LARGE SCALE BUT TEMPORARY: HOW THE FEDERAL GOVERNMENT'S RESPONSES TO THE GREAT RECESSION AND COVID-19 (MOSTLY) MAINTAINED CONTINUITY IN AMERICAN FEDERALISM

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ABSTRACT

This article examines the effects that federal legislation designed to address the Great Recession and COVID-19 pandemic affected American federalism. Some other crises in American history have resulted in moves toward enduring centralization. Despite unprecedented federal spending, neither of the two major crises of the early twenty-first century resulted in more power being concentrated permanently in Washington, DC. Rather, in an effort to pump money into the economy expeditiously, the federal government mostly followed a traditional model of funding stimulus, while leaving implementation to state and local governments.

Keywords: Fiscal Federalism, American Federalism, Federal Economic Stimulus, Federal Grants

I. INTRODUCTION

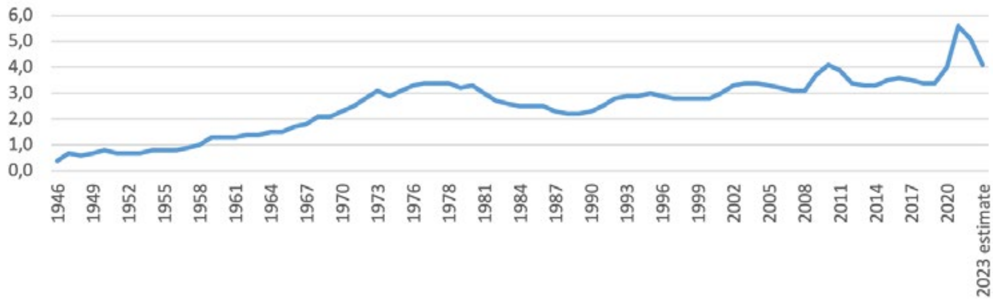
Responses to major crises such as the Civil War (1861-65) and the Great Depression (1929-33 and 1937-38), have sometimes resulted in permanent centralization in the American federal system (Kincaid, 2019). Like Winston Churchill, who said in 1946: “Never let a good crisis go to waste,” federal politicians, especially presidents, sometimes seek to use crises to employ cooperative, coercive, and preemptive policy instruments in order to enter, or more fully occupy, policy areas traditionally reserved to the 50 states. This paper gives an overview of fiscal federalism in the United States and then examines whether federal fiscal responses to the Great Recession and the COVID-19 pandemic resulted in greater enduring centralization.

The federal government typically provides the bulk of financial stimulus to the United States economy during downturns. Spending during the Great Recession and the COVID-19 pandemic was unprecedented, with an estimated $1.8 trillion spent during the Great Recession and $5.99 trillion from legislative and executive actions during COVID-19 (Center for a Responsible Budget, n.d.). We argue that while the federal government used its financial largess, power to deficit spend, authority to regulate, and tools from the Federal Reserve (i.e., central bank) to engage in unprecedented spending during these two crises, there was no significant permanent power centralization. The scope of the federal government’s intervention into the economy, particularly through the 2008 Troubled Asset Relief Program’s ($700 billion) bailout of the financial and housing markets, greatly increased during the crises. However, the bulk of spending through fiscal stimulus programs such as the American Recovery and Reinvestment Act of 2009 ($787 billion), the Coronavirus Aid, Relief, and Economic Security Act of 2020 ($2.2 trillion) and the Inflation Reduction Act of 2022 ($485 billion) were mostly in traditional areas of federal authority, and when these measures extended into states’ powers, the responses were mostly cooperative in nature. Further, federal spending and programs were mostly designed to address the immediate crisis, thus not creating long-term programs that would significantly alter the federal-state balance of power. The current hyper-partisan environment in the United States has prevented large-scale policy legislation such as President Joseph Biden’s Build Back Better program ($2.4 trillion) of 2021 from passing the U.S. Senate, thus largely maintaining the status quo in the federal system. A partial exception was the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which enhanced federal regulation of securities but did not entirely displace state regulation. However, this act was passed when Democrats controlled 57% of the seats in the U.S. Senate and 59% of the seats in the U.S. House, a large majority, which has been rare in recent decades. Additionally, deficit spending during these two economic crises increased the federal debt, which have led to pressures to cut spending, thus altering the existing regime of intergovernmental transfers in the United States.

