Federal Grantmaking:
The Long View of History

By Barbara Floersch

In one of his very first acts as President, George W. Bush sought to redefine a fundamental aspect of federal grantmaking. Issuing the executive order that created his new White House Office of Community and Faith-Based Initiatives, Bush declared, “When we see social needs in America, my administration will look first to faith-based programs and community groups, which have proven their power to save and change lives.” At the same time, Bush announced that he would require five federal departments—Justice, Education, Labor, Health and Human Services, and Housing and Urban Development—to set up their own Centers for Faith-Based and Community Initiatives to eliminate the “regulatory, contracting, and other programmatic obstacles to the participation of faith-based and other community organizations in the provision of social services.”

The Bush initiative—an unprecedented expansion of federal grantmaking into the religious domain—quickly raised the hackles of civil libertarians and evangelicals alike, and it was soon sent back to the shop for retooling. Regardless of how the plan finally emerges, the simple fact that President Bush immediately proposed using the national grants system as a way of advancing his political agenda says a lot about the enduring importance of federal funding. Debate may rage over the efficacy, appropriateness, or constitutionality of using federal tax dollars to support faith-based services. But there appears to be little doubt—even among Bush’s conservative allies—that federal grantmaking itself is here to stay, an indispensable mechanism for performing the people’s business.

It is also an inherently changeable mechanism. Natural catastrophes, international uncertainties, and an unstable economy all have the potential to upset the best-laid plans of policy-makers. Most commentators are looking forward now, attempting to predict what the new administration will do to redefine the nature of federal grantmaking. There may be as much value in looking back. A consideration of the history of grants-in-aid can illuminate the obstacles and opportunities that accompany this most recent changing of the guard. By discerning the patterns of the past, we can better understand the present, and perhaps even glimpse the shape of things to come.
In the Beginning

Since the earliest days of the republic, the federal government and the states have haggled over issues of rights and authority. The revolutionaries of 1776 stood for independence, popular rights, and states’ rights. They strongly opposed the centralization of government. Through time, experience, and necessity, however, the states gradually modified their stance and ceded authority to the federal legislature, executive, and judiciary. The separation of powers among the three branches helped allay fears of a return to tyranny.

Although this struggle between federal authority and states’ rights was eventually resolved with respect to basic governance, the issue has continued to stir controversy. Political and philosophical wrangling over the rights and responsibilities of the states vs. those of the federal government has been a major factor in determining the course of government grants-in-aid.

The states and the federal government have also jousted over sources of revenue. Neither the Articles of Confederation nor the United States Constitution gave the federal government the right to tax citizens directly. That right was retained by state and local governments, which assumed the burden of meeting most social needs. Not until 1894 was there an effort to institute a federal tax on personal income, and it took the Sixteenth Amendment to the Constitution, which was ratified in 1913, to finally establish an income tax system to help fund the operations of the federal government.

Poor in cash but rich in the vastness of its Western land, the fledgling United States government often used land as currency. The Land Ordinance of 1785 created the first federal grants. It provided land in lieu of money to reward soldiers for their service in the Revolutionary War.

Between 1787 and the onset of the Great Depression in 1929, the federal government’s grantmaking activities were fairly limited. Cash grants were made to support development of a strong American merchant fleet and for exploration of the Western territories, as well as to build hospitals, roads, and experimental agricultural stations. Important land grants were made to support the construction of railroads and the establishment of educational institutions.

Three acts of Congress that were passed before 1913 are especially significant when considering the history of federal grants-in-aid:
• The Hatch Act of 1887 addressed a number of important issues, including the need for grantees to be accountable. It was the first act to require annual reports detailing the progress of the grantee’s work and how the federal funds had been spent.

• The second Morrill Act of 1890 tightened federal control over state use of land granted for educational purposes and allowed federal officials to withhold payment if it was determined that the states had used funds improperly. For the first time in the nation’s history, the federal government was given the right to inspect state structures.

• The Weeks Act of 1911 required the first matching funds, and required the federal government to approve state projects before they were funded. In 1912 a federal inquiry found that several states had used agricultural grants improperly. As a result, Congress imposed further reporting, auditing and use-as-directed requirements in ensuing acts for grants-in-aid.

Through these acts and measures the government began its policy of grants management, making it clear that grants are not unrestricted gifts.

