FEDERAL GRANTS: THE NEED FOR REFORM

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Foreword

The Federal grant-in-aid structure, sometimes described as the principal tool of fiscal federalism, has expanded dramatically over the last decade. The latest official listing identifies more than 1,000 Federal domestic assistance programs, of which over 650 provide aid to state and local governments. These aids currently amount to some $40 billion annually, accounting for almost one-third of Federal domestic outlays and more than one-fifth of state-local revenues.

The rapid proliferation of Federal grant programs has been accompanied by growing criticism of the complexity of the grant structure, its many restrictions and controls, and the heavy administrative and other burdens which it imposes on state-local governments.

The problem recently has taken on a new dimension with the enactment of Federal revenue sharing; the brightening in the financial outlook for state and local government; and the deficit position of the Federal government. These developments suggest that the time is ripe for reevaluation of the categorical grant-in-aid structure.

Moreover, efforts to improve the grant structure seem especially appropriate in view of the current emphasis in Washington on the need for controlling Federal expenditures and establishing spending priorities. Reevaluation of the grant structure could contribute to these objectives, identify areas for possible reductions in Federal outlays, and help to insure more effective use of the tax dollars currently allocated to aid programs.

This study is intended to provide background information and some perspectives, not only on the need for reform in this area, but also on some possible alternative approaches.

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Background and Issues

The *1972 Catalog of Federal Domestic Assistance,* prepared by the U. S. Office of Management and Budget (OMB) lists 1,051 programs and activities which "provide assistance or benefits to the American people."[1] These programs are administered by 60 different Federal departments, agencies, commissions, or councils.

Of the 1,051 programs, approximately 650 – three-fifths – provide assistance to state-local governments and related organizations. About 290 others provide aid to individuals (such as student aids) or to nongovernmental agencies and organizations. The list also includes programs of guaranteed or insured loans; Federally operated insurance (crop insurance, veterans insurance, etc.); and contributory benefits such as social security, which, while few in number, involve huge outlays.

More than 280, or 27 percent of all domestic assistance programs are administered by the Department of Health, Education, and Welfare. Appendix Table A.1 shows the number of assistance programs administered by the major agencies of the Federal government.

This study is concerned mainly, though not exclusively, with the programs to aid state-local governments. These programs have increased dramatically, in cost as well as in numbers, particularly over the last decade. In fiscal 1955 Federal aids to state-local governments amounted to $3.1 billion. By 1965 these aids had increased to $10.9 billion. It is estimated such aids will total over $45 billion in fiscal year 1973, more than 4 times the 1965 total.[2]

Need for Reform

This growth of the Federal aid structure has been accompanied by increasingly heavy criticism, even from supporters of expanded Federal assistance to state-local governments. Much of this criticism is directed at the complexity of the categorical grant structure, and the administrative and other burdens which it imposes on the states and localities. U. S. Representative Florence P. Dwyer of New Jersey at one point described this aid structure as "a bundle of good intentions wrapped up in a ball of bureaucratic red tape spun around in a crazy whirl of agencies, grantees, regulations, forms, and instruction manuals."[3]

Over the years many proposals designed to provide for review, evaluation, consolidation, simplification, or reform of this vast network of aid programs have been advanced. These proposals have come from the Executive Branch,

1. Excluded from this listing are automatic payment programs not requiring application for assistance or benefits; certain Federal personnel recruitment programs; benefits or assistance available only to Federal civilian and military personnel; and Federal procurement or contracting activities normally conducted through competitive bidding.
2. "*Federal Aid to State and Local Governments,*" *Special Analyses, Budget of the United States Government,* Fiscal Year 1973. The 1973 figure includes amounts to be distributed under the general revenue sharing program enacted in late 1972.
3. U. S. Congress. House. Committee on Government Operations. Subcommittee on Intergovernment Relations. *Grant Consolidation and Intergovernmental Relations,* Hearings, June 1969.

members of Congress, advisory bodies or study commissions, and other sources both within and outside government. Progress in this direction, however, has been almost nil. Taking note of this fact, Comptroller General of the United States Elmer B. Staats, a former Federal budget official, observed in 1971: "The fact that so little has been done by way of consolidating and simplification leads us to question whether either the Executive Branch or the Congress has seriously tackled the problem of improving the categorical grant system."[4]

On rare occasions there have been recommendations for reduction or termination of specific programs. Historically, however, grant programs once enacted tend to take permanent root in the governmental structure and expand, almost automatically, in both scope and cost. As long ago as 1961 the Advisory Commission on Intergovernmental Relations commented: "On frequent occasions it is alleged that 'once a Federal grant begins, it never ends.' From a factual standpoint this allegation is almost, but not quite, correct. 'Never' should be amended to 'hardly ever.'"[5]

