Governmental Organization and Functions in the U.S.

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Organization of Presentation

- Federalism in the U.S. – Structure of Government
- Size of Government
- Federal Government Spending
- State and Local Government Spending
- Fiscal Relationships Between the Federal Government and the State-local Government Sector
Government Federation Levels

Federal Government

↑

States – 50

↓

Local Governments – 89,500

Local Government Structure

Local Governments - 89,500

General Purpose
(Many functions)
(39,044)

Special Purpose
(One function)
(50,432)

↓

Counties (3,033)

School Districts (14,561) &
Other Special Districts (37,381)

↓

Municipalities & Townships (36,011)

<table>
<thead>
<tr>
<th>Type of Expenditure</th>
<th>Federal Government</th>
<th>State and Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount (billions)</td>
<td>Percentage of GDP</td>
</tr>
<tr>
<td>Expenditures from own sources</td>
<td>$3,117.6</td>
<td>21.6%</td>
</tr>
<tr>
<td>Expenditures after grants</td>
<td>2,725.9</td>
<td>18.9</td>
</tr>
<tr>
<td>Domestic Expenditures, own sources</td>
<td>2,130.9</td>
<td>14.8</td>
</tr>
<tr>
<td>Domestic Expenditures, after grants</td>
<td>1,739.2</td>
<td>12</td>
</tr>
</tbody>
</table>

*Note: Domestic Expenditures includes nondefense purchases, transfer payments to persons and governments, and net subsidies of government enterprises.*

*Source: Department of Commerce, Bureau of Economic Analysis*
State-local Government Growth

- Although real spending per person has increased in the last 50 years, and especially fast from 1950 to 1990, real per capita spending has remained essentially constant this decade.
- Aggregate state-local spending has been between 20 and 24 percent of personal income since the late 1970s (after growing much faster than income in the 1950s, 60s, and most of the 70s).
Remarkable stability in the composition of aggregate state-local budgets for 30 years
- Welfare (Medicaid) rising; Highways falling
- Important changes within categories

Two spending categories – education (35%) and welfare (17%, which includes Medicaid) – account for more than half of state-local spending
- Welfare (21% for states); Education (38% for localities)

All other single categories less than 10%
- Highways (7%); Government Administration (5%); Police Protection (4%); Corrections (3%)
Intergovernmental Fiscal Relationships

- Intergovernmental fiscal flows are an inherent characteristic of federal systems
- Such flows are large in the US
  - State governments get 28% of revenue from the federal government
  - Local governments get 4% of revenue from the federal government and 34% from state governments
  - Intergovernmental fiscal flows are especially important for K-12 education (56% revenue) and welfare (60%)
Fiscal Diversity

- Aggregate perspective can be deceiving, as individual states or localities *usually* differ from the “average”
- Fiscal diversity is the fundamental and essential characteristic of federal systems
  - Without diversity, there is little reason for subnational governments
  - Variation in structure, levels of spending/revenue, sources of revenue, categories of spending, institutional characteristics of taxes and expenditure programs
### Summary

- Federal system
  - Independent & large subnational sector
- Government spending ~1/3 of US economy
  - Low compared to other industrialized nations
- Federal government ~19% of GDP
  - Defense, Social Security, Health & Income Support
  - Transfers substantial tax revenue to states & localities
- State-local government ~14% of the US economy
  - Education and Medicaid/welfare more than half of spending
  - Stable relative size, 21-24% of personal income
  - Four, roughly balanced, revenue sources

<table>
<thead>
<tr>
<th>Year</th>
<th>All states</th>
<th>Excl. AK &amp; DC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>$1,992</td>
<td>$1,841</td>
</tr>
<tr>
<td>1992</td>
<td>$3,900</td>
<td>$3,708</td>
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<tr>
<td>1998</td>
<td>$5,224</td>
<td>$5,025</td>
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<tr>
<td>2002</td>
<td>$6,217</td>
<td>$5,856</td>
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<tr>
<td>2007</td>
<td>$7,832</td>
<td>$7,383</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau
Thank You

Questions?
Discussion