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# Unaccountable Entanglement: How “Free” Federal Money Costs Wisconsinites Control Over Their Government

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By Mike Nichols and Mark Lisheron



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A P R E F A C E T O

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**A**pproximately 30% of the revenue in Wisconsin’s current two-year budget comes from the federal government — and that doesn’t include billions and billions of dollars sent to the Badger State to ostensibly get us through the pandemic.

There are multiple problems that arise from that fact. Over 10,000 “state” employees are actually paid by the federal government and in many instances are bound by federal rules and requirements. A massive bureaucracy has arisen just to manage the relationship between the federal government and the state. It is difficult for federal officials to manage the money from afar, and state leaders are naturally less interested in making sure it is spent wisely (or at all) given the fact that voters often see it as “free” cash.

It isn’t. In fact, as we’ve argued over the years, all of that federal support results in a loss of local control and accountability, time, innovation and transparency. There’s also just a lot of waste of tax dollars, nonsensical spending or lack of focus. Years after the start of the COVID-19 pandemic, for instance, Wisconsin officials by the fall of 2022 still hadn’t spent billions of dollars of federal pandemic aid meant to ensure our health and economic rejuvenation. Rest assured, they will spend it somehow.

Here, Mike Nichols and Mark Lisher provide an overview of the problems and tell us what state and federal leaders can do to restore the original vision of James Madison.

— *Badger Institute*

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## Introduction

**T**he man for whom Wisconsin’s capital was named would be aghast at the ever-growing dependence of the state and virtually all of its agencies on the federal government and federal tax revenue.

James Madison, as we pointed out in our “Federal Grant\$anding” book, had barely been buried in 1836 when territorial leaders named the place that would become the capital of Wisconsin after him.

Were the “Father of the Constitution” to rise from his Virginia grave and walk the streets of the city that honored him, he would, in fact, recognize the names of virtually all of the main avenues and roads. Dozens of them around the state Capitol building — including Hamilton and Washington, Langdon and Mifflin, Morris and Wilson and Carroll and King — were named after the men who attended the Constitutional Convention alongside Madison in 1787.

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Were he, on the other hand, to walk inside the state Capitol and witness the workings of the budget, to see how policy is made and ascertain just how deeply the state has become intertwined with the federal government, he might just ask that the city change its name.

Our latter-day political leaders’ handiwork fundamentally contravenes so much of what Madison the man — and the rest of the framers of the Constitution — believed about the delineation of state and national governments.

Madison, like Alexander Hamilton, was a nationalist, at least in the context of the times. They concluded that America was doomed under the Articles of Confederation. But Madison, in particular, was careful to ensure extensive safeguards for the states.

Writing as Publius in the Federalist Papers, Madison countered very real fears of national

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overreach with unmitigated assurances that the states would have powers that were later codified in the 10th Amendment: “The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.”

In Federalist 45, he was more specific:

“The power delegated by the proposed Constitution to the Federal Government are few and defined. Those which are to remain in the State Governments are numerous and indefinite. The former will be exercised principally on external objects, as war, peace, negotiation and foreign commerce” ... The powers reserved to the states “will extend to all the objects which, in the ordinary course of affairs, concern the lives, liberties and properties of the people, and the internal order, improvement and prosperity of the State.”

The two governments were envisioned as distinct.

“In the compound republic of America, the power surrendered by the people is first divided between two distinct governments,” Madison wrote in Federalist 51, “and then the portion allotted to each subdivided among distinct and separate departments. Hence a double security arises to the rights of the people. The different governments will control each other at the same time that each will be controlled by itself.”

In Federalist 46, he was even more explicit: “The federal and State governments are in fact but different agents of trustees of the people, constituted with different powers and designed for different purposes.”

The federal government, he stated in Federalist 45, would be “nowise essential to the operation or organization” of the states.

Some 235 years later, national and state governments are too often completely intertwined — and it is the state that has in so many ways lost its power and purpose. A look at Wisconsin’s budget alone shows the extent to which we have defiled Madison’s vision.

### Wisconsin Spending

The last two-year budget passed by Wisconsin’s Legislature and signed by the governor in 2021 included about \$44 billion in annual spending — approximately \$20 billion of which is “general purpose revenue” raised each year from what we discussed in a previous report: taxes (mainly individual income taxes) levied by the state’s political leaders on the state’s residents.