A 1967 Tax Foundation study documented the tendency toward mushroom growth of new Federal progams. Based on data initially provided in that study, it is now found, for example, that 18 health, welfare, and educational programs inaugurated since fiscal year 1964, with total first-year costs of $2.3 billion, involved actual outlays of $10.2 billion in fiscal year 1971, the last year for which data are currently available.[6]

Categorical Aids and Revenue Sharing

Problems associated with the grant-in-aid structure were given a new dimension with the enactment, in 1972, of Federal revenue sharing, under which some $30 billion of relatively unrestricted Federal funds will be distributed among state and local governments over a five-year period.[7] This new "sharing" of Federal revenues was not designed as a substitute for any of the categorical grant programs; it is simply added on top of those existing aids. Thus, while revenue sharing will provide billions of additional aids to state-local units annually, it will not, as presently legislated, contribute to the solution of the weaknesses inherent in the categorical grant structure.

Some contend that efforts to reform and improve the existing categorical grant structure should have preceded action on general revenue sharing. Representative John W. Byrnes of Wisconsin, then ranking minority member of the House Committee on Ways and Means, is among those who have called for "drastic reform of the present method of distributing the almost $30 billion that now is either collected or borrowed by the Federal government and distributed back to the states in the form of specific grants-in-aid."[8]

More recently the executives of 14 state taxpayer research organizations, in a statement submitted to the Senate Finance Committee while the general revenue sharing legislation was under consideration, urged that "as a first priority, the Congress undertake a

4. U. S. Congress. House. Committee on Ways and Means. *General Revenue Sharing*, Hearings (Part 7), June 1971.
5. *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments*, Advisory Commission on Inter-governmental Relations, June 1961.
6. *Growth Trends of New Federal Programs: 1955-1968* (Research Publication 10), Tax Foundation, October 1967.
7. The weaknesses and failures of the categorical grant programs were cited as one of the principal arguments for general revenue sharing.
8. Hon. John W. Byrnes, remarks before the National Taxpayers Conference, Arlington, Virginia, March 1971.

thorough review and reform of the existing grant structure in order to see whether the $35-to-$40 billion currently provided could not be used more effectively and efficiently to meet the needs of state and local governments." The taxpayer organization executives also expressed concern that enactment of general revenue sharing in advance of such reform would "only further weaken and defer chances of improving the existing grant structure."

Domestic Assistance and Spending Priorities

Moreover, general revenue sharing comes at a time when the fiscal outlook for state and local government appears to be brightening.[9] The Federal government, on the other hand, has incurred unified budget deficits over the last two fiscal years totaling in excess of $46 billion. Another deficit in the $25 to $30 billion range is in prospect in the current year.

Much has been said in recent months about the need for re-ordering Federal budgetary priorities. In the main this debate has centered around proposals that national defense (and sometimes space and international) outlays be reduced to free additional funds for domestic assistance programs.

In some respects this defense vs. domestic assistance equation tends to oversimplify the spending priorities issue. It seems to imply that all existing domestic assistance programs are good, that what is needed is to spend more for these purposes, plus the addition of "needed" new programs. While emphasizing the importance of selectivity in reducing defense outlays, this view appears to ignore the need for reassessment of domestic assistance policies and programs in order to reduce or eliminate those which have proven ineffective or have substantially achieved their objectives, or otherwise to reform the aid structure.

Enactment of general revenue sharing may indeed aggravate domestic spending priorities issues. Pressures are already building, particularly among large urban states, for increasing the general revenue sharing distributions. Since the restrictions on state-local use of revenue sharing funds are minimal, future pressures for additional Federal aids may be concentrated on the revenue sharing device.

It does not necessarily follow, however, that Federal categorical aid program outlays will level off, or be reduced. Many of these programs have built-in growth elements which will continue to add to total Federal spending. Moreover, the fiscal constituencies and sponsors of individual grant programs traditionally resist efforts to reduce or terminate them. Thus, unless there is a demand for application of stern domestic spending priorities, both revenue sharing and categorical grant outlays are likely to continue to increase.

The need for re-evaluation of domestic assistance expenditures seems clear. In fiscal 1973, estimated outlays for human and physical resource programs – $136 billion – will account for 55 percent of total Federal spending (Table 1). Over the last decade, domestic-civilian outlays – grants plus direct spending – have risen much more rapidly than defense spending, while space

9. See *The Financial Outlook for State and Local Government to 1980* (Research Publication 28), Tax Foundation, October 1972.