The New Deal

The federal government’s early cash and land grants had a strong impact in promoting commerce and building a national infrastructure, but as a percentage of total federal spending, grantmaking was relatively small. In 1929, for example, grants amounted to only about three per cent of the entire federal budget.

As the Great Depression deepened and the Hoover administration resisted pressure to step up the federal response, social conditions deteriorated. By early 1933, when Franklin Roosevelt took office, 25 percent of the American labor force was unemployed.

Franklin D. Roosevelt’s first term as President produced he most sweeping changes in governmental policies and institutions since the adoption of the federal Constitution. In his inaugural address, the new President warned that if Congress did not act swiftly to help him change the direction of the country, he would “ask for the one remaining instrument to meet the crisis—broad executive power to wage war against the emergency, as great as the power that would be given to me if we were in fact invaded by a foreign foe.”
The initiatives and programs of the New Deal drastically altered federal and state relations, and redefined the role of the federal government in addressing the needs of its individual citizens. By June of 1933 several important measures had been implemented:

• The Federal Emergency Relief Administration was established to make awards to the states for direct relief to citizens.

• The Civilian Conservation Corps was established and employed half a million young men in national forests and other conservation projects.

• Title 11 of the National Industrial Recovery Act authorized the Public Works Administration to organize an ambitious program of public construction.

In January 1935 President Roosevelt asked Congress to pass legislation further reforming benefits for children, the unemployed, the disabled, and the elderly. He also addressed the need for public housing. The measures passed in 1935 defined the New Deal and established a pattern for what opponents later branded the “welfare state”:

• The Social Security Act, passed in January 1935, represented the most far-reaching federal measure ever to address the basic needs of individual citizens. The act had three essential components: 1) aid for the unemployed, and for programs to address health, maternity, and the physically disabled; 2) an unemployment tax on employers' payrolls; and 3) an old age pension funded by taxes on both the employer and the worker.

• The Works Progress Administration, established in April 1935, employed approximately three million people, at no cost to the states.

• The Housing Act of 1937 provided federal aid for locally-sponsored slum clearance and low-rent housing.

Prior to 1930, only three acts had been passed that provided funds for individual services to citizens. By 1939, however, social programs of the New Deal were firmly in place and the government’s system of grants-in-aid represented 39 percent of all federal expenditures.

The authority of the federal government to tax employers in order to support the social reforms of the New Deal was vehemently opposed, and legal
challenges continued until well into 1937. The government’s authority was eventually confirmed in the courts, however, and the legitimacy of federal intervention in social affairs was firmly established.

Evaluating the System

As early as 1928, various organizations began to study the effect of federal grants on state and local governments. Official interest in the subject of grant reform, however, dates from 1949, the year in which the Commission on Organization of the Executive Branch (the first Hoover Commission) issued its report. The Commission, which was appointed by President Truman, included in its final report a brief assessment of federal-state relations and addressed both the assets and liabilities of the federal grantmaking system.

On the positive side, the Commission found that grants had increased the quality of many services, decreased service inequities among the states, and improved the administration of certain state activities. The deficits of the system, according to the report, included a lack of coordination among granting agencies, a propensity for altering state service patterns, diminished discretionary power for state officials, and “excessive fragmentation” in addressing national concerns. Although the Hoover Commission recommended major reforms of the grantmaking system, its proposals had little impact.

In 1955 a second major evaluation of federal assistance was conducted by the Commission on Intergovernmental Relations (the Kestnbaum Commission). The Kestnbaum Commission rejected many ideas of the Hoover Commission, including the suggestion that broader grants in various functional fields as well as general federal subsidies (now known as block grants and revenue sharing) would be more effective than highly specialized grants (now known as categorical or project grants). The Kestnbaum Commission found that specialized grants were “first of all an instrument used by the national government to reach its own objectives,” and that they were “a basically sound technique, despite their piecemeal development and hodgepodge appearance.”

Although the changes proposed by the first Hoover Commission were not enacted at the time, its final report provides analyses and insights that remain pertinent today. In addressing the grants system as it relates to states’ rights and responsibilities, the Commission wrote that it “becomes more standardized and centralized as social systems and material conditions
dictate. States acting alone cannot solve democratic national interest and security, and general welfare needs and problems.” The report expressed the clear opinion that the roles of the federal and state governments, and their relationship to each other, cannot be defined once and for all, but must change from generation to generation depending on circumstances. “The American people,” the report stated, “fashion their government to meet the needs of changing times and changing conditions.”