II. FISCAL FEDERALISM ACROSS POLICY DOMAINS

The federal government has always engaged in cooperative programs to help fund its priorities through fiscal transfers to the states (Elazar, 1962). However, the rising tide of policy activism from the federal government greatly increased aid to state and local governments after World War II (Kincaid, 1990). Figure 1 shows the evolution of this spending, with federal intergovernmental aid at .4% of GDP in 1946 and an estimated 4.1% in 2023. In constant-dollar terms, there was a secular trend of increased funding up to a high of $296.2 billion in 1978. State and local aid then declined for five years, increased for three years, dropped again in 1987, and then increased to a new high of $306.5 billion in 1993. Spending increased during the recessions of 1991, 2001,

Figure 1: All Federal Transfers to State and Local Governments, Post-World War II, by % GDP

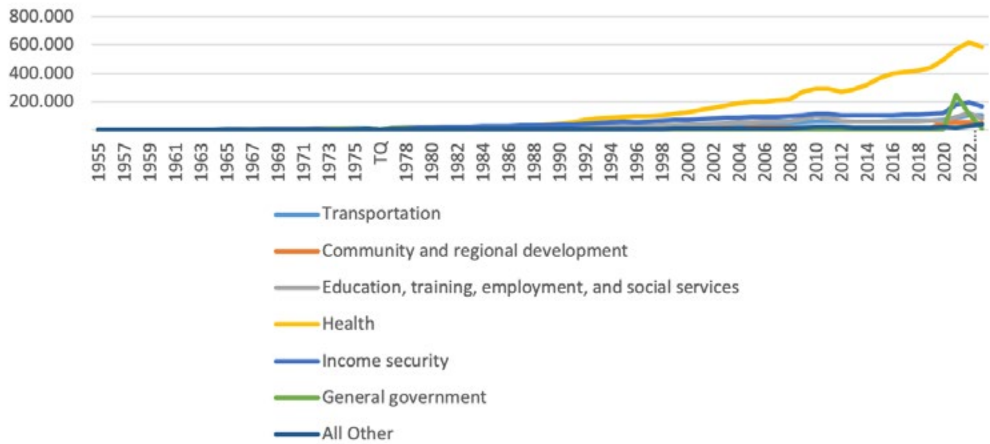


Source: Adapted from Historical Tables, Budget of the United States Government, Fiscal Year 2023. Retrieved from https://www.govinfo.gov/app/details/BUDGET-2023-TAB/.

2007, and 2020, with funding dipping during subsequent economic expansions. The passage of the Patient Protection and Affordable Care Act (ACA) of 2010, expanding federal healthcare assistance, vastly increased intergovernmental transfers and brought federal transfers back to 1970s levels as a share of total GDP. The ACA was significantly centralizing but was not enacted in response to either crisis discussed here.

Figures 2 through 5 show the long-term growth of federal aid to state and local governments by policy domain. As of FY 2020, Health, Income Security, Education/Training/Employment, Transportation, and Community and Regional Development received the most funding from the federal government. General government assistance spiked during the COVID pandemic, but as that funding lapses, these categories will again regain their top five status by FY 2023.

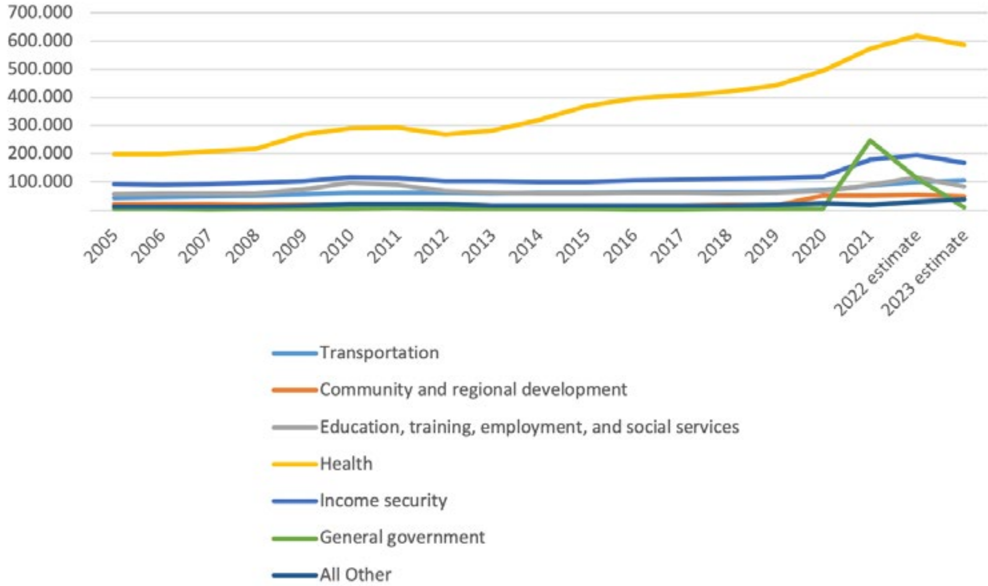
Figure 2: Federal Outlays to State and Local Governments, 1955-2023 (in millions $)



Source: Adapted from Historical Tables. Retrieved from https://www.whitehouse.gov/omb/budget/historical-tables/.

Health programs have taken on greater importance in intergovernmental aid since the enactment of the Medicaid in 1965. This shared federal-state program provides health insurance for the poor and disabled. It is an entitlement program, open to all people who meet qualification standards, and accounts for 1/6 of all healthcare expenditures in the United States. The federal formula for reimbursement to states is based on a state's per capita income, with the poorest states receiving the highest reimbursement rates (Rudowitz, Williams, Hinton, & Garfield, 2021). For FY 2021, the federal government paid for 69.3% of the cost of Medicaid with states contributing 30.7%. Aid varies greatly by state. In FY2024, Mississippi receiving 77.27% of Medicaid funding from the federal government, while the highest income states such as Connecticut and Maryland, received the federal minimum of only 50.0% (Kaiser Family Foundation, n.d.).