Table 1

Composition of Federal Outlays[a]
Fiscal Year 1973

Function	Amount (billions)	Percent of total
National defense	$ 78.3	31.8
International affairs and finance	3.8	1.6
Space research and technology	3.2	1.3
Physical resources, total	25.7	10.4
Agriculture and rural development	6.9	2.8
Natural resources and environment	2.5	1.0
Commerce and transportation	11.6	4.7
Community development and housing	4.8	2.0
Human resources, total	110.8	45.0
Education and manpower	11.3	4.6
Health	18.1	7.4
Income security	69.7	28.3
Veterans benefits and services	11.7	4.8
All other(b)	24.4	9.9

a. As estimated in the Budget for fiscal year 1973.
b. Includes interest ($21.2 billion), general government, general revenue sharing, allowances, and undistributed deductions.
Source: Office of Management and Budget.

and international outlays have actually declined.

While existing grant programs become more costly, some advocate new programs to clean up the environment, rebuild and develop mass transit systems, strengthen law enforcement, upgrade education, provide a national health insurance system, establish day care and pre-school programs for children, etc. Given the present state of Federal finances, such programs, if enacted, will have to be financed through tax increases, cutbacks in existing spending programs, more debt with its inflationary potential, or some combination of these.

Scope and Purpose of Study

The primary purpose of this study is to broaden the public knowledge and understanding about the scope, complexities, and problems of the present vast network of Federal grants and other domestic assistance programs, often characterized as being over-categorized, over-controlled, and ineffective (especially as regards positive results per dollar of cost). The study is not intended as a blanket condemnation of grants-in-aid, nor necessarily as an argument in support of general purpose as opposed to categorical aids. Clearly, the grant-in-aid device sometimes described as "the principal tool of fiscal federalism," is here to stay.

While the study includes information on the budgetary impact of Federal grants, major attention is devoted to examining opportunities and prospects for reform and improvement of the aid structure, and to the impact of these programs upon state-local governments.

Because of space limitations the study is involved only indirectly with specific problems of grant administration, possible inequities in distribution formulas, and similar problems inherent in the categorical grant structure.

Section II traces the historical development of the categorical grant structure, and the changing patterns which have marked its development. Section III discusses the impact of these programs on state and local governments. Section IV documents some of the weaknesses and failures of the grant structure. Section V discusses some alternative approaches to meaningful reform, as well as some of the obstacles. The final section summarizes the issues and sets forth general conclusions.

II
Historical Perspectives

Central governments aids have a long history. The existing Federal grant-in-aid structure had its beginnings more than a century ago with the enactment of the Morrill Act of 1862, providing assistance to the states for establishment of land-grant colleges.

In 1879 Congress enacted a program to assist in providing teaching materials for the blind. Federal cash grants for cooperative state agricultural experiment stations were inaugurated in 1887. The following year a program providing support for state homes for veterans was enacted. And in 1890 a second Morrill Act authorized cash grants to the states for instructional aids at land-grant colleges. These programs, with modifications, remain on the statute books today.

During the first two decades of the 20th century six more Federal programs providing grants-in-aid to state-local governments were enacted. Three of these – the Federal-aid highway program first enacted in 1916, and the vocational education and rehabilitation programs established in 1917 and 1920 – are still significant elements in the categorical aid structure.

The depression of the 1930's brought enactment of a number of emergency relief, welfare, and income security programs. While the emergency relief programs were terminated in the late 1930's or early 1940's, the major welfare and income security programs established during this period – including the public assistance, employment service, and unemployment compensation programs created in the Social Security Act of 1935 – have grown dramatically in both scope and cost.

In the 15 years following the end of World War II through the 1950's, about 30 new grant programs were inaugurated. These included several which currently are the source of considerable interest and controversy, such as the school lunch, Federal impact area school aid, urban renewal, and water pollution control grants.

The decade of the 1960's brought the most explosive growth in the Federal categorical grant-in-aid structure. In 1969 the chairman of a House Government Operations subcommittee on intergovernmental relations, Representative L. H. Fountain of North Carolina, cited "well over 420" existing grant authorizations and noted that at least two-thirds of these authorizations had been enacted since 1963.[1] There are, of course, numerous ways of counting the number of grant problems.

While establishment of new grant programs has slowed considerably in the early 1970's, it has by no means stopped. The recently adjourned 92nd Congress enacted, among other laws, a higher education measure establishing major new student and institutional aids, rural development legislation creating several new programs, several new health programs, a public service employment program, and also voted to expand substantially some existing grant programs, notably water pollution control grants.

1. U. S. Congress. House. Committee on Government Operations. Subcommittee on Intergovernmental Relations. *Grant Consolidation and Intergovernmental Relations*, Hearings, June 1969.

Meanwhile, with the exception of the emergency relief and war-related programs already noted, very few grant programs established over the years in support of continuing governmental functions have been terminated.

