percent of federal grants were in two areas--income security (principally AFDC), which accounted for 59 percent of grants; and transportation, which accounted for 21 percent of grants (see Table 1). In 1960, these two areas still accounted for more than 80 percent of all grants, but the proportion of grants going for transportation had more than doubled--to 43 percent--as a result of the Interstate Highway program begun during the 1950s, and the proportion for income security had shrunk to 38 percent. The introduction of new grant programs in community development, education, employment, social services, and health during the 1960s, however, reduced the share of income security and transportation programs to 43 percent of all grants by 1970, and to only 34 percent by 1980. 5/

The remainder of this chapter provides an overview of the present grants system and traces its evolution from the Depression years to the present.

THE PRESENT GRANTS SYSTEM

In fiscal year 1982, the federal government gave $88.2 billion to states and localities through 280 grant programs. About 46 percent of these outlays provided benefits for individuals, almost entirely through income security and health programs. 6/ The remaining outlays supported state or local public services. It is estimated that 27 percent of spending for all grants was for infrastructure programs (energy, natural resources, and transportation) or for economic development; 19 percent was for education, employment, and social service programs; and 7 percent was for general purpose fiscal assistance.

---

5. Part of the decline in the share of grants going to transportation was due to the near completion of the Interstate Highway System. Transportation grants are expected to increase for 1983 and later years due to the increase in the federal motor fuels tax which is to be used for major repairs on the Interstate System and for mass transit.

6. In 1982, more than 99 percent of grant outlays providing benefit payments for individuals were for income security and health, and more than 99 percent of grant outlays for income security and health programs provided benefit payments for individuals. There is substantial non-grant spending both for income security and health and for programs providing benefits for individuals.

TABLE 1. PERCENTAGE DISTRIBUTION OF FEDERAL GRANT-IN-AID OUTLAYS BY FUNCTION, SELECTED YEARS

Budget Function	1940	1950	1960	1970	1980	1981	1982
Energy	*	*	*	*	1	1	1
Natural Resources and Environment	*	1	2	2	6	5	6
Agriculture	3	5	3	4	1	1	1
Transportation	19	21	43	19	14	14	14
Community and Regional Development	32	*	2	5	7	6	6
Education, Training, Employment, and Social Services	3	7	7	27	24	22	19
Health	2	5	3	16	17	20	21
Income Security	39	59	38	24	20	23	25
General Purpose Fiscal Assistance	1	2	2	2	9	7	7
Other	*	*	*	1	1	1	1
Total	100	100	100	100	100	100	100

SOURCE: Office of Management and Budget.

* = 0.5 or less.

Grants for Infrastructure and Development

In 1982, $22.9 billion in grants to states and localities were to provide for transportation needs, to protect the environment, and to promote community and regional development. The largest transportation program is the Federal-Aid Highway program, which supports construction and major repairs on the Interstate Highway System and on non-Interstate intercity routes. This aid is provided principally through grants allocated by formula and funded by federal motor fuels taxes. In addition, the federal government provides both project and formula grants for capital and operating assistance for mass transit. The principal environmental grant program provides project grants for the construction of wastewater treatment facilities. The Community Development Block Grant (CDBG) program is the largest program for development assistance. Under this program, most funds are provided to large cities and urban counties on a formula basis to be spent on community improvements such as housing rehabilitation, streets and roads, waterworks, and other public facilities.

Grants for Education, Employment, and Social Services

Spending for these human service grant programs was $16.6 billion in 1982, providing support for elementary, secondary, and vocational education; for employment and training; and for social services. Within each of these program areas, a few large formula-distributed grants accounted for the bulk of all spending, with three programs alone accounting for about 40 percent in 1982. 7/ More than 100 narrower-purpose grants--many distributed on a project basis--together accounted for the other 60 percent of human service grants spending.

Some of these programs are intended to expand the overall level of services that states and localities might be expected to provide in any event. Others are intended to fund services that states and localities might not otherwise provide or to assure that some specific target group receives a higher level of services than would otherwise be available. Although more than half of these human service grants require that recipient governments contribute from their own funds as a condition of receiving federal assistance, no state-local contribution is required under the three largest programs. When a state or local contribution is required, it is typically quite low--generally 10 to 25 percent of total spending under the grant--although in some instances it is as large as 67 percent.

