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WHY DO SMALL STATES RECEIVE MORE FEDERAL MONEY? US SENATE
REPRESENTATION AND THE ALLOCATION OF FEDERAL BUDGET

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Fiscal Federalism

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ABSTRACT: In this paper we provide new evidence on the importance of the so-called small state advantage for the allocation of the US federal budget. We also provide a new interpretation of the available empirical evidence. Analyzing outlays for the period 1978-2002, we show that not only does the population size of a state matter, but so too does its dynamics. Once population scale and change effects are separated, the impact of population size is substantially reduced, and population change turns out to be an important explanatory variable of current spending patterns. The impact of scale and change effects varies substantially across spending programs. Small states enjoy an advantage in defense spending, whereas fast growing ones are penalized in grants allocations. Our results imply that the interests of the states are not easily aligned around their population size alone. The distortion associated with population dynamics is concentrated on federal grants where formulas play a substantial role in limiting budgetary adjustments. Hence, a large part of the inverse relationship between spending and population appears to be driven by mechanisms of budgetary inertia which are compatible with incrementalist theories of budget allocation.

JEL Codes: D72, H61, H77

Keywords: federal budget, malapportionment, small state advantage, overrepresentation.

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