**Times of Reaction**

Although the total amount of grant funds distributed by the United States government remained below the 1939 high of $2.9 billion, the number of federal assistance programs continued to grow during the 1940s and 1950s. Some of the new programs included reduced-cost school lunches for poor children, school construction aid, sewage control, and the expansion of public health services.

In the 1950s, however, President Eisenhower, supported by business and manufacturing interests, declared war on the “creeping socialism” of Roosevelt’s New Deal. Eisenhower and his Republican cohorts argued that the federal government had become entirely too big and meddlesome, that it imposed too many restrictions on industry and operated too many programs. As he pressed to restrict the growth of federal programs and federal involvement in what he deemed state and individual affairs, America was startled by the successful launching of a Soviet earth satellite called Sputnik. That initiated the age of space exploration—and led to a serious re-evaluation of the federal role in education.

In 1958 the National Aeronautics and Space Administration (NASA) was established, and by 1966 it had an annual budget of $5 billion. Federal grant assistance poured into basic research relating to space exploration and technology. A 1957 report of the Federal Office of Education titled “Education In the USSR” pointed to a dangerous knowledge gap. The report revealed that Russian students spent far more time than Americans mastering mathematics and sciences, that the Soviet Union had excellent classroom facilities and an ample number of qualified teachers, and that both teachers and scientists enjoyed more prestige in Russia than in the United States. To help American students catch up, federal grants for elementary, secondary, vocational, and higher education rose dramatically,
The events of the 1950s conspired against President Eisenhower’s avowed desire to curb federal spending and rein in the federal government. Despite his grave admonition that the country was moving toward “national socialism,” the federal system of grants-in-aid continued to grow. Transportation grants to the states saw an especially significant increase, due to construction of the interstate highway system in the late 1950s.

**The Great Society**

With the 1960s came a multitude of changing conditions and attitudes. The cold war began to thaw, and there was an emerging emphasis on the blight of domestic poverty. Inspired by the civil rights movement, other activist causes gained momentum—the peace movement, the women’s liberation movement, the environmental movement. When President Kennedy was inaugurated, he envisioned a “New Frontier,” and by the time of his assassination in 1963, reforms had indeed been undertaken that suggested that the country was changing course. Assistance to the poor was increased and efforts to end racial discrimination were intensified.

In the spring of 1964, four months after he became President, Lyndon Johnson addressed an audience at the University of Michigan and outlined his plan to create the Great Society. By developing social programs rooted in the strength of prosperity rather than the exigencies of economic depression, President Johnson believed America could move beyond the goals of the New Deal. New programs were designed to empower the poor and disenfranchised, and to ensure that all people could participate in American life as equal citizens. During the era of Johnson’s Great Society, federal initiatives frequently bypassed state government and dealt directly with nonprofit service providers. As a result, many important programs were implemented by private, nonprofit organizations without the involvement of either state or municipal governments. Debate over the appropriate role of the federal government, states, and localities grew, as did concerns over pragmatic issues of effective grants management.

The programs of the Great Society resulted in a sharp increase in the number of federal grant initiatives, and brought the government’s influence into many areas of American life where federal dollars and regulations had never before been seen. Federal grants to the states rose significantly, mainly because of grants related to education, training, employment, and social services, and with the beginning of Medicaid in 1965, health grants also increased significantly.
Between 1965 and 1966, the 89th Congress passed 136 major domestic bills. A 1967 study by the Advisory Commission on Intergovernmental Relations reported that in January 1967 there had been no less than 379 separate authorizations for grants-in-aid programs, more than double the 181 authorizations in all of 1963. National expenditures for grant programs increased from $2.3 billion in 1950 to $7 billion in 1960, to $11 billion in 1965, to $24 billion in 1969.