Grants for Income Security and Health

In 1982, the federal government spent $40.8 billion in state and local grants to finance income security and health programs, almost all of which provided benefits for individuals. The largest of these individual assistance grant programs are AFDC and Medicaid--state-administered entitlement programs that are jointly financed by the federal government and the states.

---

7. The three programs were for grants to local educational agencies under Chapter I of the Education Consolidation and Improvement Act (ECIA), Title II B-C programs under the Comprehensive Employment and Training Act (CETA), and the Social Services Block Grant under Title XX of the Social Security Act.

In both instances, the federal government sets certain categorical criteria for eligibility, while the states determine the income limits for eligibility. The federal government contributes a little more than half of all program costs, on average, although the federal share varies by the state's per capita income from a floor of 50 percent to 78 percent.

Other grants fund child nutrition programs; various specialized health care programs, such as the maternal and child health block grant and community health centers; housing assistance; and cash and in-kind energy assistance for low-income households. Some of the child nutrition programs are entitlements, but most of these programs are non-entitlement formula grants.

General-purpose Grants

The federal government distributed $6.3 billion to states and localities in 1982 in the form of general-purpose fiscal assistance--funding that jurisdictions could use for virtually any purpose. The largest of these programs--General Revenue Sharing--distributed $4.6 billion to more than 39,000 general purpose local governments on the basis of each jurisdiction's population, per capita income, and tax effort. Other general-purpose fiscal assistance grants included the distribution of revenues collected by the Forest Service and the Bureau of Land Management, and federal payments in lieu of taxes to the District of Columbia and other federally affected communities.

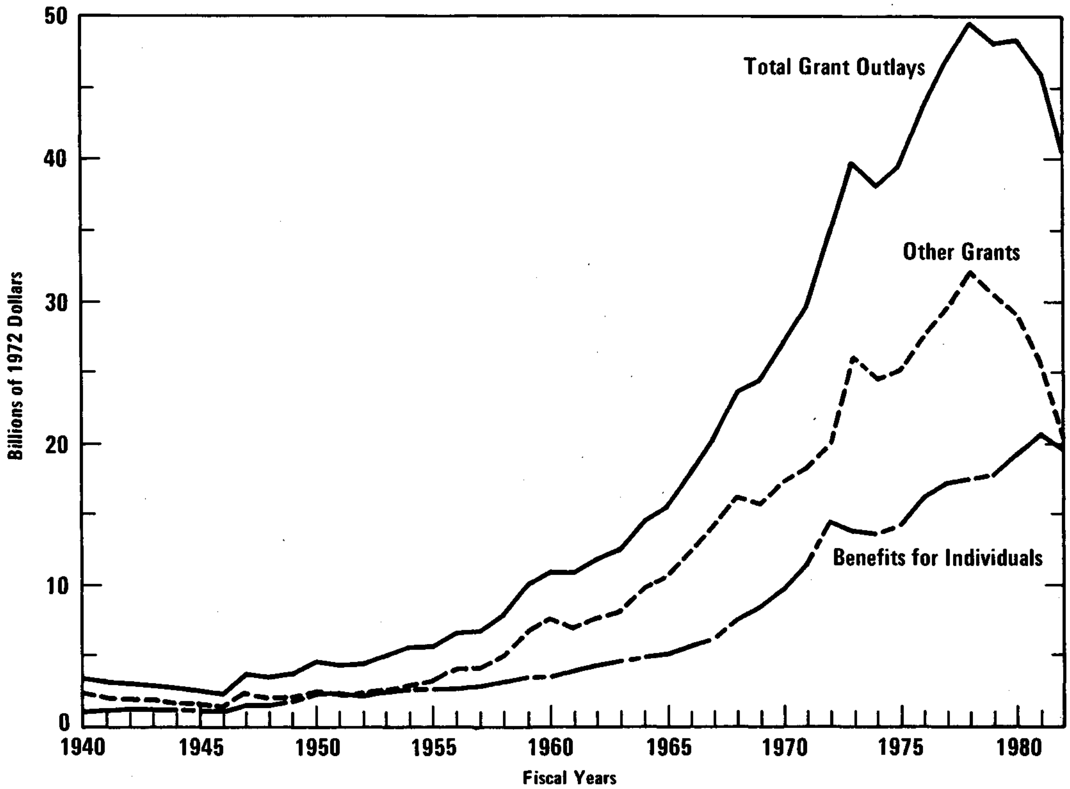
THE EVOLUTION OF THE GRANTS SYSTEM

The present system of intergovernmental grants reflects Congressional decisions made over many years in response to changing concerns regarding the proper role of government and the level of government at which services should be designed, administered, and financed. Federal expansion into areas that had once been outside the public domain or left to state or local governments was especially pronounced during the Depression and again during the 1960s and early 1970s.

