.

134. President Calvin Coolidge, State of the Union Address, December 8, 1925.

135. Quoted in George B. Galloway, "Federal Subsidies to the States," *CQ Researcher* (formerly *Editorial Research Reports*), December 13, 1924.

136. James L. Buckley, *Saving Congress from Itself: Emancipating the States and Empowering Their People* (New York: Encounter Books, 2014), p. xv.

137. Buckley, *Saving Congress from Itself*, p. xi.

138. Chris Edwards, "The Federal Emergency Management Agency: Floods, Failures, and Federalism," DownsizingGovernment.org,

Cato Institute, December 1, 2014.

139. Steven M. Teles, "Kludgeocracy in America," *National Affairs*, Fall 2013.

140. Rebecca Goldstein and Hye Young You, "Cities as Lobbyists," *American Journal of Political Science* 61, no. 4 (2017): 864–76. And see Ana Radelat, "State, Local Governments Hire Lobbyists for Influence in DC," *CT Mirror*, January 15, 2015. Also see Rick Brundrett, "Millions Spent by S.C. Municipalities on Federal Lobbyists," The Nerve (website), November 14, 2012.

141. Matt W. Loftis and Jaclyn J. Kettler, "Lobbying from Inside the System: Why Local Governments Pay for Representation in the U.S. Congress," *Political Research Quarterly* 68, no. 1 (2014): 194.

142. Management Concepts, for example, offers a couple dozen different courses on aspects of the federal grants process. See www.managementconcepts.com.

143. U.S. Economic Development Administration (website), National Economic Development Organizations.

144. Advisory Commission on Intergovernmental Relations, "Fiscal Balance in the American Federal System," vol. 1, October 1967, pp. 164, 165, 258.

145. Bureau of the Census, *Statistical Abstract of the United States* (Washington: Government Publishing Office, 2006), Table 415.

146. U.S. Department of Transportation (website), "Metropolitan Planning Organization (MPO) Database."

147. Government Accountability Office, "Federal Assistance: Grant System Continues to Be Highly Fragmented," GAO-03-718T, April 29, 2003, pp. 13–14.

148. Economist Wallace Oates notes that even aside from the possibility of interjurisdictional migration, the optimal level of public services will vary from place to place because preferences vary from place to place. But Oates and other economists favoring aid believe that that factor is balanced by other factors favoring centralized provision. Wallace E. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37, no. 3 (September 1999): 1124.

149. Gordon Tullock, *The New Federalist* (Vancouver, Canada: Fraser Institute, 1994), p. 119.

150. Exec. Order No. 12612, 52 Fed. Reg. 41685 (October 26, 1987).

151. *New State Ice Co. v. Liebmann*, 285 U.S. 262 (1932).

152. Adam Freedman, *A Less Perfect Union: The Case for States' Rights* (New York: Broadside Books, 2015).

153. Freedman, *A Less Perfect Union*, p 235.

154. For example, see D. Bradford Hunt, *Blueprint for Disaster: The Unraveling of Chicago Public Housing* (Chicago: University of Chicago Press, 2009).

155. Randal O'Toole, *Romance of the Rails: Why the Passenger Trains We Love Are Not the Transportation We Need* (Washington: Cato Institute, 2018).

156. Ari Ashe, "South Carolina to Fill Federal Gap in Charleston Port Deepening Dollars," *Journal of Commerce*, June 7, 2018.

157. Liz Segrist, "Charleston Harbor Deepening Project Allocated $17.5 Million in Federal Funding," *Charleston Regional Business Journal*, May 25, 2017.

158. For example, see "Delivering Jobs and Driving Growth," Associated British Ports (website).

159. Chris Edwards, "Privatizing Air Traffic Control," DownsizingGovernment.org, Cato Institute, April 8, 2016.

160. Chris Edwards, "The Federal Emergency Management Agency: Floods, Failures, and Federalism," DownsizingGovernment.org, Cato Institute, December 1, 2014.

161. Scott Shane, "After Failures, Government Officials Play Blame Game," *New York Times*, September 5, 2005.

162. James F. Miskel, *Disaster Response and Homeland Security: What Works, What Doesn't* (Redwood City: Stanford University Press, 2008), p. 6.

163. Rutherford H. Platt, *Disasters and Democracy: The Politics of Extreme Natural Events* (Washington: Island Press, 1999), p. 277.

164. James W. Fossett, "A Tale of Two Hurricanes: What Does Katrina Tell Us about Sandy?" Nelson A. Rockefeller Institute of Government, January 15, 2013.

165. Dan Frosch and Rebecca Elliott, "Texas Relief Money Caught in Trump Administration Dispute with Puerto Rico," *Wall Street Journal*, April 6, 2019.

