The Budgetary Impact of the Abandonment of Federalism

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John F. Cogan

In most high school and college courses on American government, students are taught that the federal powers are limited and that there is a sharp division between federal and state government responsibilities. When it comes to federal spending, nothing could be further from the truth. No state or local activity is beyond the reach of the federal government's check-writing machine. The original limitations on the scope of federal spending power no longer exist. Indeed, the breadth of federal spending is so large that it is hard to think of a state or local government activity that isn't also financed by the federal government.

Each year, Congress grants federal funds to states for highways, medical care, social services, educational instruction, nutrition assistance, and welfare. It regularly finances activities that are at the core of local government responsibilities, including municipal parks and playgrounds, local pedestrian bike paths and hiking trails, city sidewalks, bus stops, railroad crossings, traffic signs and stoplights, and beautification projects for all the above. It provides funds for such activities regardless of a community's income or wealth and regardless of local jurisdictions' financial capacity. Recent federally funded local projects include a museum celebrating high-tech CEOs in Palo Alto, California (a city with a median household income of $174,000), a bike-share program to support casino-to-casino transit in Las Vegas, a soccer field in Anaheim, California, a baseball field in Lowell, Massachusetts, a ski jump in New Hampshire, and sewers in Peoria, Illinois.

As numerous as these projects are, they constitute only a small fraction of federally financed activities that were once exclusively under the jurisdiction of state or local governments. The lion's share of such expenditures is made through a host of entitlement programs that provide cash or in-kind transfer benefits to individuals.

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The breadth of modern-day federal spending on state and local activities is light-years from the original concept of federalism in fiscal matters. This concept, envisioned by James Madison and practiced by Congress during its first thirty years, held that federal spending is constrained to activities that are necessary and proper to carry out the Constitution's enumerated powers. Congress could appropriate federal funds to raise and support armed forces, to regulate commerce, to collect tax revenue, and so forth. But it could not fund grants to states for such activities as healthcare, community development, and social services. Nor could it provide financial or in-kind assistance to individuals unless that aid was compensation for federal service. As emphasized by the Tenth Amendment, these activities were reserved for the states and individuals. Congress adhered to this view from 1789 to 1817 by limiting its appropriations to activities that were justified by an enumerated power and consistently rejecting proposals to fund activities that were outside of those powers.

The original concept of fiscal federalism began to erode in the 1820s, continued to erode throughout the nineteenth and early twentieth centuries, and was abandoned entirely in the 1930s.[1]

This paper examines the impact of the abandonment of federalism on federal expenditures, revenues, and the federal budget deficit. The period of analysis is from 1950 to 2019. It uses the original concept of fiscal federalism to distinguish between expenditures on national versus state and local activities. The former category may be thought of as a "Madison budget" because it includes only those expenditures necessary and proper to carry out the Constitution's enumerated powers.

The analysis reveals that federal spending on activities originally regarded as state and local increased from 2 percent of GDP in 1950 to 14 percent in 2019, accounting for more than the entire growth in federal spending during the period. It now constitutes two-thirds of all federal expenditures. The analysis also shows that the nearly continuous string of federal budget deficits since the 1960s is due to Congress's failure to raise revenues sufficient to finance the growth in federal spending on state and local activities. Since the 1930s, the federal government has, in effect, chosen to take on additional responsibilities and has been persistently unwilling to finance them with tax revenues. Instead, it has financed them with debt.

A balanced federal budget was one of the many benefits of the original concept of fiscal federalism. During the nineteenth and early twentieth centuries, Congress balanced the annual federal budget after allowing for surpluses

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to reduce the outstanding debt, except during wartime and economic recessions. Since 1950, the Madison budget has followed the same behavior. Annual federal revenues, excluding social insurance tax revenues used to finance social insurance programs, such as Social Security and Medicare, have exceeded annual Madison budget expenditures, except during the Korean and Vietnam Wars, the defense buildup during the Reagan administration, and the economic recessions of 1990–91 and 2008–9.

This paper is divided into four sections: an examination of Congress's original concept of fiscal federalism as developed from 1789 to 1817; an outline of the steady erosion and eventual abandonment of this original concept; an analysis of the budgetary impact of the abandonment from 1950 to 2019; and some concluding remarks.

The Original Idea of Federalism: 1789–1817

The original idea of fiscal federalism is inexorably linked to the Constitution's limits on the federal spending power. The ink on the Constitution's parchment was barely dry when two distinctly different interpretations of the scope of federal spending power arose. James Madison held the view that the spending power was limited to activities to carry out the federal government's enumerated powers. All other activities were the responsibility of state and local governments and the people. The Tenth Amendment reinforced this view. Alexander Hamilton believed that the spending power also included spending to promote the general welfare on activities that were national, as opposed to local, in purpose, and to "create" commerce through commercial subsidies.

The two views defined two different systems of fiscal federalism. In the Madison view, specific grants of authority defined a boundary line between federal and state and local functions that the federal government could not cross in its decisions on how to spend federal funds. The Hamilton view was much broader. The federal government could not only finance improvements in commerce, it could also fund any activity that Congress deemed to be in the national interest.

From 1789 to 1822, Congress largely adhered to the Madison view and, in doing so, established the original concept of fiscal federalism. This adherence occurred despite numerous attempts to break from the Madison view. During this formative period, members of Congress offered numerous spending proposals that pushed against the limits imposed by Madison's enumerated powers doctrine. With only a few exceptions, Congress denied

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these proposals; burying some in committee while rejecting others after vigorous debate. More than a dozen proposals were introduced to fund road and canal construction within or between state boundaries, including the famous Erie Canal. For example, an 1809 bill proposed that a portion of the profits of a soon-to-be-created national bank system "be appropriated for the general welfare in the construction of public roads and canals."[2] Congressional majorities consistently rejected these proposals on the grounds that internal improvements were a state and local government responsibility. The only exception to this pattern was the Cumberland Road, which, as we will see later, was financed under unique circumstances involving the state of Ohio's entry into the Union.[3]

Numerous proposals for commercial subsidies in the form of loans, cash subsidies, or governmental purchases of company stock were offered based on the Commerce Clause, the general welfare clause, or on vaguer terms of national interest. For example, in 1791 a loan to a glass manufacturer was proposed on the basis that the federal government was "vested with a general power to encourage the arts and manufacturers of the United States."[4] The bill was defeated after constitutional objections were raised. Later proposals to use federal funds for similar purposes, including aiding a silk manufacturer, a mine and metal company, a fire insurance company, and a company with a new technique for abating rat and mice infestations were likewise rejected.[5]

Proposals to fund a national university based on the power "to promote the useful arts" was rejected by three different Congresses. The committee report on an 1811 proposal noted the national importance of expanding knowledge and the value of training future teachers. But the committee rejected the proposal on the grounds that the Constitution reserved research and education activities to state and local governments. The previously mentioned National Bank Bill proposed to use a portion of its proceeds for "the establishment of seminaries for education throughout the United States." The proposal was similarly rejected.[6]

Local disaster relief was also regarded as a state and local responsibility. The debate over a bill to assist fire victims in Savannah, Georgia, in 1796 illustrates this well. Virginia representative Robert Rutherford claimed that "policy, humanity, and justice should prompt the House to a noble action." Fellow Virginian John Nicholas countered that "the General Government had no power but what was given to it, but the state Governments had all power for the good of their several States." Representative Nicholas's argument carried the day and the bill was defeated. Proposals to aid victims of fires and

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other local disasters in New York City, Charlestown and Georgetown, South Carolina, and Beaumont, Georgia, faced a similar fate during this period.[7]

More generally, Congress regarded grants to states for any purpose as beyond its constitutional power. From the First Congress to the Fourteenth, grants-to-states proposals were rare and not one was enacted into law. This fact alone serves as an indication that most members of Congress regarded such grants as beyond the federal government's power. One such bill proposed to provide $2 million in grants to states to assist the poor and justified the expenditure as promoting the general welfare. Congressional debate records do not record any floor debate; only that the bill was rejected with a relatively few supporters.[8]

Congress was willing to finance similar activities if they could be justified by an enumerated power or another constitutional provision. Thus, Congress appropriated funds for military roads and canals within the federal territories and in the District of Columbia. Also, from 1789 onward, Congress regularly funded the construction of lighthouses and beacons, but only after the land upon which the structure was built was ceded by the state to the federal government.

