Epilogue:
The Spending Paradox in Historical Perspective

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Our paper documents a positive relationship between state-level opposition to federal spending and net federal outlays to states, a phenomenon we have termed the “spending paradox.” This relationship is interesting, since it is counter-intuitive, and important, since it produces odd mandates for many members of Congress representing poor states, and may help to explain some of the chaos afflicting contemporary fiscal politics. Adding intrigue, we suspect there is a temporal dimension to the paradox—that the puzzling correlation between opposition and outlays we observe in the wake of the Great Recession did not exist following the Great Depression. This epilogue explains why we expect to find a temporal dimension, offers preliminary evidence for its existence, and explores a few temporal comparisons to reveal some of the questions we’ll need to address in our larger project in order to explain the changing dynamics of fiscal politics over the postwar period.

1 The Temporal Dimension of the Spending Paradox

There are good reasons to believe the spending paradox is a contemporary phenomenon. Southern members of Congress were once instrumental in passing groundbreaking redistributive and Keynesian measures. Aside from bills involving matters of race and labor, southern lawmakers “favored by significant margins virtually all the fiscal, regulatory, planning, and welfare state measures of the New Deal and Fair Deal” (Katznelson, Geiger and
Indeed, their cooperation was essential for the New Deal’s success, as southern representatives wielded a “structural veto” over Congress during this period (Katznelson, Geiger and Kryder 1993; Farhang and Katznelson 2005). While perhaps surprising to the modern eye, southern representatives’ support for the New Deal made sense, since their relatively poor region would benefit greatly from investment, new infrastructure, and social welfare outlays. Today, in contrast, many elected officials from these (still poor) states have castigated the Affordable Care Act and other programs that would presumably benefit their constituents.

We begin our investigation of the spending paradox’s temporal dynamics by analyzing public opinion in the late 1930s, to see if southern lawmakers’ support for New Deal programs reflected broader support for federal spending in the region. Our opinion data for this preliminary analysis come from a poll conducted by the Gallup Organization from January 22-27, 1939 on a national sample of 3,148 adults. Respondents were asked, “Do you think the Federal Government is spending too much, too little, or about the right amount of money at this time?” Respondents were coded as opposing spending if they chose the first option. Since this poll did not include information about education or income, we included occupation in our individual model of opinion (the first stage of MRP). We also included two state predictors, region and Democratic presidential vote share in 1936, to account for the two dimensions of ideology known to be active at this time. State-level opposition to spending ranges from 37% in South Carolina to 62% in North Dakota. This range is slightly larger than the range in 2010 (36% to 54%). Nevertheless, in both years, many state majorities were wary of federal spending, even after a major economic crisis.

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1These data were collected using different techniques than are employed (or considered acceptable) by pollsters today. Whereas modern “probability sampling” techniques theoretically give every citizen the same chance of being surveyed, producing reasonably representative samples, the “quota-controlled sampling” techniques typically employed before the 1950s produced less representative samples (Berinsky 2006; Berinsky et al. 2011). Additional work is needed to verify the accuracy of the preliminary estimates presented here. Part of this project will involve coming up with “best practices” for using MRP on quota-sampled survey data.

2This variable has five categories: professional, white collar, labor, other, and unemployed. We would have liked to include more categories, but were limited by the need for comparable categories in the survey and census data.
To measure net spending, we calculated the mean ratio of federal outlays to federal taxes for each state over the five year period between 1936 and 1940. The range is very large, from 0.08 in Delaware to 29.57 in North Dakota (for the period from 2001-2010, the range was 0.42 to 2.91). This means that for every dollar contributed in taxes, Delaware only received eight cents in federal outlays, while North Dakota received almost thirty dollars. North Dakota and South Dakota have much higher ratios than any other state—29.57 and 22.90, respectively, compared to 10.70 for Mississippi, the third highest state—so we have temporarily excluded them from our analysis.

Figure 1 plots opposition to spending against the ratio of spending to taxes, with a black solid line indicating the linear relationship. This preliminary analysis suggests that there was indeed no spending paradox following the Great Depression. In fact, we see the opposite pattern in the late 1930s that we see in the contemporary era. States netting more federal money opposed federal spending less.

