

**Main Idea**

Today the balance of power between the states and the national government is characterized by a system of grants and mandates, as well as by a number of key policy areas.

**Reading Focus**

1. What is fiscal federalism?
2. How does the national government use grants and mandates to influence state policies?
3. What issues most influence American federalism today?

**Key Terms**

fiscal federalism  
grants-in-aid  
categorical grants  
block grants  
federal mandates

**Fiscal Federalism** (p. 113)

Today the power of the national government to influence state policies occurs within a context of fiscal federalism, a system of spending, taxing, and providing aid in the federal system. The role of the federal government in giving aid to the states dates back to the early years of the nation. During the twentieth century, the power of the national government expanded with increased use of grants-in-aid. **Grants-in-aid** include money and other resources that the national government provides to pay for state and local activities. Federal income taxes are the main source of the nation's income. The ability to give this money back to states, in the form of aid, is the national government's chief tool for aiding and influencing states.

**Reading Check Identifying the Main Idea** What are grants-in-aid?

**Grants and Mandates**

(pp. 113–114)

Fiscal federalism allows the federal government to make sure that state policies

match federal priorities. Categorical grants, block grants, and federal mandates are the government's most important tools for influencing state policy.

**Categorical Grants** Most federal aid is distributed to the states in the form of **categorical grants**. These grants can only be used for a specific purpose, or category, of state and local spending. The national government also uses categorical grants to provide money to areas affected by natural disasters.

**Block Grants** **Block grants** are federal grants that are given for more general purposes or for broad policy areas, such as welfare, public health, community development, or education. State officials may use the money as they see fit, which means that Congress loses some control over how the money is spent.

**Federal Mandates** The U.S. government may also impose **federal mandates**, or demands on states to carry out certain policies as a condition of receiving grant money. Civil rights and environmental issues have been addressed through the use

of federal mandates. In some cases, Congress has even put in place “unfunded mandates,” or demands without funding. States tend to argue against unfunded mandates, saying that they should not have to pay for something that they did not approve.

### **Reading Check Making**

**Generalizations** What types of federal aid might the states generally prefer? Why?

### **Issues in Federalism Today** (pp. 114–115)

New issues challenge the American federalist system today. Political debates over how the United States should address poverty, homeland security, environmental protection, immigration, and health care drive changes in our federal system.

**Poverty** In 1996 Congress passed a welfare reform law that gave the states the authority to manage their own welfare systems using federal block grants. Since that time, the number of people on welfare has decreased. Debate over the reason for this change continues. Some people believe it is because states have greater creativity and flexibility in creating programs for the poor. Others argue that it is the result of a strong economy. Whether states can continue to meet the needs of the poor is an ongoing question.

**Homeland Security** Protecting the nation from terrorism, natural disasters, and other emergencies is the job of the Department of Homeland Security. The department was created after the 2001 terrorist attacks. When Hurricane Katrina hit the Gulf Coast in 2005, local and state governments worked

alongside the Department of Homeland Security to respond to the disaster. Many people questioned the leadership and cooperation in the relief effort after the disaster.

**Environment** Protecting the environment is often seen as the role of the national government. Some people believe they could be better handled at the state and local level. As a result, some members of Congress have asked to limit the role of the federal Environmental Protection Agency in favor of local recycling and conservation efforts.

**Immigration** The national government typically handles immigration issues. However, states with international borders often take on responsibility for a number of immigration-related issues, such as increased health-care costs and education. Congress continues to debate immigration reforms but has yet to resolve the issue on the national level.

**Health Care** Americans are increasingly looking to the government for solutions to health care problems such as the rising costs of services and insurance. In 2003 as many as 45 million Americans did not have health insurance. If Americans cannot afford to pay for their own health care, should the government pick up the tab? Which level of government should take the lead—state or national? The answers to these questions will no doubt redirect the course of American federalism in the years to come.

**Reading Check Summarizing** What are some of the issues affecting the federalist system today?

## **SECTION 3 ASSESSMENT**

1. **Define** What are **grants-in-aid**?

2. **Identify** For what purposes are **categorical grants** used?
  
3. **Identify** How has welfare reform affected the way state and national governments work together to fight poverty?