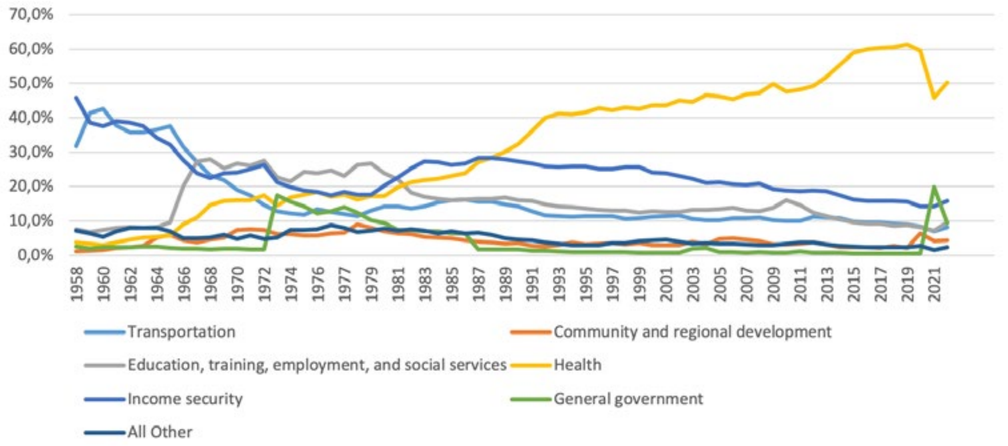
Figure 3: Federal Outlays to State and Local Government by Category, Pre-Great Recession to Post-Covid (in millions $)



Source: Adapted from Historical Tables. Retrieved from https://www.whitehouse.gov/omb/budget/historical-tables/.

The ACA subsidized states to expand Medicaid to include people with incomes between 100% and 138% of the federal poverty level. The U.S. Supreme Court ruled that states could not be compelled to offer Medicaid expansion (Somin, 2016). However, 40 states have done so, and as a consequence, 15.3 million more people were enrolled Medicaid by FY 2019. This has led to a substantial increase in federal funding to states, particularly after 2014 when Medicaid expansion was fully in effect (Guth, Corallo, Rudowitz, & Garfield, 2021).

Figure 4: Funding for Selected Categories by % of Total Federal Outlays to State and Local Governments, 1955-2022

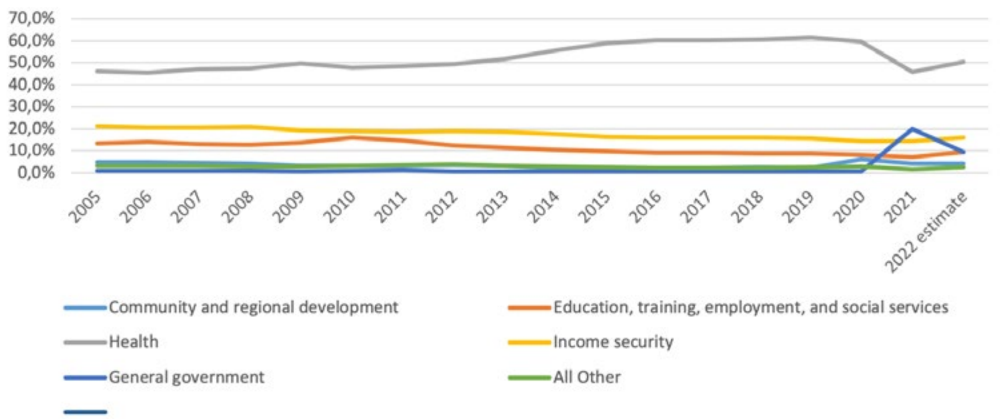


Source: Adapted from Historical Tables. Retrieved from https://www.whitehouse.gov/omb/budget/historical-tables/.

The adoption of the Children's Health Insurance Program (CHIP) in 1997 expanded access to children not eligible for Medicaid, but without other health insurance (Weissert and Schram, 1998). CHIP, along with its reauthorization and expansion in 2015, also contributed to the increase in federal intergovernmental aid in health policy.

Kincaid (1999) has termed these long-term trends as a shift of federal aid from places to persons, namely, from place functions such as infrastructure, schools, housing, and community development to payments for individuals for health and social welfare purposes. For example, in 1978, 67.6% of all federal aid to state and local governments was directed to place-based functions. In 2022, only 38.2% of such aid was directed to place-based functions. The shift of aid from places to persons has also contributed greatly to the rise of coercive federalism because of the regulations attached to social welfare programs and the extent to which those intergovernmental programs consume ever larger shares of state and local spending.

Figure 5: Funding for Selected Categories by % of Total Federal Outlays to State and Local Governments, Pre-Great Recession to Post-Covid



Source: Adapted from Historical Tables. Retrieved from https://www.whitehouse.gov/omb/budget/historical-tables/.