Federal spending for grants grew continuously from the 1950s until 1981, but dropped in 1982. Grants spending in real terms--after adjustment for inflation--has been dropping since 1978, due to slow growth in benefit payments for individuals and a substantial decline in spending for other grant programs (see Figure 4).

Figure 4.

Federal Grants, 1940-1982



SOURCE: Office of Management and Budget.

The Depression Years--Growth of the Federal Government

The first major increase in the role of the federal government relative to nonfederal governments occurred during the 1930s, as the result of the Depression. The doubling in the size of government from 1929 to 1939--with spending by all levels of government increasing from 10 to nearly 20 percent of GNP--was due largely to increased spending by the federal government. During this time, the federal government channeled relief not only directly to individuals, but also to state and local governments that were affected by a combination of Depression-shattered revenue systems, statutory limits on borrowing, and mass unemployment. Spending for federal grants-in-aid grew ninefold from the start of the Depression to 1940, funding public works and general assistance. Many of these grant programs were temporary measures, however, that were discontinued when World War II and economic recovery began. The principal permanent legacies of the Depression were Social Security and the Unemployment Insurance system--both financed through trust funds rather than grants. 8/

The Postwar Years--Growth of Nonfederal Governments Funded by Federal Aid

By contrast, the years between 1950 and the mid-1970s were characterized by growth of government at all levels with a more extensive increase in the role of the federal government in financing state and local public services. Several factors contributed to this expansion. First, an extended period of rapid economic growth greatly expanded the resources available to governments and helped fuel a growing concern for aiding those persons who were benefiting least from the general prosperity. The range of human services for which governments assumed responsibility expanded in the 1960s from a primary emphasis on income support for certain low-income families and the elderly to include some degree of assistance for all low-income persons (through the Food Stamp program), as well as such other services as education and training for the disadvantaged, medical care for the elderly and the poor, and housing assistance for lower-income families. In addition, entirely new policy goals were adopted by the federal government, including the development of an interstate transportation network in the 1950s and the reduction and control of environmental pollution in the 1970s. As a result, spending by all levels of government increased by about 60 percent, relative to the economy, between 1950 and 1975, growing from 21 percent to 35 percent of GNP.

Concurrent with this broadening in the scope of government, a number of concerns developed regarding the ability and willingness of states and localities to provide certain services. For one thing, it was recognized that different jurisdictions had seriously unequal resources with which to finance services. Further, not all states and localities were viewed as equally responsive to the needs of their citizens--particularly the poor and minorities. In addition, it was widely felt that many governments lacked the administrative capacity to assume full responsibility for providing certain types of services. Finally, it was recognized that individual states lacked the incentive to address certain of the newly adopted national policy

---

8. See George Break, "Fiscal Federalism in the United States: The First 200 Years, Evolution and Outlook," Chapter 3 in The Future of Federalism in the 1980s (Advisory Commission on Intergovernmental Relations, July 1981), pp. 44-45.

objectives, such as developing a nationwide transportation network or dealing with interstate air and water pollution.

Financing services through federal rather than state and local revenues appeared to have several advantages. Since the federal taxes imposed to pay for the services would be uniform across states, the reluctance that state and local governments might feel about raising taxes to expand public services--for fear that businesses and high-income taxpayers might relocate to other areas with low-tax economic climates--would be reduced. In addition, some redistribution of revenue resources, from states with high fiscal capacity to those with low capacity, would be possible, depending on how spending allocations were determined. Finally, the tax burden would be shifted toward higher-income persons by substituting the federal income tax for the sales and property taxes that states and localities relied on heavily during this period, and that were generally less progressive than the income tax.

