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Federal Aid to the States Ripe for Cuts

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In recent decades, the federal government has become active in many areas that were traditionally and constitutionally reserved for the states. A primary means of federal expansion into state affairs has been grants (“grants-in-aid”) to state and local governments.

In fiscal year 2004 the federal government will pay out \$418 billion in grants for health, highways, education, and other activities.¹ Grants have increased from 7.6 percent of federal spending in FY1960 to 18 percent by FY2004. Figure 1 shows that the number of grant programs has more than doubled since the mid-1980s, reaching 716 by 2003.

With the increase in grants, federal policymakers are spending too much time on state issues instead of true national priorities, such as security. Ending aid programs would help refocus attention to crucial national issues and would cut the huge federal budget deficit.

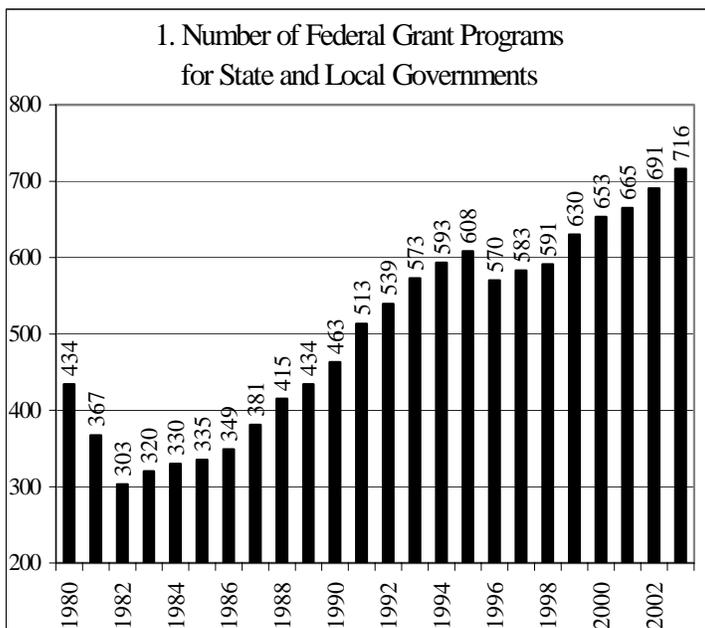
Intensely Bureaucratic

The federal grant structure is massive and complex, as detailed in the 1,800-page “Catalog of Federal Domestic Assistance” at www.cfda.gov. Grants range from the giant Medicaid to hundreds of obscure programs, such as \$10 million for Nursing Workforce Diversity, \$59 million for Boating Safety Financial Assistance, and a program that hands out grants of \$25,000 to local governments for “raising awareness” about environmental issues.

The huge size of federal grant activity has created an industry of consulting firms, specialized software, and trade publications to help state and local governments secure more federal cash. The bureaucracy of grants is intense: The “Weed and Seed” school anti-drug program has a 74-page application kit that references 1,300 pages of regulations for schools to follow. The Bush administration is right that the grant process is “overwhelming,” “off-putting,” and “intimidating.”²

Grant money often flows through federal, state, and local governments before a project is funded. This is “trickle-down economics” at its worst. The \$441 million Safe and Drug-Free Schools program sends money to the states, which in turn use complex allocations to send funds down to local school boards. School boards need experts to draft lengthy proposals to get the funds. After all that, the Bush administration has concluded that schools generally use this program’s funding wastefully.

Federal grants for local “first responder” activities have been politically popular since 9/11, but they are bogged down in bureaucracy. There are 16 overlapping grant programs that fund first responders such as firefighters.³ In some states, these grants flow through federal, state, county, and city governments before items such as emergency radios are purchased. A House committee reported in April that \$5.2 billion of \$6.3 billion in first responder grants since 9/11 “remains stuck in the administrative pipeline at the state, country, and city levels.”⁴

Sources: Office of Management and Budget and www.cfda.gov.