Although Congress was unwilling to provide federal funds for persons suffering losses from fire and other natural disasters, it was willing occasionally to provide such assistance through the tax code. For example, Congress delayed tax payments due on goods destroyed by fires in Portsmouth, New Hampshire, in 1803. On numerous occasions Congress appropriated funds to compensate private individuals for losses suffered in service to the federal government. Payments to persons who assisted government officials during the Whiskey Rebellion and pensions awarded to Revolutionary War veterans are two notable examples.[9]

In a few instances, Congress stretched an enumerated power to enact a popular bill. These "work-arounds" are further evidence that Congress sought to adhere to the enumerated powers doctrine.[10] A 1794 bill to aid refugees from Santo Domingo stands out as an early example. Earlier that year, three thousand French refugees landed in Baltimore and overwhelmed the city's resources. Representative Elias Boudinot argued that Congress had a responsibility to provide the city with aid "by the law of Nature, by the law of Nations—in a word, by every moral obligation that could influence mankind." Representative William Giles countered "Gentlemen appeal to our humanity. . . . [The question is] whether, organized as we are, under the Constitution, do we have the right to make such a grant?" The relief bill

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was enacted only after the House overcame the constitutional objections by stipulating in law that since the beneficiaries were French citizens, the aid was a loan to the French government.[11] In 1813, Congress authorized a vaccine agent to collect vaccination materials and distribute them to individuals upon request through the postal service.[12]

During the Republic's early years, federal spending remained small and exhibited little growth. Except during the War of 1812, federal spending hovered around 2 percent of GDP. The vast majority of appropriations from 1789 to 1817, 93 percent, were devoted to four main activities: maintaining an army and navy; conducting foreign affairs; interest payments on the national debt; and financing the salaries and related expenses of executive branch departments, the judiciary, and members of Congress. Appropriations for activities that were arguably beyond—or stretched—the enumerated powers constitute the remaining 7 percent. The bulk of these appropriations, 6.5 percent of the budget, financed purchases of the Bank of the United States stock and the Louisiana Territory. The remaining appropriation of $700,000 consisted of appropriations to build the Cumberland Road and to distribute a portion of the proceeds of lands to newly created states.[13]

These latter appropriations, which occurred under unique circumstances, warrant a brief discussion. The precedent for both types of appropriations was a compact between the federal government and Ohio when that state was admitted to the Union in 1802. Under the compact, a portion of the proceeds from the sale of federal lands within the state would be returned to the state for the construction of roads within the state and for roads leading from the state to the navigable waters emptying into the Atlantic Ocean. In return, the new state exempted federal land sales within its borders from taxation.

At the time, supporters justified the compact by Article 4 of the Constitution, which authorized the federal government to dispose of federal land in ways that were beneficial to the country. Ohio's agreement not to tax remaining federal land within its border improved the value of the remaining federal land within the state. Thus, supporters argued, the federal government was acting as a "prudent proprietor" of the federal domain.

In 1806, Congress authorized the Cumberland Road to carry out the compact's provision for a road from the waters emptying into the Atlantic Ocean to Ohio. The so-called National Road would run through the states of Virginia, Maryland, and Pennsylvania. During debate over the bill, the only controversial issue was whether the consent of these states was required. It was decided in the affirmative. The Cumberland Road, which received

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appropriations for thirty-one years, was unique. No other federally financed road was constructed within state boundaries for more than a century, except military roads for the transport of troops and supplies. The 1806 law also established a special fund to distribute 3 percent of the proceeds of federal lands sales within Ohio to the state. This latter provision served as a model for newly admitted states in the future.[14]

Two of the more important debates on federal spending power's constitutional limits occurred at the bookends of this first period. In 1792, the House extensively debated the issue of whether, under the general welfare clause, Congress could appropriate federal funds for direct relief to individuals. At issue was the method of providing relief to fishermen suffering from the impact of a previously enacted import tax on salt. The Tariff Act of 1789 had imposed a duty on salt and, to limit the financial harm done to fishermen who used salt to cure their fish, the law also provided an allowance "in lieu of a drawback," on exports of fish products. But the allowance mainly benefited export merchants, not fishermen who paid the salt tax. The initial version of the 1792 bill sought to remedy this perceived unfairness by repealing the allowance on fish products and replacing it with direct payments to fishermen from the Treasury, termed bounties.[15]

The bill, coming on the heels of the publication of Alexander Hamilton's "Report on Manufactures," sparked an extensive and well-recorded debate in the House of Representatives over the government's power to spend to promote the general welfare. Mr. Hamilton had argued that payments from the Treasury, termed "bounties," were the most efficacious means of encouraging industry and were justified under the general welfare clause. Representative Abbott Laurence supported the Hamilton view by arguing that if an expenditure enhances the national wealth, it is in the general welfare. As Mr. Laurence put it, "The general welfare is inseparably connected with any object or pursuit which in its effects adds to the riches of the country."[16]

The bill's opponents, led by James Madison in the House of Representatives, argued that granting bounties was a precedent-setting constitutional breach. Madison famously and prophetically warned:

> If Congress can apply money indefinitely to the general welfare, and are the sole and supreme judges of the general welfare, they may take the care of religion into their hands; they may establish teachers in every state, county, and parish, and pay them out of the Public Treasury; they may take into their own hands the education of children, establishing

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> in like manner schools throughout the Union; they may undertake the regulation of all roads, other than postroads. In short, everything from the highest object of State legislation down to the most minute object of police, would admit the application of money, and might be called, if Congress pleased, provisions for the general welfare.[17]

William Giles added a moral dimension to the argument against direct payments to individuals from the Treasury by remarking that "the product of one man's labor is transferred to the use and enjoyment of another. This can be justified only under the proposition that the entire product of an individual's work is the real property of the government."[18]

Finally, Representative Hugh Williamson of North Carolina warned that the payment of bounties to fishermen would inevitably expand to others who would be deemed no less worthy of government aid by saying:

> Establish the doctrine of bounties, set aside that part of the Constitution which requires equal taxes and demands similar distributions, destroy this barrier, and it is not a few fishermen that will enter, claiming ten or twelve thousand dollars, but all manner of persons—people of every trade and occupation—may enter at the breach, until they have eaten up the bread of our children.[19]

After vigorous debate, members agreed to provide the desired relief in a way that satisfied the constitutional concerns of Madison and others. The bounty was stricken from the bill and was replaced by an allowance. The bit of wordsmanship permitted the relief to be considered as a rebate against taxes paid. Also, the bill's purpose was to make clear that it was to provide relief from the salt tax, not bounties to promote the cod fishing industry.[20]

A second important congressional debate over the breadth of the federal spending power took place in 1817 over a bill to finance a national transportation system. The bill was in response to increased demands for improved commercial transportation, which had accelerated following settlement of the western lands obtained by the Louisiana Purchase. The so-called Bonus Bill proposed to use the proceeds from the Bank of the United States to finance a block grant to states to construct an interconnected system of roads and canals. Its chief sponsor, John C. Calhoun, argued that the bill was needed to bind the nation together: "The more enlarged the sphere of commercial circulation, the more extended that of social intercourse; the more strongly

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are we bound together; the more inseparable are our destinies."[21] He defended the constitutionality of his plan by appeal to the general welfare clause.[22] Others, including Henry Clay, supported the bill's constitutionality on the Commerce Clause. Still others invoked the government's authority to build postal roads and the need for military roads for national defense.