In 1964 Congress passed the Civil Rights Act, a mass transit bill, a food stamps program, and a program to provide legal aid to the poor. The accomplishments of the 89th Congress in 1965 were even more far-reaching and included establishment of the Medicaid and Medicare programs; provision of additional aid for education; passage of the Voting Rights Act; expansion of housing programs including subsidies for low-income families; establishment of regional economic planning and development programs; passage of a new immigration act; passage of a variety of environmental acts; establishment of the Department of Housing and Urban Development (HUD) and funding of its Model Cities Program; establishment of the office of Economic Opportunity and the Community Action Program (CAP); and funding of numerous grant programs to address issues ranging from adolescent pregnancy to regional medical centers.

President Johnson was aware that his effort to broaden federal responsibilities through the grants-in-aid system, and the corresponding growth in the number of grant programs, had resulted in administrative and management problems. The Johnson administration undertook several efforts to improve the situation. Among these were: 1) an executive order requiring consultation with state and local officials on grant program regulations; 2) the designation of intergovernmental liaison offices; 3) the first use of the consolidated block grant concept in the Partnership for Health Program of 1966 (the block grant concept was first suggested by the Hoover Commission); and 4) a series of comprehensive reforms initiated under the Intergovernmental Cooperation Act of 1968.

One major change included in the Act was implemented through Circular A-95 of the Office of Management and Budget. The A-95 circular established the state clearinghouse grant review process, and was later revised to establish the Single Point of Contact review system.
New Federalism

In his 1968 campaign Richard Nixon declared that “a majority of Americans no longer support the continued extension of federal services.” President Nixon condemned categorical grants because, he said, they posed serious administrative problems and interfered in areas more properly managed by state and local government. Nixon promised to restore “a rightful balance between state capitals and the national capital: to share federal tax revenues with state and local governments: and to eliminate categorical grant programs in favor of block grants.” Nixon wanted to restrict federal resources and power, and his administration attacked many of the grant initiatives of the Great Society, dismantling or altering several major programs. It is interesting to note, however, that many of the grant management initiatives that President Nixon emphasized had been developed under the Johnson administration, or earlier.

Nixon’s effort to institute revenue sharing (originally proposed by the Hoover Commission) failed at first, but in 1972 Congress finally passed the State and Local Assistance Act. Many organizations that were actively working to address the needs of the poor, the disabled, or the disadvantaged believed that because much funding would now be handed out in one lump, directly at the local level, their constituents would not receive a fair share. They feared that most of the money would be used to support municipal services such as police and fire departments, and that local politicians would try to protect their own interests and maintain the status quo, rather than fund the grass-roots activists who were working for more fundamental social change.

Nixon also set about consolidating categorical grant programs into block grants. In 1973, 17 categorical programs (including all of the War on Poverty manpower programs) were consolidated into the Comprehensive Employment and Training Act (CETA). In 1974 the Housing and Community Development Act consolidated six categorical programs, including the Community Action Program. The last block grant of this era was instituted in 1976. Title XX (Social Services amendment to the 1935 Social Security Act) gave states the authority to develop and enact social service programs of their own design.

A 1977 study by the Advisory Commission on Intergovernmental Relations found that block grants provided more local discretion; that they kept planning, reporting, and other federal requirements to a minimum; and that their statutory distribution formula limited the discretion of federal administrators. It also concluded that decentralization and consolidation “were limited by a tendency called ‘creeping categorization.’” Congress had
continued to earmark activities within the scope of block grants so that additional categories were actually created. All in all, the study concluded, “Block grants have not been major change agents in the intergovernmental system.”

By the time Nixon left office, the number of categorical grant programs had nearly doubled. Only about 60 programs had been consolidated, and 442 categorical programs continued to operate. During Nixon’s presidency, however, grant administration was somewhat streamlined. For example, the 53 grant reporting forms which had been used by the federal government were replaced by four standardized forms.

In the wake of the Watergate scandal and Nixon’s subsequent resignation, Vice President Gerald Ford assumed the presidency. In his book A Ford, Not A Lincoln, Richard Reeves described the Ford administration as being firmly based in the “old time Republican religion: tight money, business incentives, reduced government expenditures for everything but defense...” Ford maintained his predecessor’s commitment to the “New Federalism.”

When Jimmy Carter became President in January of 1977, he brought to the office a bold domestic agenda which included job creation, government reorganization, tax and civil service reforms, a new energy plan, and a balanced budget. Although Carter failed to achieve many of his goals, he did succeed in establishing a new Department of Energy and a new Department of Education. Efforts to balance the budget, however, stymied other domestic initiatives. In 1980 President Carter assured the nation that he was not trying to balance the budget on the backs of the poor. Nevertheless, many of his proposed budget cuts did affect programs such as economic development, anti-recession aid, welfare reform, the state portion of revenue sharing, education, and CETA jobs.