Growth of Grant Outlays

In earlier years grant-in-aid outlays did not represent a significant share of total Federal expenditures. In 1930, for example, grant outlays totaled only slightly more than $100 million, about three-fourths of which was for highways. The emergency relief programs of the mid-1930's increased aid outlays above $2 billion, but total grants dropped again during World War II, to less than a billion dollars in each of the fiscal years 1945 and 1946.

By 1950 grants amounted to about $2¼ billion, rising moderately until they topped $5 billion in 1958. Federal aids did not exceed $10 billion until fiscal year 1964. Between 1964 and the current fiscal year grants will have increased more than four-fold. And, whereas in 1965 aid outlays represented less than one-fourth of all domestic Federal outlays, in the current year they will approach one-third of the total. Table 2 traces the growth of Federal outlays for grant programs since 1960, and indicates the increasing share of total domestic spending which such aids represent.

Table 2

Federal Aid to State and Local Governments in Relation to Domestic Outlays Selected Fiscal Years, 1960-1973[a]

Fiscal year	Federal grants-in-aid: Amount (millions)	Federal grants-in-aid: As a percent of domestic Federal outlays(b)
1960	$ 7,040	20.4
1965	10,904	22.2
1968	18,599	24.7
1970	23,954	26.4
1971	29,844	27.7
1972	36,830	29.3
1973	45,729(c)	31.9

a. Data for 1972 and 1973 are estimated.
b. Exclusive of outlays for national defense, international affairs and finance, space research and technology, and interest.
c. Includes general revenue sharing outlays, taking account of retroactive 1972 payments paid out in fiscal 1973.
Source: Office of Management and Budget.

This startling growth in Federal aids to state-local governments has far exceeded earlier projections. In 1969 William H. Robinson, an official of the then Bureau of the Budget, estimated that Federal aids to state-local governments, which totaled $20.3 billion that year, would increase to the range of $33 to $40 billion by the fiscal year 1975. His projections, however, did not anticipate adoption of a general revenue sharing program.[2]

In February 1971 the Council of State Governments published a projection of Federal aid expenditures to 1975, suggesting "that Federal aid to state and local governments in 1975 will be $31 billion from existing programs, $8 to $11 billion from new initiatives, $3 billion from revenue sharing, for a total between $42 to $45 billion."[3]

As indicated in Table 2, the $45 billion figure will probably be exceeded in fiscal 1973. Barring major reduction of categorical grants, the total will almost certainly be several billions higher by 1975.

This dollar expansion in grant costs reflects the hundreds of new grant authorizations inaugurated since the mid-1960's, as well as increases in previously

2. William H. Robinson, *Financing State and Local Governments: The Outlook for 1975*, paper delivered at a meeting of the New York Chapter, American Statistical Association, April 1969 and revised August 1969.
3. *1975 Projection of Federal Aid to State and Local Governments by State and by Function*, Council of State Governments, February 1971.

Table 3

Percentage Distribution of Federal Aids to State and Local Governments, by Function Selected Fiscal Years, 1960-1973

Function	1960	1965	1970	1973(a)
Agriculture and rural development	4	5	3	2
Natural resources and environment	2	2	3	4
Commerce and transportation	43	40	21	14
Community development and housing	3	5	11	10
Education and manpower	10	10	18	17
Health	4	7	15	11
Income security	33	29	26	27
General revenue sharing	—	—	—	11
Other	1	2	3	4
Total	100	100	100	100

a. Data for 1973 are estimated.

Source: Office of Management and Budget.

enacted programs. The tendency of Congress, once a program is enacted, is to expand its scope and provide increased authorizations. Moreover, in some programs, including major ones, the increase in cost from year to year is mandated and becomes essentially uncontrollable, in the absence of amendatory action by the Congress.

Changing Composition of the Grant Structure

As recently as fiscal 1961, when Federal aids to state-local governments totaled about \$7¼ billion, highway construction and public assistance grants alone accounted for two-thirds of all grants. However, the increased use of the grant device since the mid-1960's, involving the initiation of major new education, health, community development, and other programs, as well as expansion of many of the already existing grant programs, has brought about significant shifts in the composition of the enlarging categorical grant structure.

This shift is highlighted in Table 3. Whereas in 1960 commerce and transportation grants—primarily for Federal-aid highway programs – accounted for 43 percent of all aid outlays, in 1973 such grants will represent only 14 percent of total aids, despite the fact that, in dollar amounts, they will have doubled over this period.

Similarly, aids listed under the income security category (public assistance and related programs) have increased fourfold since 1960, when they accounted for one-third of all grants; but they will represent only a little more than one-fourth of fiscal 1973 aids. Conversely, community development, education, manpower, and health program grants, combined, represented only 17 percent of total grant outlays in 1960, but are estimated to account for almost 40 percent of a much larger total grant expenditure in 1973.