Political Logic, Not Economic Logic

Grants allow federal politicians to be activists in areas such as education, while muffling concerns about encroachment on state powers by shoveling money into state coffers. In theory, grants are supposed to target specific areas that have particular problems, such as a high poverty level or a high risk of terrorism. In reality, grant funding must be sprinkled broadly to gain support in Congress. For example, the House report noted that much of the first responder money is being distributed based on factors that have nothing to do with terrorism risk.

Some grant programs that are supposed to target poor regions have simply become slush funds for important politicians to buy votes. The \$6 billion Community Development Block Grant was supposed to fund key services in poor urban areas, but much CDBG money goes to wealthy areas of the country for dubious projects. As is typical of grant programs, the administration notes that this program has an “unclear mission, loose targeting requirements, and a lack of focus on results.”⁵

Scaling back federal grants would have many benefits. First, it would save money by eliminating large grant bureaucracies at all levels of government. Second, it would help end overspending by the states. Many states have expanded Medicaid and other programs beyond reasonable levels because the federal government provides matching funds for added spending. With Medicaid, some states have bilked the federal government out of billions of dollars of unjustified matching payments.⁶

Third, ending grants would stop inefficient redistributions of money between states. For example, some congested states lose out on highway funding from Washington, while other states, with powerful politicians, get unneeded highways built.

Fourth, ending grants would free states to design policy in diverse and innovative ways. Grants put the states in a costly straightjacket of federal rules. For example, the federal budget notes that Medicaid’s “complex array of . . . laws, regulations, and administrative guidance is confusing, overly burdensome, and serves to stifle state innovation and flexibility.”⁷

Fifth, with members of Congress busy steering grant funding to their districts, they have less time for crucial national issues, such as overseeing the FBI, CIA, and other security agencies. Indeed, the *Washington Post* reported that most members on the House and Senate intelligence committees have been too busy with other political and policy activities to have read crucial terrorism reports.⁸

Sixth, the overlapping responsibilities of federal, state, and local governments in areas such as education make it

difficult for citizens to determine which politicians are responsible for problems. Politicians have become skilled at pointing fingers at other levels of government when policies fail.

Reagan’s New Federalism

Congress should revive President Ronald Reagan’s New Federalism and cut grants to state and local governments. In his budget message for FY1983, Reagan noted: “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.”⁹ Reagan proposed abolishing the Department of Education and devolving welfare and food stamps to the states.

Those reforms did not happen, but the 1981 Budget Act did eliminate 59 grant programs and consolidate 80 others into 9 block grants. Between FY1980 and FY1985, real grant spending was cut by 15 percent. In the mid-1990s, Republicans made some efforts to revive federalism. They repealed the national 55-mph highway speed limit and turned welfare into a block grant program. However, total grant spending increased from \$225 billion in FY1995 to \$418 billion by FY2004, Department of Education outlays have doubled since FY1999, and the number of “earmarked” local projects in federal legislation has soared in recent years.

With today’s large budget deficit and the coming fiscal crunch in elderly entitlement programs, grants are a good place to make large cuts to federal spending. State and local governments and the private sector are in a better position to determine whether residents need more highways, schools, and other items. Congress cannot efficiently allocate funds for such services in a diverse nation of almost 300 million people.

¹ *Budget of the U.S. Government, FY2005, Analytical Perspectives*, p. 113. For background on grants, see General Accounting Office, GAO-03-718T, April 29, 2003.

² White House, “Barriers to Community-Based Organizations,” news release, August 16, 2001.

³ GAO, GAO-03-718T, April 29, 2003, p. 9.

⁴ House Select Committee on Homeland Security, “An Analysis of First Responder Grant Funding,” April 27, 2004.

⁵ *Budget of the U.S. Government, FY2005*, p. 181.

⁶ GAO, GAO-03-1006, August 2003, p. 146.

⁷ *Budget of the U.S. Government, FY2005, Analytical Perspectives*, p. 117.

⁸ Dana Priest, “Congressional Oversight of Intelligence Criticized,” *Washington Post*, April 27, 2004, p. A1.

⁹ *Budget of the U.S. Government, FY1983*, “Budget Message of the President,” p. M22.