Reagan and Bush

The mantra of staunchly conservative Ronald Reagan was that the best government is the least government. An avowed foe of federal grants-in-aid, he touted a plan for economic recovery that included what he called “the greatest attempt at savings in the history of the nation.” To realize that goal, Reagan took aim at many of the social programs of the Great Society, although the bedrock social programs of the New Deal, which were dubbed the social safety net, were supposed to be left intact. In addition to continuing the trend toward increased local and state control of grant funds, the Reagan
administration reinforced the trend away from using grants to initiate and sustain social change. During the Reagan years, grant funds for domestic programs were whittled away.

Reagan’s successor, the first President Bush, kept the Republican faith. In reviewing the Bush presidency in relation to the New Federalism as practiced by Nixon, and then Reagan, John W. Winkle III observed in 1992 that “because the Bush administration has offered no systematic alternative, the Reagan legacy remains for better or worse virtually intact.” In his inaugural address, Bush reiterated his pledge to reduce the growing budget deficit by curtailing domestic spending. “We have more will than wallet,” he said, “but will is what we need.” To solve social problems without increased spending, he called for a “new activism” based on citizen volunteerism rather than government programs, creating the Thousand Points of Light program to recognize volunteer effort. Like Reagan, Bush demanded that more be accomplished with less money, leading to charges that he was more interested in public relations and rhetoric than a substantive effort to deal with pressing domestic problems. Even conservative columnist George F. Will questioned Bush for his stubborn reluctance to raise taxes. “Is Bush prepared to sacrifice national security to his taxaphobia?” Will asked. “Probably. All causes—education, drug treatment, environment seem subordinate...”

**Clinton and “Devolution”**

With the election of Bill Clinton in 1992, Democrats looked forward to a more aggressive federal effort in promoting social programs through the grantmaking system. Those hopes were soon dashed, however, when a series of early missteps by the new administration (including the failed health reform initiative of Hillary Clinton’s White House task force) set the stage for a sweeping takeover of Congress by conservative Republicans in 1994. Forced to negotiate their differences, Clinton and the new Congress fashioned a program of “devolution”—conveying policy responsibilities from the federal government to state and local governments. A study by the Urban Institute, a Washington think tank that has followed the history of devolution closely, notes that “the intent of devolution is to enhance the responsiveness and efficiency of the federal system, based on the theory that state and local governments can do a better job of providing services for citizens...This process may include any combination of block grants to states, reduced grants-in-aid from the federal government, and increased flexibility for states in complying with federal requirements.”
Beginning in January 1995, the new Congress entertained various proposals to convert Medicaid, welfare, child care, child protective services, and other programs into flexible block grants to the states. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), signed in August 1996, transferred a major part of the responsibility for public assistance from the federal government to the states. With the advent of PRWORA, open-ended matching grants were replaced with fixed block grants. The Temporary Assistance to Needy Families (TANF) block grants, which give considerable flexibility to the states in designing their own programs for needy families, replaced Aid to Families with Dependent Children (AFDC), Emergency Assistance, and the Job Opportunities and Basic Skills program (JOBS).

**Back to the Future**

The social and economic priorities of past administrations have often been redefined by domestic and international events. Over the past 200 years, these accumulated priorities have been woven into a rough fabric that is our current grants-in-aid system. Intended as a coherent federal response to specific concerns, the system often appears instead to be a crazy quilt of conflicting purposes and goals. As taxpayers and politicians alike have become disenchanted with the uncertainties of changing approaches and realigned priorities, the popular euphoria that greeted the New Deal has been replaced by a mood of public caution.

The new Bush administration will strive to manage the grants system to reflect its own priorities, its understanding of federal, state, and local responsibilities, and its own interpretation of the common national good. Regardless of how George W. Bush chooses to put his own stamp on the system, it will remain an essential part of the federal mechanism for change, integral to what the Hoover Commission called “the warp and woof of present-day government.”

---

*Barbara Floersch is a TGCI trainer and Associate Director of the Washington County Youth Service Bureau in Montpelier, Vermont.*