Opponents challenged all but the last of these justifications. The general welfare clause did not give the government the open-ended power to spend funds on any projects that in its view improved the nation's welfare. The Commerce Clause did not give the government the power to create commerce by building roads and canals, only to regulate it in certain ways. The postal power did not give the government the power to construct postal roads, only to designate existing roads as postal.

Aside from constitutional concerns, the Calhoun bill faced other obstacles. The block grant approach avoided the thorny issue of whether the federal government had the authority to build roads within a state without the state's permission. More than a decade earlier, Congress passed the Cumberland Road bill only after it required the permission of the states through which the road ran. Little had changed in the years since. But the block grant approach would not necessarily produce a nationally interconnected system. States would be free to use the funds instead to build roads and canals that suited local purposes.

The bill passed both chambers by slim margins. President Madison, like President Jefferson before him, supported federal funding of internal improvements, but believed that the Constitution had to be amended first to permit it.[23] President Madison vetoed the bill on his last day in office. In his veto message, Madison argued that permitting the expenditure

> would be contrary to the established and consistent rules of interpretation, as rendering the special and careful enumeration of powers, which follows the clause, nugatory, and improper. Such a view of the Constitution would have the effect of giving to Congress a general power of legislation, instead of the defined and limited one hitherto understood to belong to them.[24]

In Madison's view, one of the Constitution's fundamental purposes was to establish a clear dividing line between federal and state government jurisdictions. The Supreme Court was responsible for ensuring that the federal government did not extend its activities beyond this constitutional boundary. Madison's veto message noted that the question of whether a particular

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action served the general welfare involved policy preferences over which the Supreme Court would be unlikely to render judgments. Hence, the Hamiltonian view of the general welfare clause "would have the effect of excluding the judicial authority of the United States from its participation in guarding the boundary between the legislative power of the General and the State Governments."

Although Congress upheld Madison's veto, the vote signaled the beginning of the end of the dominance of the Madison view.[25] For the first time, Congress had passed a bill claiming federal authority to finance the construction of roads and canals within the states. But within Congress, there was no consensus on any particular Constitutional rationale for this authority, nor on how far into other state and local activities it extended.

In summary, from 1789 to the end of the War of 1812, Congress adhered to Madison's view of the limits on federal spending power and its meaning for federalism with few exceptions. Congress vigorously debated and, with one exception, rejected all proposals to fund roads and canals within state boundaries other than those for military purposes. Similarly, Congress rejected all proposals to appropriate funds to provide financial assistance to individuals, except to those who had performed government service. Congress also refused to fund grants-to-states programs for education, aid to the poor, and until 1817, internal improvements. No such grants for any purpose were enacted into law. This adherence to the enumerated powers defines the original idea of federalism in fiscal matters.

Erosion

The barrier separating state and local activities from federal spending began to erode in the 1820s when, in 1823, James Monroe reversed his previous position and held that Congress could federally fund internal improvements within state boundaries. Thereafter, Congress regularly passed legislation appropriating federal funds for river clearance and harbor dredging projects. However, prior to the Civil War there continued to be little agreement as to the constitutional basis for this funding. A minority in Congress and all Democratic presidents continued to regard funding of such projects as unconstitutional. Majority support was divided. The Commerce Clause provided the primary constitutional rationale. The remaining support was split among those who favored roads for military purposes, those who relied on the federal government's responsibility for postal roads, and a few who relied on the general welfare clause. Congress was further divided along regional and party

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lines. Westerners and Whigs and Republicans generally supported internal improvements, while southerners and Democrats stood in opposition.

Congress was generally more favorably disposed toward internal improvements than pre–Civil War presidents. Congress regularly passed bills that pressed against presidential limitations. Their passage produced an extraordinary series of presidential vetoes. President Jackson vetoed six bills appropriating funds for internal improvements within state borders. President Tyler vetoed the only internal improvement bill presented to him.[26] Presidents Polk and Buchanan each vetoed the two bills they received. Franklin Pierce vetoed a total of six internal improvement bills. Congress sustained these vetoes until the 1850s, when it overrode five of President Pierce's vetoes.

After the Civil War, Democratic Party opposition faded as federal funds became an important source for financially strapped Southern states whose transportation infrastructure had been severely damaged during the war. Constitutional concerns were overwhelmed by self-interest and the strong force of precedents that had been established by previously enacted bills. For the remainder of the nineteenth century and thereafter, Congress regularly passed river and harbor appropriations bills with little opposition.

Although river and harbor bills were important to the erosion of the original concept of fiscal federalism, spending on these projects never amounted to a significant part of federal spending. From the 1820s to the end of the nineteenth century, rivers and harbors expenditures constituted only 4 percent of the budget. Their percentage peaked at only 8 percent in the early 1830s.[27]

Prior to the Civil War, Congress was remarkably unwilling to extend its spending beyond internal improvements to other state and local activities. The only significant exceptions are the single-year distribution of large budget surpluses to states in 1837 and 1841, the publication of agricultural information and the distribution of seeds to farmers in the 1840s and 1850s, and a onetime appropriation to study the chemistry of vegetables in 1850.

From the Civil War to the 1930s, Congress steadily expanded its spending power into areas that had previously been the exclusive province of state and local governments. The expansion was slow initially. Congress created the Departments of Agriculture in 1862 and Education in 1867, but it limited their activities mainly to collecting and disseminating information to farmers and educators, respectively. In 1887, Congress appropriated federal funds for agricultural experiment stations at land-grant colleges. This act, coming nearly a hundred years after the Republic began, was the federal government's first grants-to-states program other than the grants of federal land sale revenues

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to newly admitted states. Three years later, and after rejecting two decades of proposals for federal funding of elementary and secondary schools, Congress enacted the first appropriations for education. The second Morrill Act of 1890 provided federal funds for teacher salaries and operational expenses at land-grant colleges. Perhaps most consequential for the future, Congress in 1874 appropriated funds for relief of victims of a flood along the Mississippi River. This was the first time Congress provided direct cash payments to individuals for economic relief. It opened the door for similar disaster relief bills. During the 1880s and 1890s, Congress appropriated funds, or the president used previously appropriated funds, to provide aid to individuals suffering primarily from floods, but also tornadoes, cyclones, and fires within the states on fifteen separate occasions.

Despite these expansions, the original idea of fiscal federalism still retained its strong hold on Congress. This hold was instrumental in limiting federal spending to a small percentage of the economy and producing balanced budgets. From the beginning of the Republic to the Civil War, federal spending averaged only 1.7 percent of GDP. From the Civil War to the nineteenth century's end, it averaged only 2.7 percent. The federal budget ran annual surpluses except during wartime and economic downturns. The surpluses were used to reduce the outstanding public debt.

During the early years of the twentieth century, the pace of federal funding of what were originally state and local affairs accelerated. The main vehicles were so-called 50-50 programs for highway construction, vocational education and rehabilitation, cooperative agriculture extension services, and maternal and child health, which provided federal matching payments to state programs. Along with federal funds came requirements for states to adhere to federal rules and regulations. Through these requirements, the federal government began to influence not only the level of state expenditures in certain areas, but also where within the state and how these expenditures were made. Congress also broke new ground by extending federally financed credit assistance to farmers, first by providing federal financing to nonfederal land banks in 1916, then by providing credit directly to farmers in the 1920s. Subsidies for shipbuilding followed in the wake of this aid.