The federal government has historically been loath to provide unrestricted funds to state and local governments. However, General Revenue Sharing (GRS) in the 1970s, and aid during the recession of 2001 and the COVID-19 pandemic proved to be exceptions. The latter two programs were temporary, and GRS was phased out by Ronald Reagan's administration in the 1980s.

III. TERRITORIAL DIFFERENCES IN FEDERAL FISCAL PAYMENTS

Table 1 displays the balance of payments between the states and the federal government for 2020, including COVID aid. Balance of payments is the amount of federal spending directed to a state minus the amount of money paid to the federal government by the residents and businesses of the state. The range is considerable, from $4,152 in Connecticut to $19,406 in Virginia—a difference of $15,254 (Rockefeller Institute of Government, 2021). There is a slight but not strong tendency for states with lower per-capita personal income to receive more revenue from the federal government than states with higher personal income. Notably, though, no state had a negative balance of payments in 2020 due, in large part, to deficit spending by the federal government allowing all states to receive more federal money than their residents paid to the federal government.

Whether the differences in balance of payments across the states reflect inequities is difficult to determine, in part because various factors influence the balance of payments. For example,

Table 1: Per Capita Balance of Payments Between States and the Federal Government and the 15 States with Lowest Per Capita Personal Income (X)

Connecticut	$4,152	Tennessee	$9,866
New Jersey	4,766	Michigan	10,053 X
Utah	4,989	South Dakota	10,096
Washington	5,285	Missouri	10,178 X
Colorado	5,843	Pennsylvania	10,181
Minnesota	6,152	Wyoming	10,293
Texas	6,563	Arkansas	10,842 X
Illinois	6,604	Oklahoma	10,893 X
California	6,646	South Carolina	11,114 X
New York	6,744	Rhode Island	11,241
Nebraska	7,023	Montana	11,715
Wisconsin	7,159	Louisiana	11,746 X
New Hampshire	7,337	Delaware	11,790
Massachusetts	7,651	Arizona	12,212
Iowa	7,885	Alabama	12,448 X
Florida	8,202	Mississippi	12,736 X
Georgia	8,250 X	Hawaii	13,210
Kansas	8,391	Maine	13,390
Indiana	8,481 X	Vermont	13,869
Nevada	8,695	West Virginia	14,124 X
Oregon	8,734	New Mexico	14,805 X
Idaho	9,081 X	Maryland	14,831
North Carolina	9,160 X	Alaska	18,051
Ohio	9,821	Kentucky	18,407 X
North Dakota	9,825	Virginia	19,406

Sources: Balance of Payments, Rockefeller Institute of Government, 2020. Retrieved from https://rockinst.org/issue-areas/fiscal-analysis/balance-of-payments-portal/; Personal Income: FRED Economic Data, St. Louis Federal Reserve Bank, 2022. Retrieved from https://fred.stlouisfed.org/release?rid=110.

Virginia, which is adjacent to Washington, DC, has the country's twelfth highest personal income but receives the highest balance-of-payments benefit. This is likely due to the large number of federal military and civilian installations in Virginia. Likewise, Maryland and Alaska have many federal installations. Although the federal government employs need-based formulas to distribute aid to state and local governments, and the largest program, Medicaid, which accounts for more than 65% of all aid, delivers considerably more money to poor states, such as Mississippi, than to wealthy states, such as Connecticut, the United States has no overall fiscal equalization program for states or localities, though most states have some type of equalization for local school districts.

IV. BRIEF HISTORY OF FEDERAL AID DURING ECONOMIC CRISES

The federal government does not always provide direct anti-crisis financial assistance to state and local governments. The first major infusion of federal funds into state and local governments occurred during the Great Depression of the 1930s. In the six economic downturns since 1973, however, direct aid was provided on only three occasions (Government Accountability Office, 2011). Direct aid has "included unrestricted fiscal assistance, increased funding for existing programs, and new grant or loan programs" (Government Accountability Office, 2011, p. 3). There is no consistent federal policy on anti-recession aid and no policy that automatically triggers anti-recession aid to state and local governments.

State and local governments are in a particularly difficult place during economic downturns because their revenues drop, while their expenditures on social welfare programs increase. States rely heavily on sales and income taxes for their revenue, while local governments rely greatly on property taxes and income taxes. At least 46 states have constitutional or statutory balanced operating-budget requirements (National Conference of State Legislatures, 2010), although these restrictions vary in strictness from the governor proposing a balanced budget to the legislature enacting a balanced budget without deficit spending. It is difficult for the remaining four states to have a deficit because of limitations on borrowing (Reuben & Randall, 2017). States typically resort to spending cuts, tax increases, and expenditures from rainy-day funds to balance their budgets.

Consequently, state and local governments commonly reduce spending and employment during recessions, thereby creating counter-cyclical pressures that can deepen a recession. Federal aid, therefore, is usually intended to help state and local governments maintain spending and employment. Currently, state and local employment accounts for approximately 13 percent of the nation's workforce (National Association of State Retirement Administrators, 2022).