Table 4 depicts grant outlays by major functional groupings for fiscal 1961, the first year for which such a breakdown appeared in Federal budget documents in this form, and for recent years. Supplemental data are provided in Appendix Table A.2, comparing actual grant outlays by major agency and purpose for fiscal years 1967 and 1972.

Aside from the change in functional composition, three other notable shifts in emphasis have accompanied the recent growth of the Federal grant-in-aid structure. One is the increasing use of what are referred to as "project grants," in lieu of the more traditional "formula grant."

Project grants, a comparatively recent innovation, are designed to meet specified problems or program needs. Such grants are not directly or specifically allocated among state-local units; instead, those governments must initiate an application for Federal funds for a specific project, and the decision on whether the requested funding shall be provided is left to the administering Federal agency. Examples of this type of grant are the urban mass transit capital improvement aids, the Head Start child development program, and various public works programs. In fiscal 1970 use of this type of aid had pro-

Table 4

Federal Aid to State and Local Governments, by Function Selected Fiscal Years, 1961-1973 (Millions)

Function	1961	1965	1971	1973(a)	Percent increase 1965-1973	Percent increase 1971-1973
National defense	$ 12.5	$ 33.3	$ 41.7	$ 50.3	51.0	20.6
International affairs and finance	1.4	4.4	5.4	7.8	77.2	44.4
Agriculture and rural development	398.2	517.6	659.7	1,060.9	104.9	60.8
Natural resources	131.7	298.0	920.4	1,731.7	481.1	88.1
Commerce and transportation	2,668.6	4,397.4	5,299.3	6,016.6	36.8	13.5
Community development and housing	332.1	576.2	2,853.8	4,158.4	621.6	45.7
Education and manpower	747.5	1,074.9	5,721.9	7,537.8	601.2	31.7
Health	295.6	644.6	4,467.0	4,926.3	664.2	10.2
Income security	2,467.9	3,226.9	9,270.3	11,822.0	266.3	27.5
Veterans benefits and services	9.0	8.2	19.0	24.4	197.5	28.4
General government	48.1	122.4	585.5	1,142.7	833.5	95.1
General revenue sharing	—	—	—	7,250.0	—	—
Total(b)	7,112.6	10,903.9	29,844.0	45,728.9	319.3	53.2

a. Data for 1973 are estimated.
b. Detail may not add to totals due to rounding.
Source: Office of Management and Budget. Computations by Tax Foundation.

gressed to the point that project grant outlays amounted to $11.7 billion – or about 48 percent of total Federal aid outlays in that year.[4]

Under the *formula grant* device, used almost exclusively in earlier years, funds are allocated to all eligible state and local jurisdictions on the basis of a formula specified in the authorizing legislation (such as the vocational education, hospital construction, and the Federally impacted area school aid programs). The distribution formulas for such programs may be based upon total population, numbers of low-income residents, fiscal capacity of the recipient governments, tax effort, or a combination of these and other factors. These formulas vary widely from program to program.

A second shift of emphasis involves the basic justification for, or purpose of, a decision to use the grant-in-aid device. Many of the early aid programs were justified on the ground that such assistance was required to stimulate state-local activity or programs to meet problems deemed to be of national importance. A major argument in support of some other programs was that such aids were necessary in order to equalize the income and/or fiscal disparities among the several states.

More recently, however, the emphasis has shifted to the argument that action is required to reduce or correct a "fiscal imbalance" said to exist between the Federal and state-local levels, resulting from a presumed lack of financial resources at the latter levels. This contention, at least in part, provided the rationale for the dramatic recent increase in the number of Federal grant programs, and in Federal assistance outlays. Moreover, it was the basic premise upon which the new general revenue sharing program was enacted.

Finally, recent developments suggest a trend away from the requirement for matching funds imposed upon state-local governments by many of the earlier grant programs (discussed in Section III). The new general revenue sharing program, of course, involves no state-local matching. Assumption by the Federal government of the major costs of the adult public assistance programs (the aged, blind, and disabled), recently voted by the Congress, eliminates another matching arrangement. Further, the President's special revenue sharing proposals, which would consolidate numerous categorical aids into broad-purpose block grants in specified areas (see Section V), would eliminate most matching requirements for the programs involved.

4. "Federal Aid to State and Local Governments," *Special Analyses, Budget of the United States Government,* Fiscal Year 1973, p. 249.

III
Impact on State-Local Governments

The special analysis of aids to state-local governments accompanying the fiscal 1973 Federal budget observes that: "The rapid increase in Federal aid has become an increasingly important factor in the finances of all levels of government."[1] There can be no denying this observation, but it is important to note that the impact is quite different at the Federal level than at the state-local levels.