By 1930, federal spending on activities that were originally reserved to states, local governments, and individuals ballooned to 18 percent of the noninterest federal budget. Remarkably, in 1930 the federal government was spending more on these activities than it spent on all its other non-defense-related national functions.

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But more important, by 1930 the federal government had breached large sections of the constitutional barrier that separated states and individuals from federal authorities. The 50-50 laws had opened a new avenue for federal involvement in state and local government affairs. The provision of credit to farmers could be extended to other commercial enterprises. Federal funding of rivers, harbors, and highways could be extended to other state and local infrastructure projects. Most important, relief to persons suffering economic hardship from natural disasters could be extended to persons suffering similar economic distress from economic disasters and, more generally, to persons suffering economic hardship through no fault of their own. Thus, by 1930, all the precedents for a dramatic expansion of the federal role in state, local, and private individuals' activities were in place.

The collapse of asset values and widespread unemployment during the Great Depression reduced state and especially local government revenues. The federal government, with its greater taxing authority and, more importantly, its greater borrowing capacity, stepped in. President Roosevelt's New Deal followed President Hoover's more limited response with emergency measures to provide federal loans and deposit insurance for banks, expanded loans to farmers and commercial enterprises, local public works and conservation projects, crop insurance and direct payments to farmers, and the creation of the Tennessee Valley Authority to generate electric power for households and business in its region of operation.

These emergency measures were followed by programs with a more permanent purpose. The 1935 Social Security Act's matching payments for state public assistance programs, its funding of administrative expenses of state unemployment insurance programs, and its signature retirement program put the federal government firmly in the income support business, an area into which it had not ventured previously in its 146-year existence.

These measures were a natural extension to the relief Congress had been providing to persons suffering from natural disasters.[28] The human misery caused by widespread unemployment was hardly different from the human misery caused by natural disasters, and the more than half century of federal funding on the latter established the precedent for funding on the former.

Two years later, the Supreme Court famously ruled that Congress had the power to spend to promote the general welfare on activities that were national, rather than local, in scope. Furthermore, according to the Court, the authority to determine whether an activity was national or local rested solely with Congress. All along, Hamilton had been right and Madison wrong. The

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ruling effectively removed the Court from its role as guardian of the boundary line between federal and state jurisdiction on spending matters, just as Madison had warned it would in 1817. The original idea of fiscal federalism was now a dead letter.[29]

With no constraint on the scope of federal spending power, the Truman administration made the New Deal emergency programs for housing, urban renewal, and nutrition assistance for schoolchildren permanent. The federal government extended itself further into state and local affairs, creating a new federal-state matching program for impoverished disabled workers and extending matching payments to states for medical care for public assistance recipients. The Eisenhower administration continued this expansion by making Social Security coverage universal, by increasing funding for urban renewal programs, and by establishing a new Social Security disability program and a new national highway program.

By the advent of the Great Society, only a few areas of state and local activities remained free from federal funds and the regulatory requirements attached to them. By the Great Society's end, there were no areas left. In the span of ten years, from 1964 to 1973, Congress enacted new 100 percent federally financed programs providing medical care to seniors, nutrition assistance to low-income households, financial assistance to college students, and grants and loans to all colleges and universities, not just land-grant colleges. It extended subsidies to cities for elementary and secondary schools, mass transit, community development, and clean water infrastructure projects. It reached down into city neighborhoods and rural communities to fund preschool programs, health clinics, legal aid services, youth employment, job training, and social service programs.

Thus, by the mid-1970s, the federal government was at least partially funding almost every—if not every—function that the Constitution had originally reserved to the states and individuals. Since then, further extensions have been marginal. These extensions have included new programs to assist households with home heating and weatherization expenses, to subsidize individual purchases of phones and monthly phone bills, and to earmark funds for local construction projects.

Impact of Federal Government Spending on State and Local Activities

This section examines the impact of abandoning the original concept of fiscal federalism on the federal budget from 1950 to 2019. The examination uses the Madison view of federal spending power's scope to separate federal

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expenditures into those on national activities and those which Congress originally considered state and local activities.

Dividing federal budget expenditures between the two types of activities might seem like an impossible task. The federal budget contains more than three thousand federal programs and, because of societal changes and technological advances, many current programs carry out activities that were hardly imaginable during the Republic's early days. Moreover, many programs have both federal and local attributes.

But given the highly concentrated character of federal spending, the task is not as difficult as it first might seem. Federal expenditures on four categories: national defense–related expenditures, interest on the public debt, direct cash and in-kind transfer payments to individuals, and grants to states for healthcare, education, transportation, and other similar purposes, currently account for 96 percent of federal spending. In 1950, they accounted for 92 percent. This high concentration serves as the basis for allocating federal spending to national activities and those which would be regarded in a Madison budget as state and local. Once agreement is reached on the classification of these categories into national versus state and local activities, differences of opinion on the remaining programs has only a marginal effect on the allocation.

Table 4.1 shows the amounts spent on each of the four major expenditure categories and how they are classified in the last and first years of our analysis: 2019 and 1950. The top bank of numbers shows expenditures that are designated as national. The middle bank shows those that are designated as state and local. The lower numbers are the remaining expenditures that could be allocated between national and state and local after a more detailed analysis.

National defense–related expenditures, which include all national defense outlays (function 050), the Department of Veterans Affairs outlays (function 700), and outlays for military retirement, constitute the largest component of "national" expenditures. All international affairs outlays (function 150) are also classified as national.[30] All interest payments on the public debt are considered as national, even though a portion is likely to have been incurred on debt issued to finance state and local expenditures. Public debt is not issued on a program-by-program basis, so interest payments cannot be allocated to individual programs. The approach taken here to classify all interest payments as national errs on the side of understating expenditures on state and local activities. The same approach to understating these expenditures is taken throughout the classification process.

The lion's share of aid to individuals and grants to states are classified as state and local expenditures. Aid to individuals includes expenditures on

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the major federal entitlement programs, such as Social Security, Medicare, Disability Insurance, Unemployment Insurance, the Supplemental Nutrition Assistance Program (SNAP), child nutrition programs, student loans, Supplemental Security Income, Affordable Care Act subsidies, the Earned Income Tax Credit, and other refundable tax credits that exceed income taxes owed.[31] It excludes entitlement program payments to individuals for government service, in particular the aforementioned payments to veterans and military retirees. Federal employee retirement benefits are also excluded and are included instead in the unallocated portion of expenditures. Social insurance program expenditures, which are financed by dedicated revenues, are shown separately from those that are financed by general fund revenues. As we will see later, the distinction between the two is important to understanding the impact that federal spending on state and local activities has had on federal budget deficits.

Federal grants-to-states programs include all federal grants for education, social services, healthcare, transportation, community development, and welfare services. State grants that the budget classifies in the national defense or international affairs functions are excluded.

As the table shows, in 2019, 66 percent of federal spending was on activities that were originally considered to be the responsibility of state and local governments or private-sector entities such as charitable organizations. In 1950, that amount was only 15 percent. Aid to individuals accounts for 80 percent of this increase, grants to states the remaining 20 percent.

The following set of charts uses this classification scheme to show trends in federal spending on state and local activities and how they have impacted the federal budget. In these charts, expenditures in the "all other" category in table 4.1 are assigned to spending on "national" activities and as a result, the amount of spending assigned to state and local activities is understated.