V. FEDERAL AID DURING THE GREAT RECESSION

The housing market in the United States collapsed in fall 2007, triggered primarily by risky subprime mortgage defaults. This led to a global financial crisis and the worst economic conditions since the Great Depression. Unlike the COVID-19 pandemic, which created an immediate shock to the economy when restrictions were enacted to prevent the spread of the coronavirus, and a relatively quick recovery after the restrictions dissipated, the Great Recession developed over a period of time and the economy was very slow to recover. The federal government took the primary role among American governments in addressing economic aid because it can run deficits. State and local governments were forced to raise taxes and fees and cut services in order to balance their budgets. However, despite huge expenditures by the federal government, the balance of power within the American federal system was not substantially changed (Kincaid, 2010). Substantial stimulus was enacted during Goerge Bush's administration as the Republican president worked with the Democratically controlled Congress. However, the elections of 2008 saw a Democratic sweep of the federal government, with Barack Obama becoming president and the party increasing its majorities by 21 seats in the House and 8 in the Senate.

The first major legislation was the $168 billion Economic Stimulus Act of 2008, passed in February. The act provided $600 tax rebates to individuals and $1200 to couples, with an additional $300 for each child, with a phase out as a family's income rose. The U.S. Department of the Treasury, which collects taxes and distributes tax refunds, was used to distribute the checks (Herszenhorn, 2008).

The Housing and Economic Recovery Act (HERA) was passed in July 2008 as the first comprehensive law to address the mortgage crisis. The center-piece of the legislation was protecting quasi-government housing institutions such as Fannie Mae, Freddie Mac, and Federal Home Loan Banks from financial failure. They were given a new government oversight agency and the Department of the Treasury was given authority to lend as much money as necessary to keep these agencies solvent. The estimated cost of doing this was around $50 billion. HERA also authorized up to $300 billion to help delinquent homeowners refinance their mortgage and provided tax incentives to individuals to buy a home. HERA's only major direct funding to state and local governments was $4 billion to purchase abandoned and foreclosed properties provided that they be rehabilitated and sold as lower income housing (Arthur, 2009; Weiss, 2008).

Two massive spending bills were enacted to further quell the banking crisis and stabilize the economy. The Emergency Economic Stabilization Act was passed in October 2008 in reaction to the failure of several large investment banks and potential systemic risk to the banking system. The centerpiece of this legislation was the Troubled Assets Relief Program (TARP) that gave authority to the Treasury Department to purchase up to $700 billion in toxic assets, primarily in the financial and mortgage industries (Dinan & Gamkhar, 2009). TARP was widely resented by the American public as a "Wall Street bailout" at the expense of "Main Street taxpayers". The legislation helped inspire political movements on the left (Occupy Wall Street) and on the right (Tea Party) that further exacerbated partisan polarization in the United States.

Democrats consolidated power in Washington, DC, with the election of President Barack Obama in November 2008. George Bush and congressional Republicans had been reluctant to provide direct aid to state and local governments in early economic relief legislation. Obama and congressional Democrats felt differently and provided this aid, along with massive spending on other programs in the American Recovery and Reinvestment Act (ARRA) of February 2009. ARRA was the largest economic stimulus program since World War II, authorizing $787 billion of expenditures. Approximately $285 million was directed to the states, $275 billion in tax cuts, and the rest to a list of Democratic priorities such as clean energy development and broadband installation. The goal was to stimulate the economy while at the same time helping states and local governments maintain spending on programs such as Medicaid and education in the face of substantial budget pressures. In an effort to inject stimulus into the economy as quickly as possible most of the spending went through existing federal grant programs. Consequently, there was little shift in the existing types of intergovernmental programs during the Great Recession (Conlan & Posner, 2011). The federal government did tighten reporting requirements for grant recipients in an effort to avoid fraud and misuse of ARRA funds. While this was an additional burden for states, most reported smooth implementation since the money flowed through existing grant channels with established bureaucratic communications (Wyatt, 2009).

One response to the Great Recession could have resulted in a substantial shift in power from the states to the federal government. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 overhauled financial regulation in the United States. At issue was whether the federal government would preempt state regulatory powers in a policy domain that had operated as an example of dual federalism for more than a century. The final law generally protected states' ability to regulate consumer protection and banking, while not explicitly preempting state regulation of insurance. Partisan politics played a part in the legislation as Democrats generally support creating regulatory floors, while allowing states to enact stronger regulations, while Republicans generally would like the federal government to set national standards to prevent a patch-work of state laws. Ultimately, since the Democrats controlled the presidency and both houses of Congress, they were able to craft the legislation to their liking (Kincaid, 2010).

Additionally, Dodd-Frank created the Financial Stability Oversight Council (FSOC), a "regulatory super-committee" designed to proactively protect the financial system from systemic risk. Given state experience with regulating financial institutions, the federal government gave them, in an homage to cooperative federalism, a non-voting voice in FSOC's decision-making. Lyons (2021) argues that this placed state interests at the decision-making stage rather than the implementation stage, thus enhancing state input into regulation. However, in practice the FSOC often ignored state input, negating the potential cooperative federalism mechanism that the FSOC could have served.

