

IV

Need for Reform

Some previously cited studies reveal that the number of separate grant programs more than doubled in the four-year period 1962 to 1966. In that same period Federal aid outlays rose from slightly less than \$8 billion to almost \$13 billion. Data presented in the U. S. Office of Management and Budget's latest catalog of domestic assistance programs indicates that the number of programs has again doubled since 1966. However, in this period aid outlays have tripled, from more than \$15 billion in fiscal year 1967 to more than \$45 billion in the current year.

It is not the intent of this analysis to suggest that the grant-in-aid is an inappropriate, or ineffective, mechanism for conducting Federal-state-local fiscal relationships, or to make proposals as to specific grant programs. However, the concerns which have been repeatedly expressed over the dramatic, largely uncoordinated growth of the Federal grant structure, and its impact on the finances and management problems at all levels of government, suggest the need for a new, searching look at the total structure.

A former Federal budget director in 1969 described the problem clearly:

"Each Federal assistance program was well intended and designed to meet a definite need. In the aggregate, however, this multitude of increasingly narrow categorical pro-

grams causes serious difficulties at all levels of government. Their sheer numbers make it almost impossible for anyone to be completely knowledgeable as to their content and availability, thereby producing an information problem. To the extent they overlap, we have a problem of potential waste and inefficiency. To the extent they relate to one another and need to work in concert, we have an ever increasing problem of coordination. To the extent each one carries with it a set of differing rules and regulations, we have confusion, irritation and administrative headaches. The overall result is a tremendous administrative burden on all levels of government; our managers are often preoccupied with paperwork rather than the substance of our assistance programs and the attainment of their objectives."¹

These concerns are not a recent phenomenon. A study of Federal-state relations by the Council of State Governments, prepared for the first Hoover Commission (on government reorganization) concluded in 1948 — when Federal aid outlays totaled only \$1.6 billion — that while grants were a necessary device in our Federal system, "The existing aggregation of grant programs . . . has never been coordinated sufficiently for the device to serve its full purpose in intergovernmental fiscal relations."²

The Kestnbaum Commission in 1955 spoke of possible improvements through

1. Robert P. Mayo, then director of the U. S. Bureau of the Budget, before the Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, September 1969.

2. *Federal-State Relations*, by the Council of State Governments, for the Commission on Organization of the Executive Branch of the Government, July 1948.

"developing more searching tests of the desirability of national participation in activities for which grants are proposed or already being made," and through "discriminating understanding of the possibilities and limitations of the grant."³ And the Advisory Commission on Intergovernmental Relations found that "In terms of manageability at least, the law of diminishing returns applies to the steady proliferation of Federal categorical grants."⁴

Still the proliferation continues, unaccompanied by any serious effort to review and evaluate the objectives and achievements of the structure as a whole, or of the individual programs in any organized manner.

Testimony as to the weaknesses and failures of the grant structure was presented during the recent congressional debates preceding the enactment of the new Federal revenue sharing program. One of the principal arguments advanced by the proponents of revenue sharing involved the shortcomings of the existing categorical grant structure. For example, at one point Senator Wallace Bennett of Utah observed:

"I am sure that far and wide over this country there have been communities and states that, looking at the categorical grants available, decided that rather than not sharing in anything, they would try to develop a program — that they may not have needed — to match the specifications of a particular grant just in order to get the money for something they might not need for 10 or 20 years more."⁵

Senator Abraham A. Ribicoff of Connecticut—a former Secretary of Health,

Education, and Welfare — was even more direct in his criticism, stating:

"Regrettably the Federal categorical grant programs designed to aid state and local governments have failed to alleviate their problems and in some instances have even aggravated them . . . It is time to return some of the money this Nation's citizens send each year to Washington back to their own state and local governments without the usual restrictive conditions attached."⁶

In the light of findings and serious criticisms from such diverse sources it is difficult — particularly in view of the recent explosive growth in the number and costs of these grants — to justify the failure of Congress to undertake a thoroughgoing reevaluation of the entire grant structure, program by program, in order to effect needed reforms, increase program effectiveness, and lessen the administrative and financial burdens which are imposed upon all levels of government.

The Case for Reevaluation

Reevaluation of a structure so vast and complex, encompassing more than 650 separate programs making funds available to state and local governments, would of course require a mass of technical and detailed information, manpower, investigative and other facilities, available only to the Executive Branch and/or the Congress. It would also involve many very difficult decisions and a major legislative effort.