166. Roger Pilon, "Federalism, Then and Now," *inFocus Quarterly* (Washington: Jewish Policy Center, 2015), p. 4.

167. Pilon, "Federalism, Then and Now," p. 4.

168. James Madison, *Federalist* no. 51.

169. Exec. Order No. 12612, 52 Fed. Reg. 41685 (October 26, 1987).

170. Greve discusses errors that James Madison made on the issue. He notes that the Constitutional Convention rejected Madison's proposal of a federal veto on state laws on three occasions, indicating that the Founders wanted to minimize federal government involvement in state and local affairs. Michael S. Greve, *Real Federalism: Why It Matters, How It Could Happen* (Washington: American Enterprise Institute Press, 1999), pp. 51–57.

171. Greve, *Real Federalism*, pp. 195–96.

172. Richard P. Nathan, "Updating Theories of American Federalism," in *Intergovernmental Management for the Twenty-First Century* (Washington: Brookings Institution Press, 2008), pp. 13–25.

173. In an interesting article, Chris Pope quotes a 1961 essay by leftist Canadian academic and future prime minister Pierre Trudeau stating, "Socialists must consider federalism as a positive asset. . . . The drive towards power must begin with the establishment of bridgeheads . . . allowing dynamic parties to plant socialist governments in certain provinces, from which the seed of radicalism can slowly spread." Chris Pope, "Degenerate Federalism," *National Review*, May 10, 2018.

174. Wallace Oates quoting Robert Inman and Daniel Rubinfeld in Wallace E. Oates, "An Essay on Fiscal Federalism," *Journal of Economic Literature* 37, no. 3 (September 1999): 1138.

175. U.S. Bureau of Economic Analysis, National Income and Product Accounts, Table 3.3, https:apps.bea.govitableindex.cfm.

176. Chung-Lae Cho and Deil S. Wright, "Perceptions of Federal Aid Impacts on State Agencies: Patterns, Trends, and Variations across the 20th Century," *Publius: The Journal of Federalism* 37, no. 1 (Winter 2007): 111.

177. John Kincaid, "Dynamic De/Centralization in the United States, 1790–2010," *Publius: The Journal of Federalism* 49, no. 1 (Winter 2019): 166–93

178. André Lecours, "Dynamic De/Centralization in Canada, 1867–2010," *Publius: The Journal of Federalism* 49, no. 1 (Winter 2019): 57–83.

179. Chris Edwards, "Did Canada Steal Our Tenth Amendment?," *Cato at Liberty* (blog), Cato Institute, October 18, 2011.

180. James L. Buckley, *Saving Congress from Itself: Emancipating the States and Empowering Their People* (New York: Encounter Books, 2014), xii.

181. Richard A. Epstein and Mario Loyola, "The United State of America," *The Atlantic*, July 31, 2014.

182. John Kincaid, "The Eclipse of Dual Federalism by One-Way Cooperation Federalism," *Arizona State Law Journal* 49, no. 3 (Fall 2017): 1074.

183. Kincaid, "The Eclipse of Dual Federalism by One-Way Cooperation Federalism," p. 1081.

184. The National Association of Highway Engineers wrote the 1916 Federal Aid Road Act, while the American Association of State Highway Officials helped lobby for its passage. See Paul H. Douglas, "The Development of a System of Federal Grants-in-Aid I," *Political Science Quarterly* 35, no. 2 (June 1920): 255–71.

185. Neal McCluskey, "Cutting Federal Aid for K–12 Education," DownsizingGovernment.org, Cato Institute, April 21, 2016.

186. Quoted in Stanley Kurtz, "The Politics of the Administrative State," *National Review Online*, January 8, 2018.

187. The Founders thought that a republican form of government had popular rule and the rule of law, and was not a monarchy. Edwin Meese, Matthew Spalding, and David F. Forte, *The Heritage Guide to the Constitution* (Washington: Regnery Publishing, 2005), p. 282.

188. Adam Freedman, *A Less Perfect Union: The Case for States' Rights* (New York: Broadside Books, 2015), p. 219.

189. Chung-Lae Cho and Deil S. Wright, "Perceptions of Federal Aid Impacts on State Agencies: Patterns, Trends, and Variations

across the 20th Century," *Publius: The Journal of Federalism* 37, no. 1 (Winter 2007).

190. The marble cake metaphor was coined by political scientist Morton Grodzins.

191. Ronald Reagan, "Budget Message of the President," *Budget of the U.S. Government, Fiscal Year 1983* (Washington: Government Publishing Office, February 1982), p. M22.

192. Quoting [Maryland] Farmer. Herbert J. Storing, *What the Anti-Federalists Were For: The Political Thought of the Opponents of the Constitution* (Chicago: University of Chicago Press, 1981), p. 56.

193. James C. Capretta, "A New Safety Net: Medicaid," American Enterprise Institute, February 2017.

194. James C. Capretta, "Reforming Medicaid," in *The Economics of Medicaid: Assessing the Costs and Consequences*, ed. Jason J. Fichtner (Arlington, VA: Mercatus Center, 2014), p. 143.

195. Advisory Commission on Intergovernmental Relations, "The Federal Role in the Federal System: The Dynamics of Growth," no. A-86, June 1981, p. 95.