The long recovery from the Great Recession meant that large intergovernmental programs received multiple authorizations of funding. This was particularly important for Medicaid and education funding. Unemployment insurance (UI) provides a case study of these funding reauthorizations. This federal-state shared program was extended eleven times during the Great Recession. Beneficiaries are typically entitled to 26 weeks of benefits. However, under the extensions, some people were eligible for up to 96 weeks through 2013. During normal economic times, states pay most of the benefits with the federal government picking up the administrative costs. However, through the Extended Benefits (EB) program, begun in 1970, as states hit higher unemployment rates, the federal government splits the cost of benefits 50/50 with the states. The EB was triggered in many states in 2008. The American Recovery and Reinvestment Act of 2009 saw the government step in to provide 100% of the benefits through 2013. States could also borrow funds from the federal government to keep their UI systems solvent, but they were required to pay these funds back as the economy grew stronger. The federal government spent about $250 billion during the Great Recession to bolster and extend UI. However, this program was temporary, and no permanent changes were made to the structure of the program (Congressional Research Service, 2010; Congdon and Vroman, 2021).

Federal responses to the economic downturn caused by the housing and banking crises were often affected by partisan control of the presidency and Congress. Each party generally preferred different policy instruments to address the Great Recession, with Republicans favoring tax cuts and rebates, while Democrats advocated targeted expenditures in their favored policy areas. Public backlash to TARP hardened partisan differences, and Republicans' opposition to more stimulus became entrenched with the election of Barack Obama to the presidency. Laws emerging from both parties generally followed the existing federal regime for dealing with macroeconomic crises: the federal government funded stimulus, and state and local governments implemented it through existing funding mechanisms. Federal financial reform had the most likelihood of causing centralization. However, Dodd-Frank, for the most part, preserved state regulatory powers.

VI. FEDERAL AID IN THE COVID-19 ERA

The federal government's response to COVID-19 was much faster and extensive than to the Great Recession. Four acts were passed by large bipartisan majorities (i.e., Democrat and Republican) in spring 2020, followed by another major act at year's end, also under President Donald Trump, and two major acts in the first two years of Biden's presidency. The first act, The Coronavirus Preparedness and Response Supplemental Appropriations Act of 2020, provided $8.3 billion of aid for domestic and international programs to respond to the outbreak. Most of this money was designated for work by federal agencies, but $950 million was directed to the Centers for Disease Control and Prevention (CDC) to assist state and local COVID responses (Oum, Wexler, & Kates, 2020).

The Families First Coronavirus Response Act allocated $192 billion to address health, hunger, unemployment, and sick-leave policies, about half of which was distributed through existing intergovernmental programs. Most important for states was enhanced federal funding for Medicaid, with an increase of 6.2% in each state's federal medical assistance percentage (FMAP), and waivers of state cost-sharing requirements for Medicaid and the Children's Health Insurance Program for COVID-related health services. Funds were also distributed for large intergovernmental programs such as the Supplemental Nutrition Assistance Program (SNAP) and Unemployment Insurance. Unlike the Great Recession, the increase in the FMAP was predicated on states providing continuous coverage to enrollees throughout the course of the pandemic, thus avoiding states trying to drop people from their Medicaid rolls as the crisis progressed (Committee for a Responsible Federal Budget 2020a; Lopez-Santana & Rocco, 2021; National Conference of State Legislatures, n.d.).

In late March 2020, the federal government passed the $2.2 trillion Coronavirus Aid, Relief, and Economic Security Act (CARES), the largest federal stimulus program in U.S. history. CARES allocated funds to governments, for-profit and non-profit entities, and citizens. Among the CARES allocations most directly affecting state and local governments were $150 billion in direct aid to state and local governments, $260 billion for unemployment, $100 billion for hospitals, $45 billion for disaster relief, $30 billion for education, $25 billion for public transportation, and $8 billion for tribal governments. Altogether, Congress provided state and local governments about $280 billion (Committee for a Responsible Budget, 2020c).

This aid was distributed on the basis of population, though direct aid to local governments was limited to jurisdictions having more than 500,000 residents, with states having discretion over funding to smaller local governments. Most CARES funds were distributed through existing intergovernmental mechanisms and formulas, such as the federal-state unemployment insurance program or the $1,200 payment to each adult citizen ($500 for children) earning less than $75,000 per year that was distributed by the Social Security Administration. Some of the CARES money was in the form of loans, mostly for private-sector businesses, and some loans were forgivable under certain conditions. Otherwise, CARES money had the usual spending and accountability rules and regulations attached to federal aid. Such rules can delay actual expenditures by recipients; consequently, Congress expedited spending by delivering most aid through existing channels having established rules (Kincaid and Leckrone, 2022a).
CARES contained the $150 billion Coronavirus Relief Fund (CRF) providing general relief to state and local governments to mitigate health-related costs from COVID and lost revenue due to the pandemic. States had a fair amount of discretion in allocating the funds provided that expenditures were not for items accounted for in their most recent budgets (National Conference of State Legislatures, 2020). This provision was included to avoid fungibility.