Aid outlays currently represent almost one-third of total Federal domestic expenditures. They are likely to continue to increase, and to complicate efforts to restrain or control Federal spending increases. At the state and local levels, however, the impact is mainly on the other side of the ledger. Federal grant funds represent additional revenues to those units, available for expenditure on a variety of programs and activities.[2]

While state-local general revenues almost tripled between fiscal years 1960 and 1970 – from \$50½ billion to \$145 billion[3] – Federal aids to those governments over the same period more than quadrupled. Thus, Federal aids continue to provide an increasing share of state-local revenues. Over the 20-year period of calendar 1951 to 1971, the revenues of state-local governments derived from their own sources have increased at an average annual rate of 9 [illegible] percent, while the increase in Federal aids to those governnments has averaged 13.1 percent per year.[4]

Federal grants provided more than 22 percent of state-local total revenues in fiscal year 1971, almost double the share provided in 1960 (see Table 5). In terms of state-local revenues derived from their own sources, Federal aids amounted to almost 27 percent in 1971, up from 16 percent in 1960.

In fiscal 1971, the percentage of state-local revenues provided by Federal aids ranged from highs of 41.3 percent in the District of Columbia, 32.6 percent in Alaska, and 31.9 percent in West Virginia, to lows of 12.0 percent in Wisconsin, 13.2 percent in Indiana, and 13.4 percent in Delaware.[5]

The tremendous increase in the aid totals is also reflected in the fact that, between 1964 and 1971 (the latest year for which data are available) per capita grants for the nation as a whole have risen from \$51.30 to \$141.90; total grants represented 3.6 percent of personal income in 1971, compared to 2.1 percent in 1964. Table 6 provides a state-by-state breakdown of per capita grants and shows the relationship to personal income in each state.

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1. "Federal Aids to State and Local Governments," *Special Analyses, Budget of the United States Government*, Fiscal Year 1973.
2. Matching requirements, of course, do involve commitments of state-local revenues from their own sources.
3. *Governmental Finances in 1962* and *in 1971-72*, U. S. Department of Commerce, Bureau of the Census, p. 18.
4. *Federal Aids . . ., op. cit.*, p. 241.
5. *Governmental Finances in 1970-71, op. cit.*, p.p. 31-33.

Table 5

Relation of Federal Grants to State and Local Revenues Selected Fiscal Years, 1954-1971

Fiscal year	Grants as a percent of: State and local revenue from all sources	State and local revenue from own sources
1954	8.4	11.3
1960	11.3	15.7
1967	17.4	20.7
1969	19.3	23.0
1971	22.1	26.6

Source: U.S. Department of Health, Education, and Welfare. Social Security Bulletin.

Apart from grants, other Federal policies and practices provide assistance to state and local governments. For example, the exemption of interest on state-local bonds reduces interest costs to those governments. The Federal government makes available to state-local units, without cost, significant amounts of surplus property. Also, other Federal expenditures, such as those for defense and space programs, and for salaries paid to Federal workers, contribute to their economic development and growth.

However, while Federal aids in such significant amounts increase the financial resources of state and local governments, they are not without serious drawbacks. The explosive growth in the grant structure, combined with what has been described as a "hardening of the categories," clearly has created immense problems of administration and management at state-local levels. In a February 1971 special message to the Congress supporting adoption of the general revenue sharing concept (since enacted) President Nixon observed:

> "The administrative burdens associated with Federal grants can also be prohibitive. The application process alone can involve volumes of paperwork and delays of many months. There are so many of these programs that they have to be listed in large catalogs and there are so many catalogs that a special catalog of catalogs had to be published."

At about the same time an opponent of general revenue sharing, Representative John W. Byrnes of Wisconsin, urging reform of the categorical grant structure, emphasized these administrative burdens by pointing out that in his state, where about 6 percent of elementary education expenditures are derived from Federal grants, "over 50 percent of the man-hours consumed by our State Department of Education is spent in administering this 6 percent."[6]

There also is no lack of evidence that Federal grants tend to distort state-local budgets and priorities, create difficulties for officials at those levels in exercising control over use of these funds, and result, at least in some instances, in diminishing the role and responsibility of the states. State-local units can also be confronted with serious problems whenever economic or other considerations dictate adoption of a restrictive Federal budgetary policy. Grant moneys which had been anticipated by those governments may be – and indeed have been – cut back in such periods, either by the Congress or the President.