These factors--the emergence of new national objectives, concerns about the capacity of nonfederal governments to address those objectives, and the perceived advantages of federal financing--led to expansion in the federal system of grants-in-aid. During the period from 1950 until the middle 1970s, new grants providing payments for individuals were created--including Medicaid--while spending was increased sharply for previously existing programs. In addition, a number of new categorical human service grants were enacted, typically to provide services not previously available--such as job training for the disadvantaged--or to increase the level of services available to some disadvantaged group--as in the case of compensatory education. Finally, these years saw the creation or expansion of grant programs designed to address the newly adopted policy objectives in the transportation and environmental areas.

The 1970s--Growing Dissatisfaction with the Grants System

By the early 1970s, the policy focus had begun to shift. For one thing, while some of the concerns that gave rise to the growth in grants persisted--such as the inequality of resources among states and their lack of incentive to address certain national policy objectives--other concerns had lessened, particularly regarding the administrative capacity of states and their reliance on nonprogressive taxes.

In addition, the grants system was itself increasingly viewed as a problem. Some thought that the federal government was overcommitted, with poorly coordinated programs in too many areas at too great expense. There was dissatisfaction with badly managed, ineffective programs that were thought to result from the sharing of responsibilities among levels of government, so that no level of government could be held accountable. There was dislike of federal intrusion on state and local prerogatives, effected through program regulations and the threat of withdrawal of federal funding from recipient governments that did not comply. Finally, there was unhappiness with the instability of federal funding, which made it difficult for recipient governments to plan for continuing programs, and which subjected them to pressure by affected interest groups to continue activities after federal funding was terminated or substantially reduced. 9/

Dissatisfaction with the grants system prompted a number of changes beginning in the 1970s. First, in 1972 the Congress authorized the General Revenue Sharing (GRS) program, which provided states and local units of government with federal grant dollars to be used for any purposes they chose, subject only to federal requirements that there be public participation in the decisions and that the activities supported be nondiscriminatory. 10/ In addition, some existing narrow-purpose categorical grants were consolidated into less restrictive block grants. Examples include the Title II-B and C programs of the Comprehensive Employment and Training Act (enacted in 1973), the Community Development Block Grants program (1974), and the Grants to States for Services (now the Social Services Block Grant) under Title XX of the Social Security Act (1975). These actions expanded the discretion available to states and localities to design suitable approaches to their problems, while reducing the control the Congress could exercise over program activities.

As a result of these initiatives, the share of federal grant outlays that were general-purpose or broad-based rose from 10 percent in 1972 to 23 percent in 1976. By 1981, however, general-purpose and broad-based grants had fallen to only 18 percent of all grant funding due to the decline in funding for GRS, the slow growth in funding for broad-based grants, and the somewhat faster growth of narrow-purpose categorical grants (see Table 2).

The 1980s--Renewed Efforts to Change the Grants System

Since taking office, the Administration has made a number of proposals intended not only to reduce federal spending for domestic purposes

---

9. Many of these concerns were first raised in the 1950s, when the Kestnbaum Commission, appointed by President Eisenhower, recommended separating revenue sources and sorting out functions among the levels of government.

10. After 1980, the state share of GRS was eliminated.

TABLE 2. OUTLAYS FOR GENERAL-PURPOSE, BROAD-BASED, AND OTHER GRANTS, SELECTED YEARS

	1972	1976	1980	1981	1982
			Billions of Dollars		
General-purpose Grants:	0.5	7.2	8.6	6.8	6.5
General revenue sharing	(0.0)	(6.2)	(6.8)	(5.1)	(4.6)
Other	(0.5)	(0.9)	(1.8)	(1.7)	(1.9)
Broad-based Grants a/	2.9	6.2	10.3	10.0	11.5
Other Grants	31.0	45.8	72.5	77.9	70.2
Total	34.4	59.1	91.5	94.8	88.2
			Percent Distribution		
General-purpose Grants	1.5	12.1	9.4	7.2	7.4
General revenue sharing	(0.0)	(10.6)	(7.5)	(5.4)	(5.2)
Other	(1.5)	(1.5)	(1.9)	(1.8)	(2.2)
Broad-based Grants a/	8.3	10.4	11.3	10.6	13.0
Other Grants	90.2	77.5	79.3	82.2	79.6
Total	100.0	100.0	100.0	100.0	100.0

a. Office of Management and Budget. The category of broad-based grants, as defined by the Office of Management and Budget, includes Community Development Block Grants, various health block grants, Title II-B,C of the Comprehensive Employment and Training Act, the Social Services Block Grant, the Community Services Block Grant, Low-Income Home Energy Assistance, the State Education Block Grant, and Impact Aid.