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The CARES Act proves instructive in showing how these formulas lead to funding going to states regardless of their need. The funds were allocated on the basis of population, with a minimum allocation of $1.25 billion per state. This formula came under scrutiny for a number of reasons. First, as illustrated in Table 2, it proved to be a boon to the 20 states that received the minimum allocation. The least populated state, Wyoming, received more than five times the per capita federal aid than California, the largest state. This small-state bias was present throughout all four major COVID relief laws passed by the federal government. One study finds that "having an additional Senator or Representative per million residents predicts an additional $670 dollars [sic] in aid per capita" in federal support (Clemens & Veuger, 2021, p. 11). Further, the epicenters of the early COVID pandemic, California and New York, received smaller allocations than some remote areas that were not hit until later in the summer.

Table 2: Per Capita CARES Allocation by State Population

5 Least Populous States	Population 2020	CARES Allocation	Per Capita CARES Allocation	**5 Most Populous States**	Population 2020	CARES Allocation	Per Capita CARES Allocation
Wyoming	577,267	$1,250,000,000	$2,165	**California**	39,499,738	$15,321,000,000	$388
Vermont	642,495	$1,250,000,000	$1,946	**Texas**	29,217,653	$11,243,000,000	$385
Alaska	732,441	$1,250,000,000	$1,707	**Florida**	21,569,932	$8,328,000,000	$386
North Dakota	778,962	$1,250,000,000	$1,605	**New York**	20,154,933	$7,543,000,000	$374
South Dakota	887,099	$1,250,000,000	$1,409	**Pennsylvania**	12,989,625	$4,964,000,000	$382

Source: Authors' calculation from the National Conference of State Legislatures, retrieved from https://www.ncsl.org/Portals/1/Documents/statefed/COVID_Relief_Fund.pdf) and U.S. Census Data, retrieved from (https://www.census.gov/data/tables/time-series/demo/popest/2020s-state-total.html).

After months of partisan wrangling, the $900 billion Coronavirus Response and Relief Supplemental Appropriations Act was passed in late December 2020. The new stimulus was primarily a continuation of funding from earlier laws, with the biggest component being additional aid to small businesses ($302 billion). However, state and local governments helped administer much of the $121 billion in unemployment aid, $82 billion in elementary, secondary and higher education grants, $72 billion in health programs, and $44 transportation funding (Committee for a Responsible Federal Budget, 2020d).

Democrats took control of Congress and the presidency after the 2020 elections. COVID relief that passed under the Trump administration focused on achieving federal objectives while using states and localities to implement programs. Intergovernmental aid was mostly in the form of categorical grants because Republicans did not want to be seen as bailing out state and local governments, which they believed should deal with COVID-related fiscal problems on their own. CRF funding represented the closest thing to general assistance, but even that limited spending to programs that were directly tied to the pandemic, and from the local government perspective, very few cities were eligible to receive direct funding. However, as part of the $1.9 trillion American Rescue Plan Act of 2021 (ARPA) President Biden and the Democratic Congress included a $350 billion Coronavirus State and Local Fiscal Recovery Funds program (CSLFRF). The funds were not entirely unrestricted. However, state and local governments were given wide-ranging discretion provided expenditures fell within one of four broad classifications: spending related to health and economic impacts of the pandemic, providing pay for essential workers, revenue for programs that had been hit hard by the pandemic, and infrastructure projects (Rocco and Kass, 2022, pp. 6-7). Local governments directly received $130.2 billion under CSLFRF, including special allocations for smaller cities that were not included in CARES. The remainder of the funding sought to further fund existing COVID relief for unemployment insurance, aid to schools, small business assistance, nutritional programs, assistance for families with children or elderly, Medicare and Medicaid assistance, and other human-service provisions and safety net spending important to the Democratic agenda (National Conference of State Legislatures, 2021).

The Democratic party won unified control of the White House and Congress in the 2020 elections. President Biden and congressional leaders sought to use the pandemic to pass a modern New Deal program that would increase the federal government's presence in citizen's daily lives. However, the ambitious Build Back Better plan was unable to clear Congress due to thin Democratic margins. A smaller agenda was passed in the $773 billion Inflation Reduction Act of 2022 (IRA), which primarily focused on climate change, prescription drug costs, and the federal deficit (Tankersley, 2022). The IRA provided incentives and grants to state and local governments, particularly to spur clean energy and carbon-reduction programs. However, it was not a sizeable shift of power toward the federal government.

Aside from fiscal matters, health-care guidance, and Trump's funding of Operation Warp Speed to produce a COVID-19 vaccine, Presidents Trump and Biden left it to state and local governments to decide on most public health measures, such as stay-at-home orders, masking rules, social distancing, and vaccine requirements (Kincaid and Leckrone, 2020, Kincaid and Leckrone, 2022b).