In 1967 the Advisory Commission on Intergovernmental Relations cited evi-

6. Hon. John W. Byrnes, remarks before the National Taxpayers Conference, Arlington, Virginia, March 9, 1971.

Table 6

Federal Grants Per Capita, and in Relation to Personal Income, by State Fiscal Years 1964 and 1971

State	Per capita grants 1964	Per capita grants 1971	Total grants as percent of personal income 1964	Total grants as percent of personal income 1971
U. S. total	$ 51.30	$141.90	2.1	3.6
Alabama	63.15	186.15	3.9	6.5
Alaska	324.94	485.46	11.4	10.6
Arizona	60.36	135.14	2.7	3.8
Arkansas	78.60	165.77	5.0	5.9
California	51.84	172.55	1.7	3.9
Colorado	65.98	165.87	2.6	4.4
Connecticut	48.99	131.97	1.6	2.7
Delaware	47.50	117.93	1.5	2.7
Dist. of Columbia	77.26	623.89	2.3	11.6
Florida	43.67	94.55	2.0	2.6
Georgia	57.77	151.04	3.2	4.5
Hawaii	49.02	164.02	2.0	3.7
Idaho	71.98	143.96	3.6	4.5
Illinois	43.48	111.95	1.5	2.5
Indiana	34.07	82.44	1.4	2.2
Iowa	44.96	106.32	1.9	2.9
Kansas	48.50	117.67	2.1	3.1
Kentucky	69.33	168.65	3.9	5.5
Louisiana	85.64	173.61	4.8	5.7
Maine	61.24	163.89	3.1	5.0
Maryland	37.86	118.19	1.4	2.8
Massachusetts	48.42	146.08	1.7	3.4
Michigan	45.51	117.22	1.8	2.9
Minnesota	50.97	138.77	2.2	3.6
Mississippi	63.37	234.75	4.6	9.1
Missouri	57.29	129.00	2.3	3.5
Montana	104.14	227.01	4.7	6.7
Nebraska	52.53	107.86	2.3	2.9
Nevada	118.53	162.09	3.7	3.5
New Hampshire	55.46	124.12	2.5	3.5
New Jersey	30.65	114.10	1.1	2.5
New Mexico	83.01	239.66	4.2	7.7
New York	37.59	179.84	1.3	3.8
North Carolina	40.14	125.97	2.2	3.9
North Dakota	84.50	181.20	4.2	6.1
Ohio	44.51	94.82	1.8	2.4
Oklahoma	88.29	177.35	4.4	5.4
Oregon	70.36	155.15	2.9	4.2
Pennsylvania	42.26	117.52	1.7	3.0
Rhode Island	64.18	144.76	2.7	3.7
South Carolina	40.04	140.27	2.5	4.8
South Dakota	79.42	173.50	4.1	5.5
Tennessee	58.40	153.57	3.3	5.0
Texas	47.82	122.83	2.3	3.5
Utah	80.48	168.92	3.8	5.3
Vermont	86.27	213.64	4.2	6.2
Virginia	49.00	122.10	2.4	3.4
Washington	61.54	142.64	2.4	3.6
West Virginia	64.04	231.80	3.5	7.7
Wisconsin	35.72	95.01	1.5	2.6
Wyoming	137.96	197.82	5.6	5.6

Source: U.S. Department of Health, Education, and Welfare. **Social Security Bulletin.**

dence from "public officials at all levels" indicating that "the proliferation and excessive categorization of grants has had adverse consequences."[7] The most recent Federal budget analysis of the complex aid structure is quite specific on this score. Sponsors of grant programs, the analysis acknowledges, have "often ignored their impact on the strength and ability of the state and local governments to carry out their own particular responsibilities."[8] Among problems which have accompanied the rapid and uncoordinated growth of the grant structure the analysis cites the following: overlapping programs at state-local levels; program delays and uncertainty caused by unnecessarily detailed and costly application requirements; unnecessary limitations on the authority and responsibilities of governors, mayors, county executives, and city managers; and creation of competitive state and local governmental institutions.

One of the results of the recent growth of the grant structure, and the excessive categorization, is that it has encouraged – if not required – state-local governments to engage increasingly in what is commonly referred to as "grantsmanship." At least 18 states, and an unknown number of cities, have established offices in Washington to help those governments grapple with the maze of Federal aid programs and to reduce chances that they might "miss out" on some available "Federal" dollars. Still others have turned to reliance on private consultants to look after their interests in Washington.

There is a rather generally accepted view that Federal grants-in-aid, whatever their merits, do tend to direct state-local budgets away from what would otherwise be preferred programs, restrict the flexibility of spending decisions at those levels, and limit opportunities to establish priorities based on state-local needs or desires. Every major study of the Federal aid system in recent years, beginning with the report of the Commission on Intergovernmental Relations established by the Congress in 1953 – known as the Kestnbaum Commission – has indicated concern with this problem.

The final report of the Kestnbaum Commission, published in 1955, found that "almost of necessity," Federal grants "induce state and local governments to adopt a pattern of expenditure in which the emphasis is somewhat different from that which would prevail in the absence of grants," even though there may be difficulty in pinpointing the nature and extent of such distortions.[9] A 1963 survey by Professors Deil S. Wright and Richard L. McAnow of the University of Iowa found that a majority of state executives were of the opinion that Federal grant distributions "distort the allocation of state fiscal resources."[10] Several of the reports of the Advisory Commission on Intergovernmental Relations have also examined this problem.