relative to spending for defense, but also to restructure the system of federal grants-in-aid. In 1981, the Administration proposed consolidation of a large number of categorical grants, and substantial consolidation was achieved. In 1982, the Administration proposed a major realignment of programs in which the federal government would assume full financial responsibility for some Medicaid services, while AFDC and some grant programs in education, health, social services, transportation, and community development would be "turned back" to the states which would have to assume full financial responsibility for them--or terminate them--after a transitional period. 11/ Negotiations with the states over this proposal failed to reach agreement, in part because of an inability to agree on how to federalize Medicaid. The Administration's proposals in 1983 were far more modest, calling for more grant consolidation.

Although few of the Administration's 1982 and 1983 proposals for the grants system have been enacted, many of its 1981 proposals were--at least in modified form. In 1981, in addition to reducing the funding for numerous non-entitlement grants and eliminating some others, the Congress created nine new block grants from 57 previously existing categorical programs. Four of the new block grants were for health care, while one each was for education, community services, community development, social services, and energy assistance. Under the new block grants, federal requirements in the previously existing grants for targeting the use of funds and for reporting were weakened. In all, the number of grant programs was reduced by 22 percent, from 360 in 1981 to 280 in 1982. 12/ In addition, changes were made in the largest entitlement grant programs--AFDC and Medicaid--that slowed spending increases by tightening eligibility and shifting more costs to the states.

In 1982, two new block grants were created--one to replace previous job training programs and another for mass transit that replaced an antecedent four-tiered program. Spending for most non-entitlement grants was frozen at the level set for the previous year. No substantial changes were made in entitlement grant programs, so that funding for them generally increased with the growth in the number of recipients and with cost-of-living adjustments in a few of them.

---

11. In its original proposal, the Administration suggested assigning full financial responsibility for the Food Stamp program to the states as well, but this was later eliminated from the proposal in the process of negotiations with the states.

12. Estimates by the Office of Management and Budget.

TABLE 3. GRANT OUTLAYS BY PROGRAM AREA: 1981, 1982 AND 1983 (In billions of dollars)

Program Area	Actual 1981	Actual 1982	Estimated 1983	Percent Change in Real Terms 1981-1983
Infrastructure and Development	25.1	22.9	23.3	-15
Education, Employment, and Social Services	21.1	16.6	17.3	-29
Income Security and Health	40.2	40.8	45.5	-2
General-purpose Fiscal Assistance	6.7	6.3	6.3	-18
Other a/	1.7	1.6	2.3	+18
Total	94.8	88.2	94.7	-12

SOURCE: Congressional Budget Office.

a. Includes grants for national defense, agriculture, commerce, veterans' programs, administration of justice, and general government.

As a result of these actions, estimated outlays for grants in 1983 are about equal to the 1981 level in nominal terms, but are 12 percent less in real terms, after adjustment for inflation (see Table 3). By program area, real spending was reduced by 15 percent for infrastructure and development grants; by 29 percent for education, employment, and social service grants; and by 2 percent for income security and health grants.

The real decline in funding for federal grant programs has added to the already serious budgetary problems in many states, which are due principally to the recent recession and to spending or taxing restrictions recently imposed by the voters in some states. 13/ One study of state and local responses to federal grant reductions in 1982 indicates that willingness to replace lost federal aid varied by type of program, with redistributive programs faring poorly and capital programs for local infrastructure doing well. Cuts in entitlement programs--AFDC and Medicaid--were generally ratified, or passed on to benefit recipients. Some cuts in human service programs were ratified, while others were replaced, at least partly. Replacement was more likely in programs that were not focused only on the poor, and in programs that had lobbying support from organized groups of beneficiaries or providers. States replaced some funding for day care, home care for the elderly, and health services (under the new block grants) because of these factors, apparently. Capital programs for infrastructure also benefited from generalized political support--because they typically affect all income groups--as well as from lobbying efforts by builders and their suppliers. 14/

---

13. A fiscal survey of the states released by the National Governors' Association and the National Association of State Budget Officers in May 1983 shows that aggregate balances for states are expected to be only 0.2 percent of expenditures at the end of fiscal year 1983, down from 9.0 percent at the end of 1980. Fifteen states are expecting zero or negative balances by the end of fiscal year 1983, and only four states are predicting balances in excess of 5 percent of expenditures, which is considered to be the minimum prudent level.