VII. CONCLUSIONS

Federal actions to stem the economic crises caused by the Great Recession and the COVID-19 pandemic were some of the costliest in U.S. history. However, the numerous laws passed to resolve the two crises mostly continued secular trends of intergovernmental fiscal policy. Seven conclusions support our argument that neither the Great Recession nor the reaction to the COVID-19 pandemic led to a broad transformation in the practice of U.S. federalism. However, the growth of the federal deficit as a consequence of unprecedented spending may have long term affects on the federal government's ability to fund intergovernmental programs, thus affecting existing fiscal federalism programs in the United States.

1. Polarization Stifled Change

Polarization probably blunted centralization, with Republicans especially resisting financial aid to state and local governments and new regulations imposed on state and local governments. During the Great Recession, Republicans sought to stimulate the economy with tax cuts and rebates. Large-scale spending emerged during the Obama administration, but in an effort to expeditiously pump the money into the economy, funds were primarily funneled through existing intergovernmental channels rather than new programs. There was a burst of bipartisanship at the beginning of the pandemic, especially with the CARES act. However, as 2020 progressed, Republicans became more wary of large funding measures. Democrats won control of the presidency and Congress in 2020, and Republicans abandoned cooperation moving forward. Due to the Democrats' slim margin in the Senate, with the Democratic Vice President breaking a 50-50 tie in the Senate, moderate Democratic senators from Arizona and West Virginia helped to water down large-scale new programs. Due to the filibuster, the 60-vote threshold required to pass major bills in the U.S. Senate also acts to restrain centralization because both parties resist legislation that would centralize policies they dislike.

2. Use of Existing Programs to Funnel Aid

The federal government's fiscal responses to the Great Recession and the COVID-19 pandemic were on a scale not seen since the Great Depression. However, their long-term effects on the American federal system were limited because fiscal aid to state and local governments funded existing programs on a temporary basis to help stimulate the economy. There has been a long-term growth of federal intergovernmental aid from 1955 to the present and over the periods of the Great Recession and COVID-19. The long-term trend has been a large increase in intergovernmental transfers as a result of more Medicaid spending. Other than that secular trend, the absolute amount of federal aid in dollars and in percentage of intergovernmental aid returned to normal after these two rounds of federal economic stimulus.

3. No Expectation That Direct Federal Aid to State and Local Governments is Guaranteed

State and local governments have no expectation that the federal government will guarantee aid to their governments during a financial crisis. This matter is also partisan. Democrats are more supportive of such aid than Republicans. Some Republicans believe that the state and local governments should be allowed to go bankrupt if necessary. There is, however, some expectation that the federal government will increase its share of spending for intergovernmental social-welfare programs during financial crises, but those increases primarily benefit individuals, not state and local governments.

4. No Change in the Ad Hoc Nature of Federal Aid

There was no notable change in how the federal government allocates funding during economic downturns. The process remains ad hoc, often inefficiently targeting funding to states and recovery programs. Clemens, Ippolito, and Veuger (2021) argue that countercyclical federal intergovernmental aid might be better allocated if the federal government adopted a scheme of automatic stabilizers to trigger aid quickly and efficiently. However, Congress showed no appetite during or after the Great Recession and COVID-19 to adopt such new mechanisms.

5. Politics and Grantsmanship Leads to Suboptimal Timing and Allocation of Fiscal Aid to State and Local Governments

Federal grants to state and local governments are generally allocated through a formula or through competition among governments. Formula grants take into account a variety of factors, including historical allocations and demographic characteristics of the recipient government (Congressional Budget Office, 2013). These formulas are often subject to political pressures and the necessity of achieving a coalition to pass legislation. This was the case in the federal government's fiscal programs during both the Great Recession and the COVID-19 pandemic.

6. Federal Deficit Spending During the Great Recession and COVID-19 Pandemic May Affect the Ability of the Federal Government to Fund Future Intergovernmental Programs

Given that the federal government has run a surplus in only two fiscal years since 1960 (White House, n.d.), budget deficits have been the norm in contemporary American politics. However, the level of deficit spending during the Great Recession and COVID-19 was unprecedented. This boosted total federal debt from 62% of GDP at the start of 2007 to 118% of GDP at the beginning of 2023 (Federal Reserve Economic Data, n.d.). Interest payments on the national debt are consuming an increasing share of the federal budget. By 2035, debt service is projected to be 14% of the federal budget, on par with all non-defense discretionary spending (Government Accountability Office, 2022). Reckoning with this budget problem could require some mix of tax increases and spending cuts. Spending cuts might substantially reduce federal fiscal transfers to state and local governments, especially for place-based programs. How reductions will affect the balance of federal-state power is uncertain. Reductions could tip the balance of power toward the states, but they could generate centralization if the federal government substitutes the carrots of fiscal aid for the sticks of regulation in order to sustain its policy preferences in the face of fiscal austerity.

7. Fiscal Behavior is a Poor Measure of Centralization or Decentralization

Large expenditures and transfers by a federation government do not necessarily entail centralization (Dardanelli et al. 2019). Too many other factors affect centralization, including the nature of the transfer mechanisms themselves. Significant centralization had already occurred in the United States prior the Great Recession and pandemic (Kincaid 2019). Throwing a lot of money at these crises did not substantially enhance or diminish the extant level of centralization.

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