But those aren’t the only taxpayer-funded revenues being spent by Wisconsin politicians. Tax revenue raised by the federal government and passed along to Wisconsin (and all of the other states) was initially expected to total \$12.7 billion in the fiscal year that will end in the summer of 2023 — the second largest source of funds in the Badger State’s budget.

We say “initially” because when the budget was put together in early 2021, the world had not yet borne the brunt of COVID-19. State bureaucrats and agency heads were basically guessing how much additional grant money Washington would shower on them. That figure is typically about 30% of all revenue — enough to fund over 10,000 positions in “state” government.

***“State” Employees Paid with Federal Dollars***

In 2017, we analyzed just how pervasive federal control was in various state departments. We found that nearly half of Wisconsin Department of Public Instruction (DPI) employees were paid to execute 59 federal education-related programs.

The departments of Children and Families, Transportation, Health Services and Natural Resources also have large numbers of “state” employees paid with federal money. In the Department of Workforce Development, fully 72% of employees were essentially on the federal payroll.

With the federal dollars come a mountain of federal regulations, paperwork and collateral state spending in the form of matching funds and so-called maintenance-of-effort costs, which force state and local entities to continue operating programs even if the federal dollars run out.

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These commitments raise concerns about the amount of time and money spent on administration and bureaucracy. Most federally paid state and local government workers are required to keep time sheets for the federal work they do, in addition to keeping time records for their local employers.

Those time sheets, whether in Madison or locally, are reviewed by supervisors and filed away until they are audited, sometimes annually, other times not quite as often. The Badger Institute reviewed many of them and discovered yet another problem.

The Department of Public Instruction is, as its name suggests, supposed to be focused on instruction. But approximately 45% of federally paid DPI staffers appear to have little or no direct impact on educating children.

Among this group of 135 administrators, accountants, attorneys, grants specialists, budget analysts, auditors, operations management, clerical assistants and others were eight grant accountants and specialists earning a combined \$464,736 in 2014-’15, according to state records.

That does not include anyone processing or tracking federal money or keeping track of grant requirements in either Washington, D.C., or at the local school level throughout Wisconsin. Many districts employ people whose primary job is to manage federal grant dollars and make sure they don’t run afoul of federal rules.

And because federal money is seen as “free,” there is often a lack of accountability.

Federal officials are too far away to effectively monitor the use of federal dollars. State officials are naturally more concerned about how state tax revenue is used because they set the state tax rates and have to answer to state residents.

A fundamental tenet of conservatism is that government is best when it is closest to the people, but conservatives are not the only ones who feel that way. Research shows that voters generally have more faith in local officials to solve problems, including in their schools, than they do in the federal government.

The most recent Gallup polling shows that only 6% of Americans have a “great deal” of trust and confidence in the federal government when it comes to handling domestic problems; another 33% have a “fair amount” of trust and confidence.

Asked the same thing about local government, over three times as many, 21%, said they had a “great deal of trust and confidence,” while 45% said they had a fair amount — still troubling levels but much higher.

The influence and reach of the federal government are only getting worse. We noted above the state budget typically relies on the federal government for 30% of its revenue. That was before the massive infusion of federal COVID money.

### ***The Damage Caused***

We are in the midst of a paroxysm of federal spending — at the very least \$6 trillion worth — unlike any in our nation’s history. As the Badger Institute reported in the spring, we are only beginning to realize the damage of such frenetic spending.

Academics at the University of Texas estimate the value of questionable loans made through the emergency Paycheck Protection Program (PPP) at \$69 billion. An inspector general for the Small Business Administration (SBA) identified at least 55,000 PPP loans had gone to small businesses that were not eligible.

As we have reported, prosecutions for federal spending fraud are now in the thousands. Fraud cases awaiting investigation are in the tens of thousands. The SBA so far has referred nearly 850,000 identity theft cases from the Economic Injury Disaster Loan program to its inspector general.

Although the American Rescue Plan Act (ARPA) was passed as a pandemic emergency measure more than 18 months ago, most of the \$2.5 billion earmarked for Wisconsin has not yet been spent by the fall of 2022. The state Department of Administration has been unable or unwilling to say how much remains to be spent.