While more work is needed to confirm these results, they do provide preliminary support for our hypothesis that the spending paradox is a contemporary phenomenon. It is neither an intrinsic feature of American politics, nor a byproduct of economic crisis. The real question, then, is not just why the spending paradox, but why now and not before? This paper and its epilogue represent the first steps in a larger project addressing this critical question. For clues on where to start looking for answers, we can dig a little deeper into changes in opinion and net spending over time.

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3The CFFR, our source of spending data for the contemporary era, only dates back to 1983. However, analogous data are available for earlier years through the annual Report of the Secretary of the Treasury. This analysis uses the total from the table entitled, “expenditures made by the government as direct payments to states, etc. under cooperative arrangements during the fiscal year [X].” This includes payments from the Department of Agriculture, Department of Interior, Department of Labor, Navy Department, Treasury Department, and other independent offices (e.g., Social Security, payments to states under the Federal Water Power Act, etc.). Our tax data for this analysis come from the last column of Table 1 of the Annual Report of the Commissioner of Internal Revenue for the years 1936 to 1940 (entitled “Grand Total of all Internal Revenue Taxes”).
Figure 1: No Spending Paradox After the Great Depression. This graph plots opposition to spending in 1939 against net outlays to states at this time. The solid line shows the linear relationship, which is negative, and the gray shading around the line represents a 95% confidence region. Opposition to federal spending was lower in states receiving more money, per tax dollar, from the federal government.

2 Analyzing Changes Over Time

In the preliminary analysis that follows, we break states down by region because there are strong theoretical reasons to believe southern and northeastern states might have driven the development of the contemporary spending paradox. Gelman et al. (2007, 2008) show that wealthier states tend to support the party of redistribution today, prompting the quip, “What’s the matter with Connecticut?”. And rich people in rich states are less opposed to spending than rich people in poor states. Were affluent northeasterners so persuaded by New Deal ethos that they grew less opposed to spending over time, even though they and their states tend not to benefit from redistribution? It’s possible, and could lead to a positive correlation between state-level support for spending and net outlays to states.
We might also expect southern states to contribute to the development of the spending paradox. Illiberal intricacies of New Deal programs encouraged benefits to flow disproportionately to whites (Quadango 1996; Mettler 1998; Lieberman 2001; Katznelson 2005; Ward 2005; Poole 2006). And, of course, Jim Crow institutions imposed racial segregation on many public services like education and transportation. Under these circumstances, one might argue there would have been little reason for racial attitudes to enter the calculus of opinion on spending. As these discriminatory institutions eroded, racial attitudes may have permeated people's thinking about spending. It would make sense to see a particularly significant rise in opposition to spending in states with Jim Crow legacies, even if these states still strongly benefitted from spending, because people in these states would be especially sensitive to the democratization of spending across racial lines.

The left-hand graph in Figure 4 plots the change in each state's spending/tax ratio between the late 1930s and 2000s. The vertical dashed line marks the point of no change. States to the right of this line (i.e., those with positive values) receive more money, on net, from the federal government today than they did in the late 1930s, while states to the left of this line (i.e., those with negative values) receive less. Outside the northeast, there have been significant changes in net spending. And outside the west, these changes have been fairly balanced between positive and negative values. That is, some states within each region benefit more from federal spending today than they did in the late 1930s, while other states in the region benefit less. Southern states might be a little worse off today, on average, but Mississippi and Arkansas are driving that trend. The remaining southern states are fairly balanced. Midwestern states are skewed to the left of zero, but not dramatically so. In contrast, western states clearly net less federal money today than they did in the late 1930s.

There have been significant changes in state-level opinion on federal spending as well, but the pattern is different for opinion than for net spending. The right-hand graph in Figure 4 plots changes in state-level opposition to federal spending between 1939 and 2000.
2010, with the vertical dashed line marking the point of no change. Positive values indicate that opposition has increased over time, while negative values indicate it has decreased. In the northeast and midwest, all of the change has been negative. That is, opposition to spending has decreased in every northeastern and midwestern state—for many, by 10 percentage points or more. Changes have been more balanced in the south and west, with opposition to spending increasing in some states and decreasing in others.

