

FIGURE 10-1 Changing Fiscal Federalism • In the hundred and seventeen years from 1902 to 2019, the federal government has grown significantly relative to state and local governments.

Data from: 1902–1977 data from [Wallis and Oates \(1998\)](#), Table 5.1; [Bureau of Economic Analysis \(2021\)](#).



TABLE 10-1 Comparison of State Spending and Revenue Across the United States

	State	Dollars Per Capita
Spending	Education	Wyoming \$5,389 (high) Michigan 3,015 (median) Idaho 1,995 (low)
	Health Care	District of Columbia 11,944 (high) Missouri 8,107 (median) Utah 5,982 (low)
	Income Taxes	New York 2,877 (high) Missouri 1,073 (median) AK/SD/FL/NV/WY/WA/TX 0 (low)
	Sales Taxes	Washington 2,476 (high) Wyoming 1,116 (median) DE/OR/MT/NH 0 (low)
Taxes		
Data from: U.S. Bureau of the Census (2020) ; Kaiser Family Foundation (2014) ; and National Center for Education Statistics (2018) .		

TABLE 10-2 Subnational Government Spending/Revenue as Share of Total Government Spending/Revenue in 2019

	Spending %	Revenue %
Greece	7.0	2.97
Portugal	13.28	10.10
France	19.78	16.48
Norway	34.07	16.36
United States	43.26	47.86
Denmark	64.49	26.63
OECD average	31.11	19.48

Data from: [Organization for Economic Cooperation and Development \(2019\)](#), Table 5, Table 7.

Compared to the subnational governments of other nations, state and local governments in the United States account for a relatively large portion of total government activity.