As it has tracked the disbursements at the local level and uncovered waste, the Badger Institute has called on the state Assembly to try to wrest sole authority for the federal billions of dollars from Gov. Tony Evers.

The Legislative Audit Bureau under pressure from the Joint Legislative Audit Committee and Legislative Fiscal Bureau staff is months into an audit of the billions of dollars Wisconsin received from the CARES Act and ARPA.

Frustrated by Evers’ refusal to share decision-making on the spending with legislators, the Assembly earlier this year voted to put the issue to state voters in the form of an amendment to the state constitution.

In the meantime, the Badger Institute continues to use state open records laws to gather data at the local level to shine a light on what has been entirely top-down spending plans that are, at least in the case of ARPA, often only ephemerally tied to the actual pandemic.

As the Badger Institute has chronicled since it launched its Project for 21st Century Federalism in September 2016, this inverted power relationship exacts a tremendous cost in local control, transparency, accountability, time and money.

To cite just one of numerous examples is the panic among federal government adherents over the fate of Medicaid should President Joe Biden unilaterally lift his repeatedly extended public health emergency declaration.

Biden has seen fit to bind all state Medicaid programs to an “emergency” matching grant increase that is contingent upon a state not trimming its Medicaid rolls regardless of eligibility regulations.

The inability of states to shed ineligible Medicaid recipients because of presidential fiat has cost billions of dollars. As the Badger Institute began reporting in April 2021, total enrollment in BadgerCare Plus, which includes Medicaid in Wisconsin, is up 45.1%, from 777,312 when the pandemic began in March 2020 to 1,128,101 in August 2022, according to the Wisconsin Department of Health Services. That’s up 8.8% since last August and 4.7% since January. There hasn’t been a month with an enrollment decrease since the pandemic started.

The cheesecloth of federal spending requirements and loopholes has made it simultaneously difficult for states, counties and cities to spend pandemic funding and relatively easy to spend money foolishly, like the more than \$2.2 million that at least 55 Wisconsin counties spent on “disinfection robots” to clean their jails while still continuing to manually sanitize, as we reported in January.

And it has made it at the same time nearly impossible for the average taxpayer to track the spending.

## **Conclusion**

All of this gloom belies the paramount importance a broad swath of Americans places on striking the proper balance between the federal government and the states.



Leaders from both major political parties have made proposals in reaction to tectonic shifts: a pandemic that prompted a Republican president and a Democratic one to claim emergency powers to win congressional approval for a transfer of trillions of federal tax dollars to the states and their local governments, two major rulings by a new U.S. Supreme Court majority signaling a deference to states' rights, and a pitched battle between the two parties framed at times by each side as a struggle for no less than the future of the Republic.

James Madison clearly underestimated the propensity of the federal government to “divest the States of (their) authorities,” as he wrote in Federalist 17. The new national government would be “disinclined to invade the rights of the individual states, or the prerogatives of their governments,” he opined in Federalist 46.

At the end of the 18th century, at the time of the Articles of Confederation, Madison had good reason to believe that that states would “have the advantage” over the national government in everything from “immediate dependence of the one on the other; to the weight of personal influence which each side will possess; to the powers respectively vested in them; to the predilection and probable support of the people; to the disposition and faculty of resisting and frustrating the measures of each other.”

Madison also allowed for the possibility that he might be wrong.

He was quite certain that the states would push back in concert if the federal government tried to “extend its power beyond the due limits.” He was confident that “ambitious encroachments of the federal government” on the states would alarm more than just a single state. He envisioned a “general alarm.”

Our belief at the Badger Institute is that time is getting short. The national and state governments already have become so intermingled that many of the people who work in them don't even know the difference.

We hope this serves as a rallying cry for Wisconsin and all of the states to a “common cause” built around the following recommendations, many of which were contained in the aforementioned “Federal Grant\$anding” book (read it at [badgerinstitute.org](http://badgerinstitute.org)).

### Recommendations

At the federal level:

- Cut federal spending on grants-in-aid.
- Scale back the Department of Education.
- Increase the use of block grants with fewer strings attached.

At the state level:

- Increase transparency.
- Demand metrics that measure outcomes
- Use the bully pulpit to sound the alarms and organize support in other states.

## About the Authors



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