Figure 4.1 displays federal spending on state and local activities as a share of total federal spending from 1950 to 2019. The sharp rise in the share from the mid-1950s to the late 1980s reflects the growth and expansion of large social insurance programs, the enactment of the Johnson administration's Great Society and its further liberalization by the Nixon administration. The share reaches 50 percent by the mid-1970s. At this point in time, the network of income-transfer and grants-to-states programs that exists today was nearly fully in place. The share's plateau in the 1980s reflects the Reagan administration's efforts to restrain domestic spending. The growth thereafter is a consequence of the steady expansions of existing income-transfer and

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Table 4.1 Federal spending on national versus state and local activities

	1950		2019	
	(2019 $)	(Share)	(2019 $)	(Share)
Madison Outlays				
National Defense	$200	54%	$926	21%
International Affairs	$43	12%	$53	1%
Interest on the Public Debt	$43	12%	$375	8%
Total	$287	77%	$1,354	30%
State and Local Outlays				
Aid to Individuals: Social Insurance	$26	7%	$807	18%
Aid to Individuals: Means Tested	$9	2%	$1,394	31%
Grants to States	$19	5%	$719	16%
Total	$54	15%	$2,920	66%
All Other Spending	$30	8%	$173	4%
Total Outlays	**$370**	**100%**	**$4,447**	**100%**

Source: Author calculations using data from the Office of Management and Budget, Budget of the United States Government for Fiscal Year 2024 (hereafter US Budget 2024), Historical Tables 3.1, 10.1, 11.2, 11.3, and 12.2.

grants-to-states programs, and the few relatively small new programs created since the early 1990s.

Figure 4.2 displays how the composition of federal spending on state and local activities has changed over time. Aid to individuals has been the dominant form of expenditures on these activities, rising from 60 percent in the 1950s to between 70 and 80 percent since the 1980s. The major changes in shares are mainly due to changes in spending on grants-to-states programs. The rise in the share accounted for by grants to states from the early 1960s to the mid-1970s is due to Great Society expansions. Its decline in the 1980s reflects the Reagan administration's efforts to reduce these programs.

The following charts show how federal spending on state and local government activities has impacted total federal spending and federal budget deficits. Figure 4.3 displays annual federal spending and revenues as percentages of GDP from 1950 to 2019. As the figure shows, total federal spending as a percentage of GDP grew rapidly from the mid-1950s to the mid-1980s. Its decline from the mid-1980s, and especially from the mid-1990s to the early 2000s, is attributable in part to modest spending restraint, but primarily to

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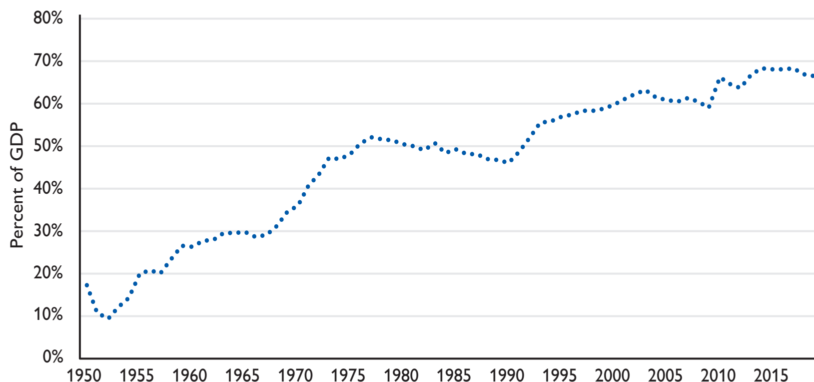

Figure 4.1 Share of federal outlays on state and local activities

Source: Author calculations using data from US Budget 2024, Historical Tables 3.1, 11.2, 11.3, and 12.2.

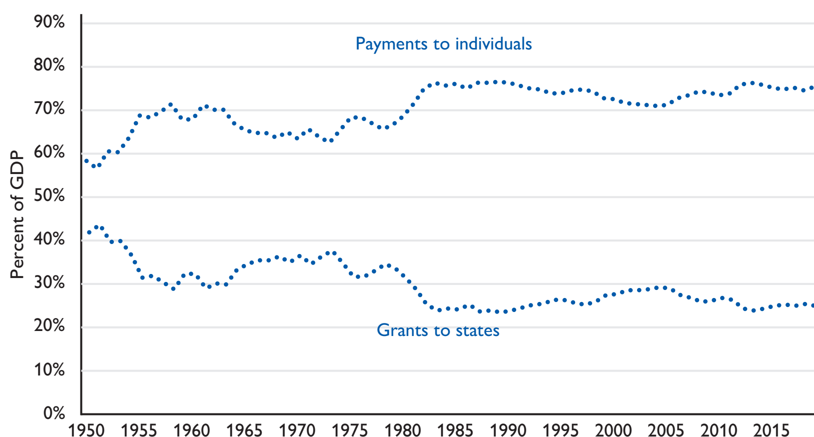

Figure 4.2 Share of spending on state and local activities by type

Source: Author calculations using data from US Budget 2024, Historical Tables 11.2, 11.3, and 12.2.

the rapid growth in GDP sparked by the dot-com bubble. Thereafter, it continued its upward rise with a spike during the great recession in 2008–10.

Meanwhile, federal revenues as a percentage of GDP (in green) have remained remarkably constant since the 1960s, fluctuating mainly within a small range from 17 to 18 percent of GDP. The exceptions are during the dot-com bubble in the mid-to-late 1990s and the great recession. It appears that for the better part of the last seventy years, Congress has been unwilling or

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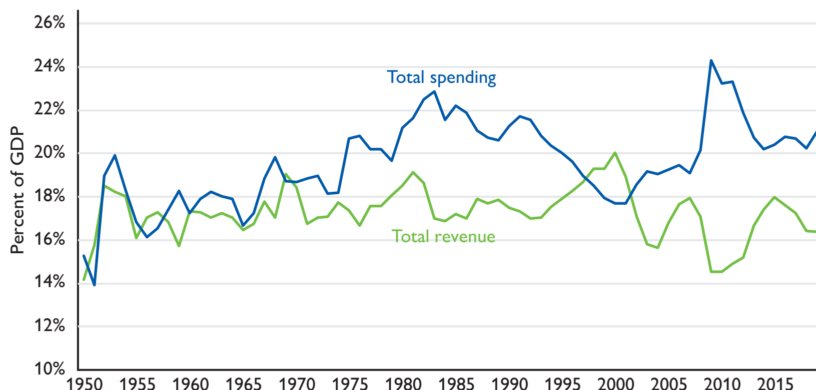

Figure 4.3 Federal outlays and revenues

Source: Author calculations using data from US Budget 2024, Historical Tables 2.1, 3.1, and 10.1.

unable to consistently raise or lower taxes as a percentage of GDP significantly outside of this range. The result has been annual budget deficits in all but five years from 1961 to 2019. These chronic budget deficits can be said to be due to a failure of Congress to raise federal revenues sufficiently to meet growing federal expenditures.

Figure 4.4 breaks down total federal spending into expenditures on national activities, termed Madison budget expenditures (the dashed blue line), and those on state and local activities (the dotted blue line). As the chart makes clear, federal spending on state and local activities accounts for more than the entire growth in total federal spending since 1950. Driven mainly by programs that provide aid to individuals, federal spending on these activities has grown from 2 percent of GDP in 1950 to nearly 15 percent in 2019. Meanwhile, the percentage of GDP the federal government spends on national activities has declined to only half of its mid-1950s level. The only interruptions to this long-term decline are the Korean and Vietnam Wars, the Reagan administration's defense buildup, and the great recession.