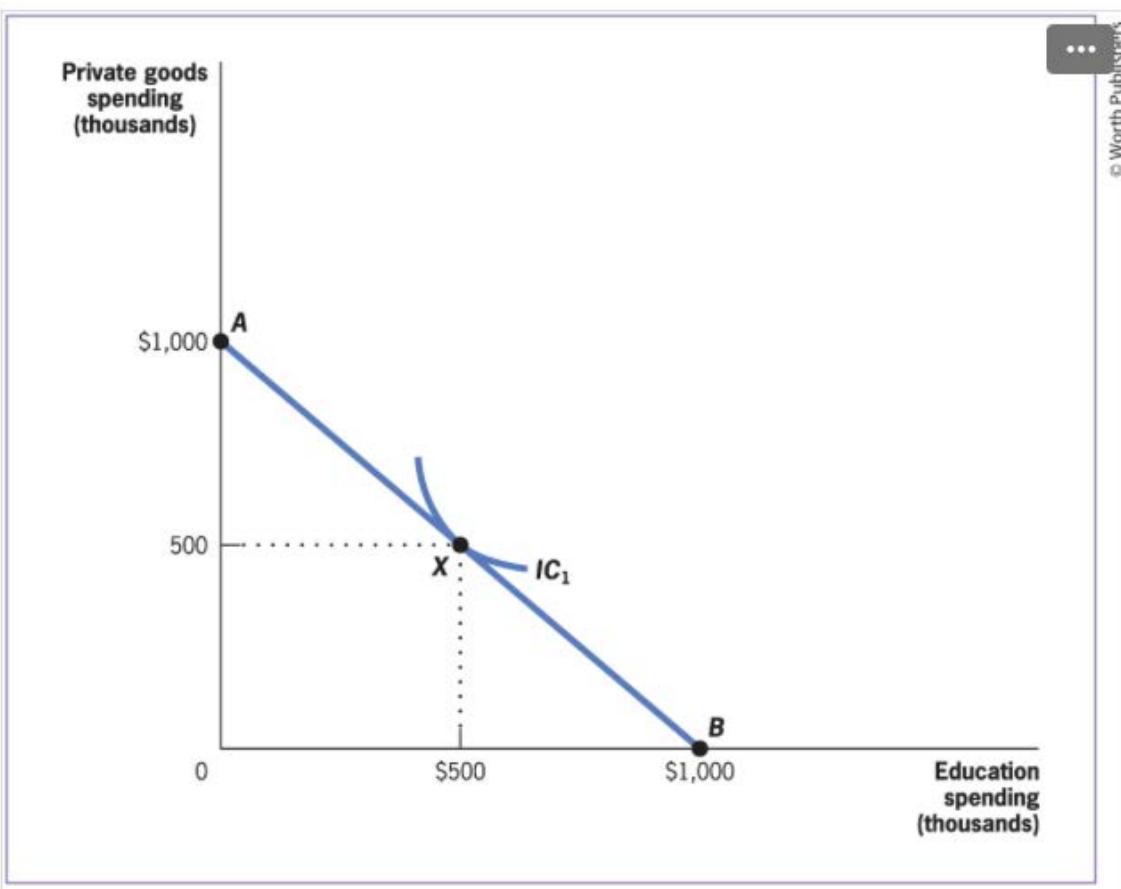


FIGURE 10-2 A Town's Choice Between Education and Private Goods • With \$1 million to spend on some combination of education and private goods, Lexington chooses point X on its budget constraint AB, spending \$500,000 on each, at the point where its indifference curve, IC_1 , is tangent to its budget constraint.