196. Steven M. Teles, "Kludgeocracy in America," *National Affairs*, no. 17 (Fall 2019): 97–114.

197. Teles, "Kludgeocracy in America."

198. Teles, "Kludgeocracy in America."

199. Richard Nathan provides many examples in Richard P. Nathan, "Updating Theories of American Federalism," in *Intergovernmental Management for the Twenty-First Century* (Washington: Brookings Institution, 2008). Adam Freedman also provides numerous examples in Adam Freedman, *A Less Perfect Union: The Case for States' Rights* (New York: Broadside Books, 2015).

200. Robert W. Poole, Jr., *Rethinking America's Highways: A 21st-Century Vision for Better Infrastructure* (Chicago: University of Chicago Press, 2018), p. 7.

201. Poole, *Rethinking America's Highways*, p. 35.

202. Poole, *Rethinking America's Highways*, p. 40.

203. Randal O'Toole, *Romance of the Rails: Why the Passenger Trains We Love Are Not the Transportation We Need* (Washington: Cato Institute, 2018), p. 136.

204. Transportation Research Board–National Research Council, Special Report no. 258, *Contracting for Bus and Demand-Responsive Transit Services: A Survey of U.S. Practice and Experience* (Washington: National Academy Press, 2001), p. 35.

205. Chris Edwards and Robert W. Poole, Jr., "Privatizing U.S. Airports," DownsizingGovernment.org, Cato Institute, November 28, 2016.

206. Chris Edwards, "Medicaid Reforms," DownsizingGovernment.org, Cato Institute, May 1, 2018.

207. Mark Warshawsky, "Mark Warshawsky: Millionaires on Medicaid," *Wall Street Journal*, January 6, 2014.

208. Paul H. Douglas, "The Development of a System of Federal Grants-in-Aid II," *Political Science Quarterly* 35, no. 4 (December 1920): p. 523.

209. Rutherford H. Platt, *Disasters and Democracy: The Politics of Extreme Natural Events* (Washington: Island Press, 1999), p. 91.

210. Quoted in Platt, *Disasters and Democracy*, p. 58.

211. Jeb Bush, "Think Locally on Relief," *Washington Post*, September 30, 2005.

212. Quoted in House of Representatives, Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina, "A Failure of Initiative," February 15, 2006, p. 322.

213. See National Center for Interstate Compacts (website).

214. Pew Research Center, "Public Trust in Government: 1958–2017," December 14, 2017.

215. Pew Research Center, "Beyond Distrust: How Americans View Their Government," November 23, 2015.

216. An empirical study found "strong evidence that two aspects of government size—transfer payments and regulatory activity—exhibit persistent long-run association with trust in government." Steven Gordon, John Garen, and J. R. Clark, "The Growth

of Government, Trust in Government, and Evidence on Their Coevolution," John H. Schnatter Institute for the Study of Free Enterprise, June 2017, p. 30.

217. Kincaid, "The Eclipse of Dual Federalism by One-Way Cooperation Federalism," p. 1089.

218. John Samples and Emily Ekins, "Public Attitudes toward Federalism: The Public's Preference for Renewed Federalism," Cato Institute Policy Analysis no. 759, September 23, 2014, pp. 3–4.

219. Samples and Ekins, "Public Attitudes toward Federalism," pp. 21, 23. And see Peter H. Schuck, *Why Government Fails So Often: And How It Can Do Better* (Princeton: Princeton University Press, 2014), pp. 95–98.

220. Samples and Ekins, "Public Attitudes toward Federalism," pp. 3–4.

221. Exec. Order No. 12612, 52 Fed. Reg. 41685 (October 26, 1987).

222. Iris J. Lav and Michael Leachman, "At Risk: Federal Grants to State and Local Governments," Center on Budget and Policy Priorities, March 13, 2017.

RELATED PUBLICATIONS FROM THE CATO INSTITUTE

Fiscal Policy Report Card on America's Governors 2018 by Chris Edwards, Cato Institute White Paper (October 9, 2018)

Tax Reform and Interstate Migration by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 84 (September 6, 2018)

Reforming Federal Farm Policies by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 82 (April 12, 2018)

Privatizing Federal Electricity Infrastructure by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 80 (January 24, 2018)

Low-Income Housing Tax Credit: Costly, Complex, and Corruption-Prone by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 79 (November 13, 2017)

Who Owns U.S. Infrastructure? by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 78, (June 1, 2017)

Tax Reform and Savings: Lessons from Canada and the United Kingdom by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 77 (May 1, 2017)

Privatizing U.S. Airports by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 76 (November 21, 2016)

Fiscal Policy Report Card on America's Governors 2016 by Chris Edwards, Cato Institute White Paper (October 5, 2016)

Options for Federal Privatization and Reform Lessons from Abroad by Chris Edwards, Cato Institute Policy Analysis no. 794 (June 28, 2016)

Privatizing the U.S. Postal Service by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 75 (April 1, 2016)

Reforming Air Traffic Control by Chris Edwards, Cato Institute Tax and Budget Bulletin no. 74 (February 17, 2016)

Federal Aid to the States: Historical Cause of Government Growth and Bureaucracy by Chris Edwards, Cato Institute Policy Analysis no. 593 (May 22, 2007)

CATO INSTITUTE