That the distortive effects of Federal grants continues to create serious problems for state-local governments is at-

7. *Fiscal Balance in the American Federal System* (Vol. 1), Advisory Commission on Intergovernmental Relations, October 1967.
8. *Federal Aids . . .*, *op. cit.*, p. 242.
9. Report of the Commission on Intergovernmental Relations, June. 1955.
10. Deil S. Wright and Richard L. McAnow, "American State Administrators" survey, Department of Political Science and Institute of Public Affairs, University of Iowa, January 1965.

tested to by the following statement in President Nixon's February 1971 message to Congress on revenue sharing:

"The major difficulty is that States and localities are not free to spend these funds on their own needs as they see them. The money is spent instead for the things Washington wants and in the way Washington orders. Because the categories for which the money is given are often extremely narrow, it is difficult to adjust spending to local requirements. And because these categories are extremely resistant to change, large sums are often spent on outdated projects. Pressing needs often go unmet, therefore, while countless dollars are wasted on low priority expenditures."

Part of this problem is the result of the requirement in many grant programs that the Federal dollars be matched, on some basis, by state-local funds. These matching requirements are many and varied, ranging from $1 for $1 to the 90 percent Federal, 10 percent state-local, ratio for the interstate highway program.

In 1962 state-local governments were required to put up $3 billion to match $7 billion in Federal grants. In 1966 those governments committed an estimated $5½ billion of their own funds to match the $13 billion of Federal grants distributed. The U.S. Office of Management and Budget currently estimates that over the last four years matching provisions have accounted for 10 percent of general expenditures out of state-local revenue sources. In fiscal 1973 matching requirements will result in an estimated expenditure of $13 to $16 billion of state-local funds.[11]

Speaking of the matching arrangements in his February 1971 message to the Congress on revenue sharing, the President declared: "It guarantees that many Federal errors will be reproduced at the state and local level."

The point is not made to suggest that the matching requirement be eliminated from grant programs. Many observers hold firmly to the view that such aid programs should include Federally imposed requirements, including stipulated state-local matching contributions. The fact is, however, that while matching still involves commitment of substantial state-local resources, there appears to be a trend away from this requirement, as indicated in Section II.

Interestingly, it has not been possible to obtain through state-local sources detailed state-by-state figures on amounts included in their budgets for matching Federal grant funds. In fact, in some states Federal grant funds are not always included in annual budget presentations. In 1968 Robert C. Brown, Executive Vice President of the California Taxpayers Association, reported:

"The cold truth is we do not know how much Federal money is distributed to state and local government in California . . . State and local budgets almost uniformly ignore these vast amounts of money by stating, 'Grants from the Federal government and expenditures therefrom do not appear in the budget total.' This means very large areas of expenditures are completely escaping policy review."[12]

11. *The Role of Equalization in Federal Grants,* Advisory Commission on Intergovernmental Relations, January 1964 and *Federal Aid to State and Local Governments,* Special Analyses, Budget of the United States Government, Fiscal Year 1973.

12. Robert C. Brown, address before National Taxpayers Conference, Washington, D.C., March 1968.

Impact on State-Local Government Structure

Serious concern also has been expressed over the years, by state-local officials and others, about the effect of Federal grants and the accompanying requirements on the structure of state-local governments, on efforts to reorganize those governments, and, on executive and/or legislative responsibilities for policymaking and administration within the states.

In its 1967 study of *Fiscal Balance in the American Federal System,* the Advisory Commission on Intergovernmental Relations included the following observations about these concerns:

"The relationship between state administrative organization and capability and grant-in-aid program responsibilities exercised by the state has become a matter of paramount concern. Grant program requirements and responsibilities have been a two-edged sword in their impact upon state government. On one hand they have served to encourage improvement in a number of administrative practices, including personnel administration, training and professionalization, and to foster more rational agency organization in aided program areas. On the other hand, they have strengthened bureaucratic functionalism; tended to weaken top-level coordination of related programs and activities, and aggravated the already dispersed character of most state government organization. Some grants have bolstered state line agencies to the disadvantage of the governor's position, and have conflicted with attempts to strengthen his role as overall coordinator of state programs.

". . . A 1963 study by the Senate Subcommittee on Intergovernmental Relations reported that by an almost 2 to 1 margin state and local officials responding to a questionnaire—chiefly top management executives — felt that the present system of Federal grants-in-aid caused an imbalance in their programs of governmental services. . . . In a recent study conducted by a University of Iowa team, half of the state line-agency program administrators responding acknowledged that grant-aided agencies were less subject to supervision and control by the governor and legislature than non-aided departments."