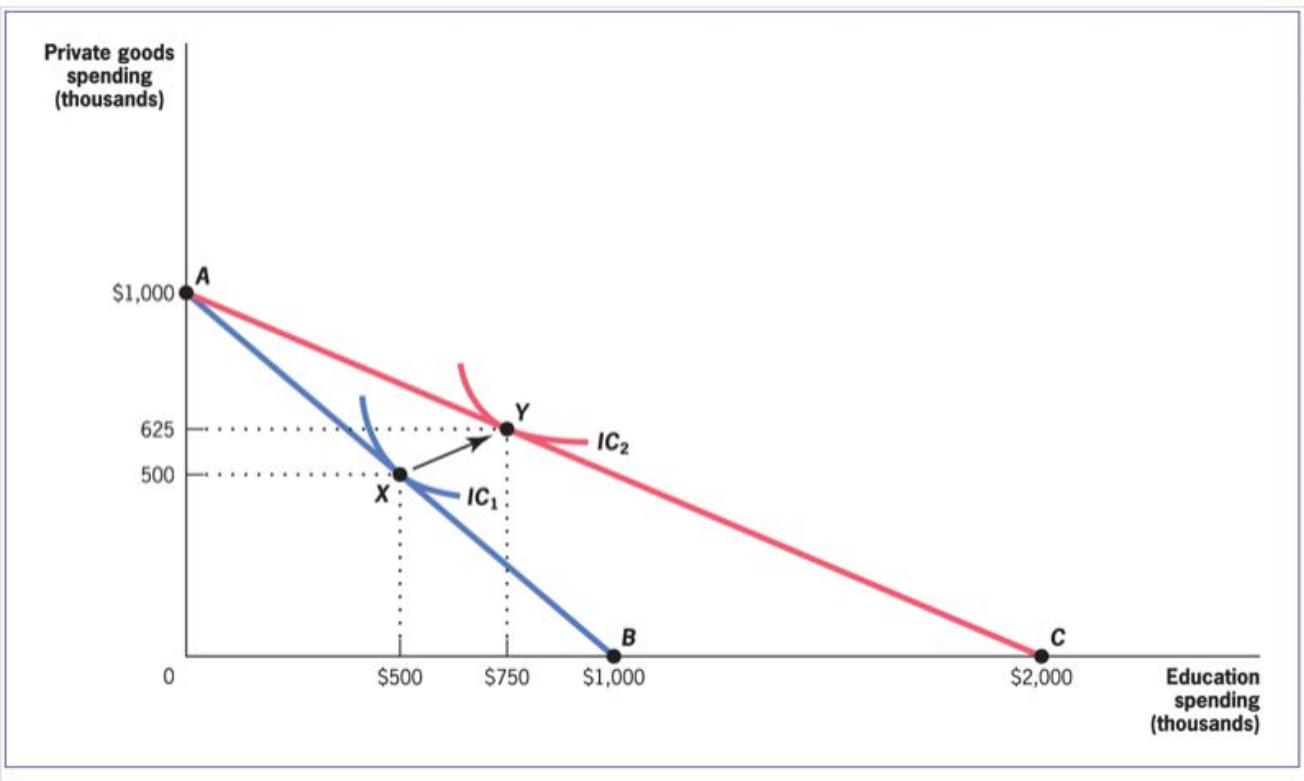


FIGURE 10-3 The Impact of a Matching Grant on the Town's Budget Constraint • When Lexington is offered a matching grant for educational spending, with \$1 of grant for each \$1 of local spending, the budget constraint pivots outward from AB to AC . Lexington chooses point Y on AC , as it spends \$250,000 more on education (with education spending rising from \$500,000 to \$750,000) and \$125,000 more on private goods.

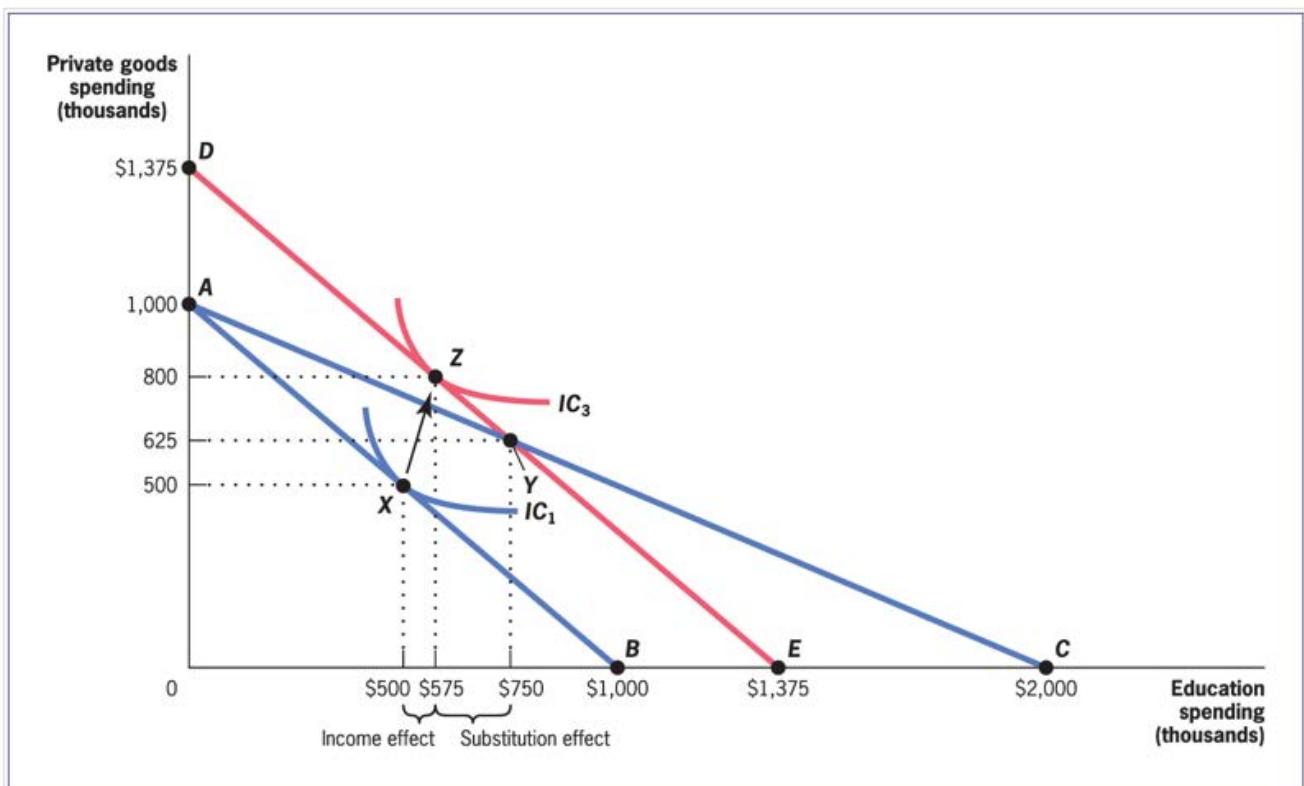


FIGURE 10-4 The Impact of an Unconditional Block Grant on the Town's Budget Constraint • When Lexington is offered an unconditional block grant of \$375,000, the budget constraint shifts outward from AB to DE . Lexington chooses point Z on DE , as it spends \$75,000 more on education (with education spending rising from \$500,000 to \$575,000) and \$300,000 more on private goods.