Figure 4.4 suggests a modification of the conclusion reached from figure 4.3: the chronic budget deficits can be said to be due to a failure of Congress to raise federal revenues sufficiently to meet growing federal expenditures *on state and local activities*.

A more complete picture of the role that federal spending has played in producing budget deficits can be obtained by incorporating the behavior of major social insurance programs, Social Security and Medicare.

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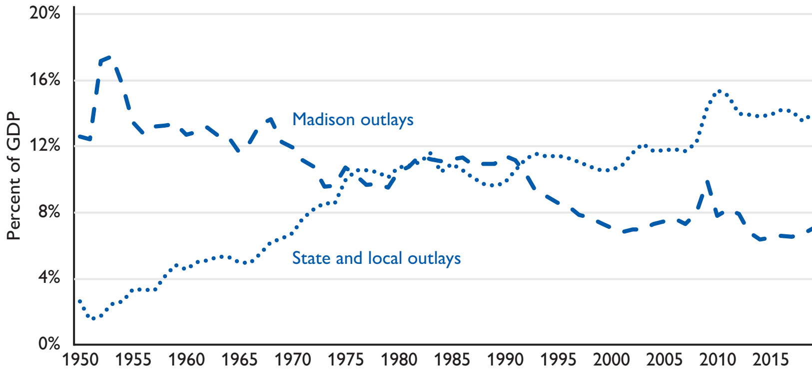

Figure 4.4 Madison outlays vs. state and local activity outlays

Source: Author calculations using data from US Budget 2024, Historical Tables 3.1, 10.1, 11.2, 11.3, and 12.2.

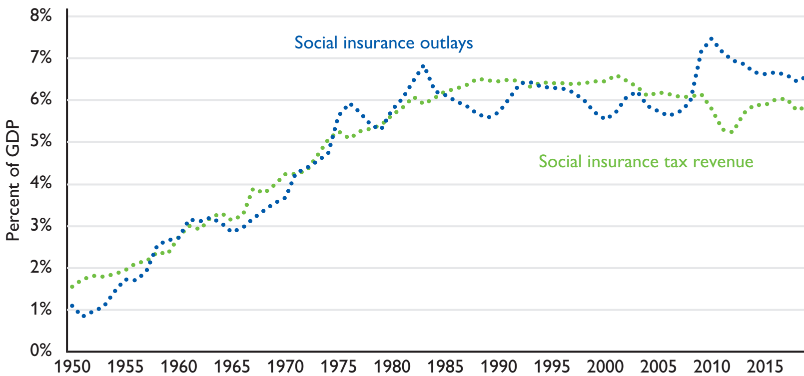

Figure 4.5 Social insurance tax revenue and outlays

Source: Author calculations using data from US Budget 2024, Historical Tables 2.1, 3.1, and 10.1.

As noted earlier, these large social insurance programs are financed by dedicated revenues primarily derived from payroll tax collections. They operate on a pay-as-you-go basis in which annual program revenues are kept roughly in line with expenditures.

Figure 4.5 shows the behavior of social insurance revenues and expenditures as percentages of GDP from 1950 to 2019.

The pay-as-you-go nature of these programs is evident from the relatively close approximation of federal expenditures and revenues (although the relationship has weakened in recent years as the programs are now running cash

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shortfalls). The figure also shows their remarkable growth. From 1950 to the early 1990s, Congress raised the Social Security payroll tax rate and the level of earnings subject to the tax more than a dozen times and added additional payroll taxes for disability and Medicare on top of this. Taken together, these actions increased payroll tax revenues from 1.5 percent of GDP in 1950 to around 6 percent in the mid-1980s, where it has remained since then.

The large increase in social insurance tax revenues in combination with relatively constant total revenues as a percentage of GDP means that federal revenues from all other sources, mainly individual and corporate income taxes, have declined as a share of the economy. Figure 4.6 shows the extent of this decline since 1950 and its relation to the increase in social insurance tax revenues. The increase in social insurance tax revenues as a percentage of GDP from 1950 is matched by a nearly equal decline in general fund revenues over the same period. There appears to be a one-for-one trade-off between the two revenue sources. The idea of such a trade-off is further supported by the fact that after the early 1990s, when the growth in social insurance tax revenues levels off, the decline in general fund taxes is arrested.

The plausible explanation for these trends is that Congress has been unwilling to raise total federal taxes beyond a certain limit and, as a result, social insurance taxes have crowded out general fund taxes. Federal budget deficits have arisen because remaining general fund revenues have not been sufficient to finance the combined level of federal spending on both national and state and local activities, after social insurance programs have been excluded. The federal government

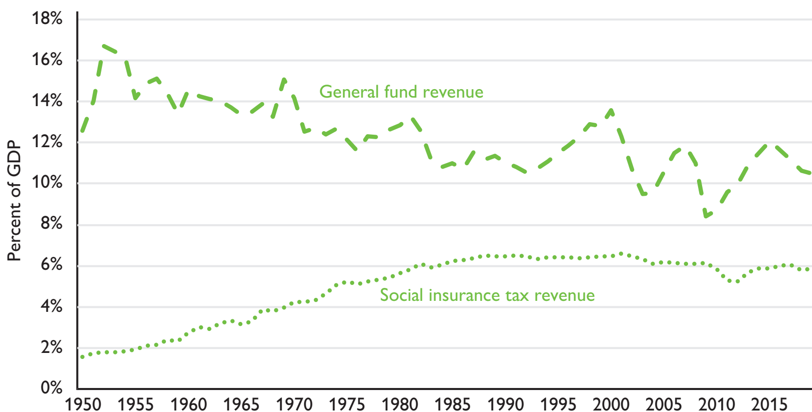

Figure 4.6 General fund revenue and social insurance tax revenue

Source: Author calculations using data from US Budget 2024, Historical Table 2.1.

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has resorted to borrowing to finance the excess. The federal budget pools general revenues instead of allocating them to specific programs. So how much of national versus state and local expenditures the non–social insurance revenues would have financed (with taxes versus borrowed funds) cannot be determined.

Nevertheless, it is of some interest to ask what the budget would have looked like if all non–social insurance revenues were applied to financing Madison budget expenditures. Figure 4.7 answers this question by showing Madison budget expenditures (in blue) and revenues available after excluding those from social insurance taxes (in green). As the chart shows, Madison budget expenditures and revenues would have experienced a long-term decline since 1950. From the mid-1950s to 2019, non–social insurance tax revenues declined from 14 percent of GDP to around 10 percent. Madison budget expenditures would have declined slightly faster, from 13 percent to 6 percent. The Madison budget would have experienced chronic budget surpluses instead of chronic budget deficits. Budget surpluses would have existed in all but eleven of the seventy years from 1950 to 2019. The deficit years would have been limited to the Korean War, one year of the Vietnam War, the deepest year of the economic recessions of 1981–83, 1990–91, and the great recession in 2008, and three years of the Reagan administration's defense buildup in 1984–86. In all other years, budget surpluses would have been available to reduce the outstanding national debt.