14. Richard P. Nathan, and Fred C. Doolittle, The Consequences of Cuts: The Effects of the Reagan Domestic Program on State and Local Governments (Princeton Urban and Regional Research Center, 1983).

CHAPTER IV. PUBLIC WORKS INFRASTRUCTURE AND DEVELOPMENT PROGRAMS

Over the years, the federal government has assumed a major role in supporting public works infrastructure such as dams and highways, and in financing capital improvements to assist community and economic development. 1/ In many cases, however, investment priorities have shifted since these programs were first framed, and some of the original rationales for extensive federal involvement may no longer apply. A number of infrastructure programs were designed to achieve important development goals that have now largely been met--such as building a national network of highways, fostering the growth of western agriculture, and constructing a system of locks and dams. Today, as federal policies are being revised to reflect shifting needs, it may be useful to consider a realignment of existing federal, state, and local roles. Such a review is especially timely now, when tight budgetary constraints are forcing all levels of government to reevaluate their priorities in light of the need for more effective spending.

All levels of government have been involved in financing, building, and managing infrastructure facilities, and in supporting community and economic development programs. Historically, the federal government has strongly influenced the pattern of state and local investment, both by providing significant financial incentives (such as a high federal share of matching grants) for certain types of investments and by establishing regulatory standards. The federal role has been based on concern with one or more of the following, as discussed in Chapter II:

- Spillovers or external effects;
- The advantages of centralized coordination; and
- The development and more equitable distribution of resources.

A reduced federal role may be warranted in areas where there are no significant spillovers (since there would be relatively small nationwide

1. For detailed analysis of the adequacy of current federal public works infrastructure programs, see Congressional Budget Office, Public Works Infrastructure: Policy Considerations for the 1980s (April 1983).

benefits) or where there is no need for central coordination. A continued federal role may be justified in areas where capital financing needs are so large as to require federal backing, or if there are major inequities or hardships to be addressed.

This chapter contains three major parts. The first describes the basis for federal involvement in infrastructure and development programs, and the second examines the current federal role in light of these basic rationales. 2/ Part three develops a number of specific options the Congress might consider that would realign the financing and management responsibilities of federal, state, and local governments in these areas.

BASIS FOR FEDERAL INVOLVEMENT

The three basic criteria for federal involvement are reviewed briefly below, and in the following section are applied to current federal programs for highways, transit, airports, water resources, wastewater treatment, and community and economic development.

Spillovers or External Effects

Where the costs or benefits of public activities flow across state borders, individual states may lack the incentive to deal with them adequately. For example, states may build wastewater treatment plants that efficiently serve their own needs but discharge harmful pollutants downriver to neighboring states. By offering substantial financing aid for wastewater treatment works, the federal government induces states to build sufficient capacity to prevent harmful spillovers, thereby reducing costs to the economy as a whole.

Centralized Coordination

In some cases, centralized planning and management of public works facilities are needed to improve economic efficiency and ensure a coordinated national network. Notable examples are the Interstate Highway System and the air traffic control system. In the early days of aviation, local governments operated their own air traffic control towers; today, the federal government equips and operates the entire system, reducing administrative costs and ensuring safe air travel.

---

2. Additional background on these programs is provided in Appendix A.

Development and Distribution of Resources

Historically, a major goal of federal investment in infrastructure has been to encourage regional development, and thus foster the growth of the economy as a whole. For example, federal provision of irrigation facilities at the turn of the century was designed to accelerate the development of the West. More recent federal programs have sought to help regions meet severe local financing problems. These include federal programs that assist urban areas in financing infrastructure projects with large initial costs, such as the construction of new subways, as well as community and economic development programs intended to help distressed areas develop the resources required for sustained economic growth.

In recent years, the federal government has also subsidized activities that benefit disadvantaged groups such as the poor and the handicapped. Thus federal subsidies for urban public transit are often seen as (among other things) a means of helping the poor, the elderly, and the disabled. Federal aid for community development is often limited to projects benefiting low-income households.