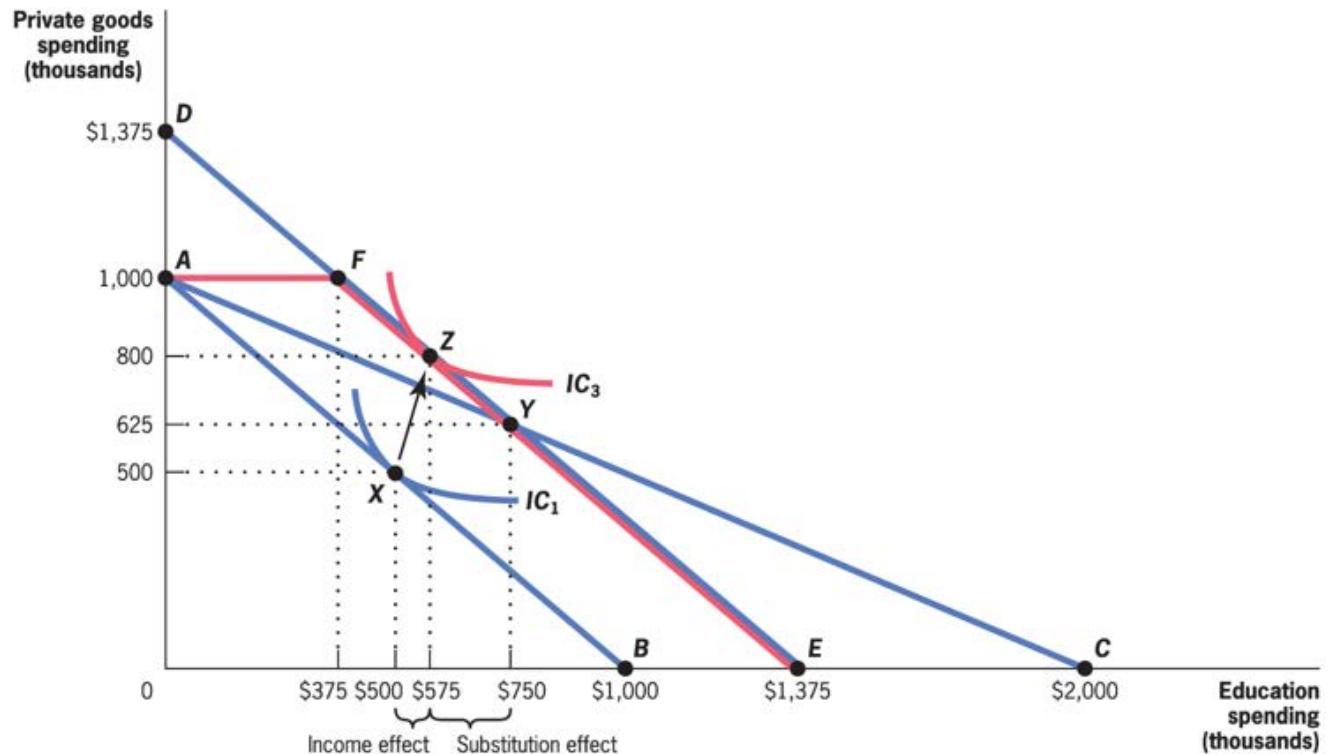


FIGURE 10-5 The Impact of a Conditional Block Grant on Town Spending • When the town is offered a conditional block grant for education spending, it can spend up to \$375,000 on education while still spending \$1 million on private goods. Beyond point *F*, the conditional block grant operates like the unconditional block grant, so the budget constraint is *AFE*. For towns that already have high educational spending, like Lexington, the conditional grant has the same effect as the unconditional grant, causing education spending to rise by \$75,000.

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