Remarkably, the behavior of the post–World War II Madison budgets is strikingly similar to the behavior of nineteenth- and early-twentieth-century

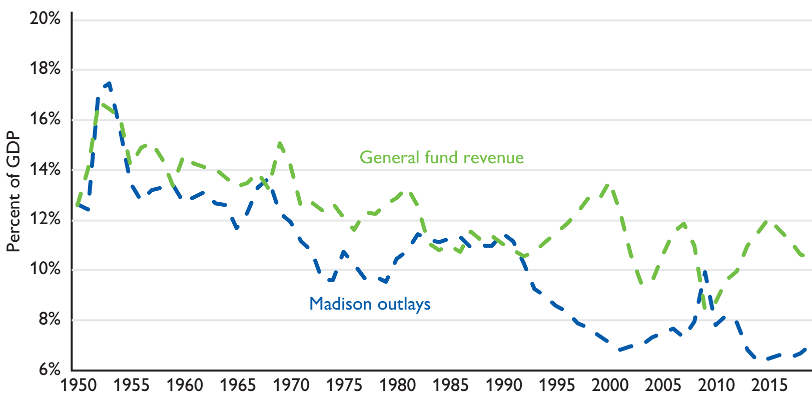

Figure 4.7 Madison surpluses

Source: Author calculations using data from US Budget 2024, Historical Tables 2.1, 3.1, 10.1, 11.2, 11.3, and 12.2.

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budgets. During those years, when federal spending was almost exclusively devoted to national activities, federal budget deficits were incurred only during wartime and economic recessions. Surplus revenues during the intervening years were used to reduce the outstanding public debt issued during wars and recessions.

Figure 4.8 shows the extent to which surplus revenue from the Madison budget (orange line) would have financed expenditures on state and local activities excluding social insurance programs (the blue line). Madison budget surpluses are sufficient to fully finance state and local expenditures in only three years during the 1950s and, since the early 1960s, only during the dot-com bubble. In all other years, available revenues fall short and the trend in the revenue shortfall is significantly upward. During the entire period from 1950 to 2019, Madison budget surpluses are sufficient to finance only about one-half of federal spending on state and local activities.

An alternative way to display the deficit impact of federal spending on state and local activities is shown in figure 4.9, which modifies the Madison budget by adding social insurance expenditures and revenues. Although social insurance programs are beyond those necessary and proper to carry out an enumerated power, many observers today regard these programs as national in scope. The solid blue line shows total government spending. The dashed blue line shows Madison budget plus social insurance program expenditures. The difference between the two is federal spending on state and local activities excluding social insurance. The green line shows total federal revenues.

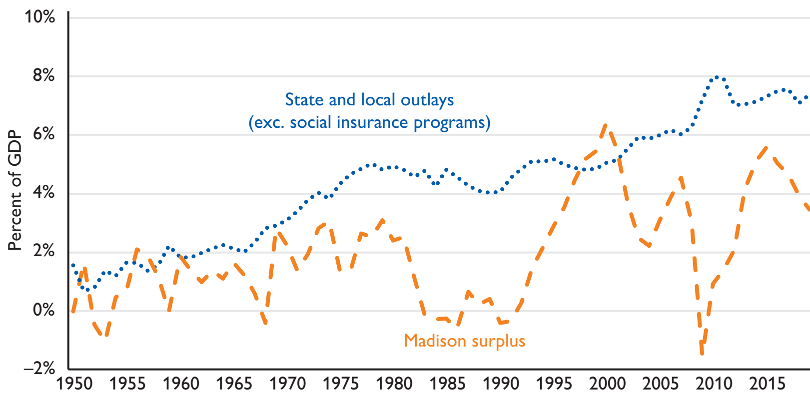

Figure 4.8 Madison budget surplus and state and local outlays

Source: Author calculations using data from US Budget 2024, Historical Tables 2.1, 3.1, 10.1, 11.2, 11.3, and 12.2.

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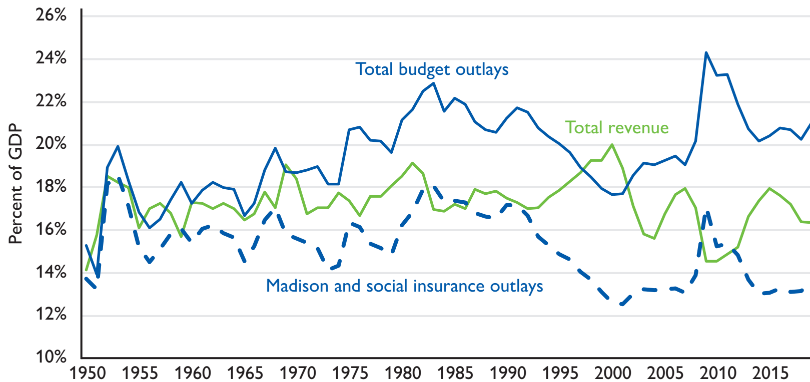

Figure 4.9 Total budget vs. Madison budget

Source: Author calculations using data from US Budget 2024, Historical Tables 2.1, 3.1, 10.1, 11.2, 11.3, and 12.2.

Total revenues exceed Madison plus social insurance expenditures in almost all years. Enhanced Madison budget surpluses occur every year except during the Korean War, in 1983–86, and at the depth of the great recession. These surpluses are similar to those in the Madison budget. The similarity between the enhanced Madison budget and Madison budget surpluses should not be surprising given the pay-as-you-go nature of social insurance programs.

Adding state and local expenditures to the enhanced Madison budget causes total expenditures, excluding social insurance payments (the solid blue line) to exceed total revenues excluding social insurance tax receipts (the green line) in almost all years since the early 1960s. This also should not be surprising, given the pay-as-you-go nature of social insurance programs.

Concluding Observations

This paper has documented the role that the abandonment of federalism in fiscal matters has played in the post–World War II rise in federal spending and chronic federal budget deficits since the early 1960s. All the increase in federal spending as a percentage of GDP since the 1950s, and the budget deficits it has created, is due to rapidly growing spending on activities that Congress originally regarded as state and local. Thus, the fiscal challenge the federal government faces today is a direct consequence of the abandonment of the original idea of fiscal federalism. Its abandonment removed an important

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constitutional constraint not only on the type of activities funded but also on the level of total federal spending and led to the federal government's $27 trillion public debt.

The paper is not a plea to return to the "good old days" of 1789–1817 when the original concept of fiscal federalism prevailed. The paper's purpose is to improve our understanding of the roots of the federal government's fiscal challenge. Its findings can provide some guideposts to addressing the challenge.

Budgeting is mainly about setting priorities. Maintaining an adequate national defense is the highest priority of any federal government. In contrast to most federally funded activities, no other level of government can provide for the nation's defense. State and local governments can provide income support and social services for the poor, education, local transportation systems, and community development projects. But they cannot adequately finance a national defense. The Founders understood this well when they replaced the Articles of Confederation with the Constitution. Yet, since the 1950s, spending on activities that Congress originally regarded as the responsibility of state and local governments appears to have been Congress's highest priority. Funding this priority has come at the expense of national defense. With rising global tensions, Congressional priorities need to be reversed with national defense as the first priority and spending on state and local activities returned to the states and individuals.

History shows the important influential role presidents play in the use of this power. During the nineteenth century, presidents from James Madison to Grover Cleveland used the veto to restrain federal spending on internal improvements. In the twentieth century, President Reagan used the veto, the bully pulpit, and other means to restrain domestic spending. President Clinton used the power of his office to help enact welfare reform. On the flip side, Presidents Franklin Roosevelt, Lyndon Johnson, and Richard Nixon used their influence for large expansions in federal spending. The Constitution gave Congress the power of the purse, but the president's leadership is essential to meeting the fiscal challenge.

Notes

1. Useful histories of this erosion include Corwin (1923), Warren (1978), Currie (1997, 2001, 2005), and Walker (1995).

2. Annals of Congress, 11th Congress, 690. The debate on the resolution is described in Annals of Congress, 11th Congress, 1st Session, 1378.

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3. Similar provisions were included in enabling compacts with Louisiana, Indiana, Mississippi, Illinois, Alabama, and Missouri. See Hibbard (1965) for discussion of federal lands policies. For a comprehensive treatment of the Cumberland Road, see Young (1902).