What relationship, if any, exists between these two types of change? Figure 2 plots changes in net spending against changes in opinion, with a solid black line indicating the linear relationship. Dashed lines mark the point of no change on both axes, creating four quadrants. It would be reasonable for opposition to spending to have increased over time in states that are worse off today than before, with respect to net spending. In other words, we might expect to see many states in the top left quadrant. It would also make sense for states that are better off today, with respect to net spending, to be less opposed to spending now than before (locating them in the bottom right quadrant of the graph). Overall, these expectations are generally correct—the slope of the solid line is negative.

But, there are also many states outside these two “rational” quadrants. Why might this be? The popular narrative on “red state socialism” suggests many states would be in the top right quadrant—getting more, and also complaining more today than before. Aside from Alabama, however, this quadrant is empty. Most of the “irrational” states are worse off now than they were before, but oppose spending less than they once did. Interestingly, these are mostly western and midwestern states. Here, the question is not so much “what’s the matter with Connecticut”—which actually benefits more from spending today than it did in the New Deal era—but “what’s the matter with Nebraska” (or, incidentally, Kansas, though not in the sense suggested by Thomas Frank).

This doesn’t necessarily mean that northeastern and southern states have nothing to do with the development of the spending paradox. Here, we have compared states to themselves at two time points, while our spending paradox analysis compares states to
Figure 2: Relationship between Changes in Net Spending and Opposition to Spending. This graph plots changes in net spending (shown in the left-hand graph in Figure 4) against state-level opposition to spending (shown in the right-hand graph in Figure 4.) The solid line shows the linear relationship, which is negative, and the gray shading around the line represents a 95% confidence region.

Each other. Moreover, this rough data exploration is also based on preliminary state-level estimates of opposition to spending after the Great Depression. Yet, these results suggest the spending paradox story may be more complex than we originally thought. Race clearly plays a role in shaping individual attitudes on spending, but this analysis suggests that to understand the spending paradox, we will need to look beyond the region whose politics have been most strongly shaped by issues of race. Figure 4 shows that opposition to spending has increased over time only in about half of the states in the south. And, this variation is strongly associated with changes in southern states’ net receipt of federal money. Figure 3 plots the same information as in Figure 2, but for southern states only. Almost all southern states fall into the bottom left and top right quadrants (the “rational” ones), and the overall relationship between changes in net receipt of federal money and
opposition to spending is negative. In general, increases in opposition to spending are associated with a loss of net spending in southern states.

Figure 3: Relationship between Changes in Net Spending and Opposition to Spending in the South. This graph plots changes in net spending (shown in the left-hand graph in Figure 4) against state-level opposition to spending (shown in the right-hand graph in Figure 4) for states in the south. The solid line shows the linear relationship, which is negative, and the gray shading around the line represents a 95% confidence region.

3 Next Steps

We are currently working on two project modules to help us better understand the spending paradox. First, we have nearly completed a large data processing effort that will enable us to fill out the time series between 1939 and 2010. That is, we are working to trace the spending paradox from the New Deal to the present. When and how did it emerge? Was it a gradual development, or did it appear suddenly? Answering these questions can offer clues regarding its origins. Second, we will be running an original survey on spending this summer that includes open ended questions and various experiments. The survey is de-
signed to dig into people’s attitudes about spending, to find out what comes to mind when they are asked general questions about spending, who they think benefits from spending, what they think is at stake in increasing or reducing spending, and whether people are willing to give up otherwise beneficial spending if any part of it is directed toward racial minorities. We welcome suggestions on these, and other ways to move forward!
**Figure 4: Changes Over Time.** The left-hand graph plots the change in each state’s ratio of spending to taxes between the late 1930s and 2000s. Positive values indicate that a state receives more money, on net, from the federal government today than it did in the late 1930s, while negative values indicate a state receives less. The right-hand graph plots the change in state-level opposition to federal spending between 1939 and 2010. Positive values indicate that opposition has increased over time, while negative values indicate it has decreased.
References