THE CURRENT FEDERAL ROLE

Federal programs supporting public works infrastructure--defined here as highways, mass transit systems, airports, water resources (ports and harbors, inland waterways, and multipurpose dams), and wastewater treatment plants--have helped build and maintain the physical framework necessary for the nation's continued economic growth and stability. 3/ Today, this framework is largely in place, and investment priorities are shifting from new construction to the repair, rehabilitation, and replacement of existing facilities. In addition, the federal government provides specialized aid for community and economic development: programs intended to foster improved living environments, especially for the urban poor, by financing a wide range of capital improvements; and projects aimed to encourage development in distressed areas, such as inner city neighborhoods and Appalachia.

---

3. Two additional systems--air traffic control and water supply--are not discussed in detail in this chapter, because either a dominant federal role appears to be required (air traffic control) or local interests predominate (municipal water supply).

24-083 0 - 83 - 4

Capital spending by all levels of government for public works infrastructure was about 1.3 percent of gross national product (GNP) in 1980, as compared to 2.2 percent in 1960. 4/ The federal share of this spending has increased, however--from more than one-third in 1960 to over one-half in 1982. Most of this growth resulted from two new federal grant programs, for wastewater treatment and mass transit. The increased federal role in these areas offset a real decline in federal spending for highways, which was recently reversed with passage of the Surface Transportation Assistance Act of 1982.

In 1982, $19.3 billion in federal funding--including grants to states and localities and direct expenditures--was authorized for the five infrastructure systems considered here (see Table 4). With the increased authorizations for highways and mass transit enacted in the Surface Transportation Assistance Act of 1982, federal funding will rise to $25.4 billion in 1983. The scope of federal participation in the different infrastructure programs varies markedly (see Table 5). For example, the federal government's share of total capital spending ranges from about 20 percent for construction at commercial airports to 100 percent for the dredging of ports and inland waterways. For programs that provide matching grants to states and localities, the federal government covers anywhere from 50 to 95 percent of individual project costs. Funding mechanisms are equally diverse, including user fees, appropriations from general funds, and various forms of interest subsidies. The extent to which infrastructure programs recover federal costs through fees charged to direct users of these facilities ranges from about 6 percent for inland waterways to about 95 percent for highways; in many programs, including ports, mass transit, and wastewater treatment, no federal costs are recovered through user fees.

Federal spending for community and economic development in 1982 totaled $4.1 billion (see Table 4), and is scheduled to rise to $5.2 billion largely as a result of additional commitments included in the 1983 Emergency Jobs Appropriation Act (P.L. 98-8). Much community development funding is provided on a formula basis to large cities and urban areas, for capital improvements such as housing rehabilitation and water and sewer repair. The federal government does not require that localities directly match the community development funds they receive. Economic development aid has historically been targeted to areas with low incomes such as communities in the South and Appalachia, but in more recent years

---

4. Including air traffic control and water supply. If these two systems are excluded, capital spending by all levels of government similarly represents a declining percentage of GNP, and the federal share of this spending increases.

TABLE 4. FEDERAL FUNDING FOR SELECTED PUBLIC WORKS INFRASTRUCTURE AND DEVELOPMENT PROGRAMS
(In billions of dollars of budget authority)

Program Area	Predominant Type of Spending	1982	1983
Public Works Infrastructure			
Highways	Grants to states	8.9	13.5
Public transit	Grants to localities	3.7	4.3
Airports	Grants to localities	0.5	0.8
Water resources	Direct expenditures	3.8	4.3
Wastewater treatment	Grants to localities	2.4	2.5
Total		19.3	25.4
Community and Economic Development			
Community development	Grants to localities	3.5	4.5
Economic development a/	Grants to localities	0.6	0.7
Total		4.1	5.2

SOURCE: Congressional Budget Office.

NOTE: This table does not include federal tax expenditures or credit support programs. In 1982, the federal government spent an estimated $8.5 billion in tax expenditures for public works infrastructure and development (largely tax revenues forgone on tax-exempt infrastructure bonds and small issue industrial revenue bonds). New loan and loan guarantee obligations totaled about $0.6 billion and $0.3 billion, respectively.

a. This excludes specialized economic development aid, such as grants to Indian Tribes, and the Tennessee Valley Authority.

has expanded to include places undergoing shifts in their economic bases, as in some parts of the Northeast and Midwest. Although in the past much assistance was given directly to private firms, aid is now generally focused on states and localities to help provide the public services necessary for