4. Annals of Congress, 1st Congress, 2nd Session, 1686.

5. Financial aid to a silk manufacturing firm was rejected by the Committee on Commerce and Manufactures (Annals of Congress, 4th Congress, 2nd Session, 825), as was the idea of federal fire insurance (American State Papers [Finance, No. 45]). Aid to a Metal and Mine Co. was rejected by a vote of 36–34 on April 22, 1800 (Annals of Congress, 6th Congress, 1st Session, 678). Congress also rejected support for other commercial ventures, such as Frederich Guyer's venture for the "discovery of the longitude by lunar observation" (Annals of Congress, 7th Congress, 1st Session, 376); and Lewis DuPré's request in 1802 for development of a perpetual motion machine based on his newly discovered "principles of perpetual motion."

6. For the debate on the national university, see Annals of Congress, 4th Congress, 2nd Session, 1197–8, 1600, 1702. The national banking system proposal is described in Annals of Congress, 11th Congress, 1st Session, 1378.

7. Annals of Congress, 4th Congress, 1st Session, see page 1723 for Rutherford quote and for Nicholas quote 1724.

8. Annals of Congress, 14th Congress, 2nd Session, 933. A search of the Annals of Congress reveals eight bills that were explicitly justified on the general welfare clause, all of which were rejected.

9. Dauber (2005) provides a thorough treatment of disaster relief.

10. The most notable of these is the Louisiana Purchase, which is not directly germane to the issue of federal involvement in state and local governments. President Jefferson knew the great importance of the acquisition to the country. But he felt that it was beyond the government's constitutional powers. In a letter to John Dickinson on August 9, 1803, Jefferson wrote that the constitution "has not given it a power for holding foreign territory, and still less of incorporating it into the Union." Jefferson stood by as Congress justified the purchase mainly on the treaty power. In 1828, the Supreme Court ratified the view that the government had the right to purchase territory. In *American Insurance Co. v. Canter*, Chief Justice Marshall declared: "The Constitution confers absolutely on the Government of the Union the powers of making war, and of making treaties; consequently, the Government possesses the power of acquiring territory, either by conquest or by treaty" (26 U.S. 1 Pet. 511 [1828]).

11. For the debate, see Annals of Congress, 3rd Congress, 1st Session, 172–73. The law made $15,000 available. Statutes at Large, chapter 2, 6 Stat. 13 (1794) (Private Relief Act). A similar case, but one not involving state and local government activities, occurred nearly twenty years later in 1812, when Congress provided relief

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to victims of an earthquake in Caracas, Venezuela. Congress justified the relief on the foreign policy grounds that Venezuela was a strategic ally on the eve of war with England. See Warren (1978), page 20, and the statement by Representative Rhea, Annals of Congress, 12th Congress, 2nd Session, page 1350.

12. An Act to Encourage Vaccination, Statute II Chapter 37. The Act was repealed in 1822 (Chapter 50), after the agent's error in distributing the vaccine material caused the deaths of ten individuals.

13. These calculations are taken from annual reports of Receipts and Disbursements of the United States.

14. Similar provisions were included in compacts with Louisiana, Indiana, Mississippi, Illinois, Alabama, and Missouri (see Hibbard 1965 for a discussion of federal lands policies). For a comprehensive treatment of the Cumberland Road, see Young (1902).

15. Annals of Congress, 2nd Congress, 1st Session, 364.

16. Hamilton made his case in his Report on Manufactures (1791). For Representative Laurence's quote, see Annals of Congress, 2nd Congress, 1st Session, 385.

17. Annals of Congress, 2nd Congress, 1st Session, 388.

18. Annals of Congress, 2nd Congress, 1st Session, 364.

19. Annals of Congress, 2nd Congress, 1st Session, 381.

20. As Currie (1997) notes, the compromise meant that while the Congress did not have the power to spend to promote the general welfare, it had plenary power to provide relief through the tax code (168–69). The original bill's purpose was "for the immediate encouragement of the said fisheries, while the enacted legislation stated that the law's purpose was 'as a commutation and equivalent therefor' for Tariff Act of 1789 law." Annals of Congress, 2nd Congress, 1st Session, 362–63.

21. Annals of Congress, February 4, 1817, 854.

22. Mr. Calhoun asked, "If the framers had intended to limit the use of the money to the powers afterward enumerated and defined, nothing could be more easy [*sic*] than to have expressed it plainly" (Annals of Congress, February 4, 1817, 856–57). Calhoun attempted to bolster his case by citing congressional precedents, chief among these were aid to the Santo Domingo refugees, aid to earthquake sufferers in Caracas, and the Cumberland Road, which, as Warren (1978) has pointed out, were not argued on the basis of the general welfare clause (Annals of Congress, February 4, 1817, 857).

23. In his annual message of December 15, 1815, preceding the Bonus Bill debate, Madison argued for a system of "roads and canals which can be best executed under national authority." He noted that the Constitution provided a means for allowing the government to build such a system: "It (is) a happy reflection that any defect of constitutional authority which may be encountered can be supplied in a mode which the Constitution itself has providently pointed out" (Whooley and Peters 2023). The "Bonus Bill" passed by just two votes in the House. The bill was heavily supported

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by Middle Atlantic states (New York, New Jersey, and Pennsylvania) and opposed by New England and Southern states. In a harbinger of things to come, the two-vote margin of victory was provided by the western states.

24. Veto message, March 3, 1817 (Whooley and Peters 2023).

25. The vote was 60–56 to override the president's veto—a majority, but well short of the necessary two-thirds. Henry Clay, who in his role as Speaker of the House had previously abstained from voting on legislative bills, exercised his voting right and voted to support the president's veto.

26. President Tyler did so on the grounds that "the application of the revenue of this Government, if the power to do so was admitted, to improving the navigation of the rivers by removing obstructions or otherwise would be for the most part productive only of local benefit. The consequences might prove disastrously ruinous to as many of our fellow-citizens as the exercise of such power would benefit" (Veto Message, June 11, 1844; Whooley and Peters 2023). In a similar vein, President Polk's veto of a massive bill that funded internal improvements in every state in the Union was justified because: "The Constitution has not, in my judgment, conferred upon the federal government the power to construct works of internal improvement within the States, or to appropriate money from the treasury for that purpose." Polk, H. Doc. 493, 70th Congress, 2nd Session, August 3, 1846, 10.

27. US Department of the Treasury, *A Statement of the Receipts and Expenditures of the United States Government from the 4th of March 1789 to the 31st of December, 1819* (H. Doc. 16–75), February 7, 1820; US Department of the Treasury, *Combined Statement of the Receipts and Disbursements (Apparent and Actual) of the United States*, for the fiscal years ended June 30, 1890, and June 30, 1900.

28. This point has been effectively made by Dauber (2005).

29. The Court qualified its ruling that Congress had sole discretion by saying "except when the choice is clearly wrong." Since then, however, the Court has not once declared any federal expenditure to be unconstitutional on the grounds that it is local in character.

30. These expenditures may include some to which Madison would have objected. For example, the defense budget includes some expenditures on military bases and navy shipyards that no longer serve defense purposes and remain operational primarily because they are important to the local communities in which they are located. Our classification is in keeping with our approach of erring on the side of classifying ambiguous expenditures as federal. Also, the international affairs budget includes expenditures, such as contributions to the International Monetary Fund, which the Madison interpretation might regard as not constitutionally permissible. These expenditures are classified as part of Madison's budget only because they are not state and local.

31. Total payments to individuals exclude payments to states for Medicaid, which are included under grants to states and payments to veterans, which are included as a separate entry in the table.

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