However, an imposing array of information, including countless specific

3. Final Report of the Commission on Intergovernmental Relations, submitted to the President in June 1955.

4. *Fiscal Balance in the American Federal System*, op. cit.

5. *Congressional Record*, August 18, 1972, page S14005.

6. *Congressional Record*, September 5, 1972, page S14109.

examples, may be gleaned from already published reports and documents. There is more than enough to demonstrate the need for such a detailed, top to bottom, examination of the aid structure. Table 7 presents a functional breakdown of 444 programs under which financial or other assistance is provided directly to or through state and local governments; Table 8 covers an additional 209 programs under which assistance is made available to those governments upon application. Appendix Table A.3 provides a breakdown by function of 398 additional domestic assistance programs. Combined, these tabulations cover the 1,051 programs listed in the *Catalog of Domestic Assistance Programs*.

The 88 education programs providing direct cash grants to state-local units

include more than 30 separate programs to aid elementary and secondary schools (including 14 general support programs and at least 12 special programs to aid educationally deprived children). At least 19 higher education programs can be identified (eight providing student aids and 11 for facilities and equipment). Nine programs provide general support for vocational education and eight provide construction and other aids for library development.

In many instances grant programs involve numerous separate subprograms, leading to further confusion and administrative burdens. The piecemeal and confusing nature of these programs was alluded to by President Nixon when he proposed his special education revenue sharing (consolidation) program in

Table 7
Federal Grant Programs Providing Direct Aids to State-Local Units, by Function

Function	Number of programs			
	Cash grants	In kind	Services	Loans/loan guarantees
National defense	10	7	5	—
International affairs and finance	2	—	—	—
Space research and technology	—	—	—	—
Agriculture and rural development	10	1	1	4
Natural resources	18	10	25	1
Commerce and transportation	39	3	15	1
Community development and housing	24	—	1	3
Education	88	3	—	—
Manpower	14	—	1	—
Health	92	—	—	1
Income security	25	2	6	—
Veterans benefits and services	5	—	—	—
General government	5	6	16	—
Total	332	32	70	10

Source: Compiled by Tax Foundation from *Catalog of Federal Domestic Assistance*, Office of Management and Budget, 1972.

Table 8
**Federal Grants Programs Making Aid Available to State-Local Units
 and Others, by Function^a**

Function	Number of programs			
	Cash grants	In kind	Services	Loans/loan guarantees
National defense	2	4	4	—
International affairs and finance	1	—	—	—
Space research and technology	—	—	1	—
Agriculture and rural development	1	2	5	1
Natural resources	16	11	13	—
Commerce and transportation	9	2	16	4
Community development and housing	1	—	1	6
Education	53	2	2	2
Manpower	8	—	2	—
Health	23	—	—	—
Income security	1	—	—	—
Veterans benefits and services	3	—	—	—
General government	5	3	5	—
Total	123	24	49	13

a. Programs in this table do not channel aids directly to or through state-local units, and funds are also made available to nongovernmental entities.
 Source: Compiled by Tax Foundation from *Catalog of Federal Domestic Assistance*, Office of Management and Budget, 1972.

1971, and pointed out that under the present approach "education grants are available to local schools under 38 separate authorizations for 'instruction,' 37 separate authorizations for low-income students, and 22 separate authorizations for reading instruction."⁷

Similarly, Table 7 shows that there are 92 health programs under which cash grants are provided directly to state-local governments. More than 40 of these programs provide assistance for general health and medical services (including planning and technical assistance). Also included are about 30 separate research grant programs and 12 programs concerned with mental health.

Spread through the aid structure, also, are more than 30 separate child nutrition programs, each having its own set of regulations, and involving a variety of funding devices and matching requirements. Some 20 of these programs are administered by the Department of Agriculture; the remainder are divided among the Department of Health, Education, and Welfare; the Office of Economic Opportunity; and the Department of Housing and Urban Development.

Program proliferation, however, is but one facet of the overall problem. Another is the tendency, once a program is established, to extend it indefinitely, expand its scope, increase its

7. Message to the Congress on Education Special Revenue Sharing, April 1971.

funding, and raise the Federal "share" of program or project costs. These actions are taken often without apparent relation to public needs or to other governmental or private efforts.

A case in point is the Hospital Survey and Construction (Hill-Burton) program. Originally established in 1946 with a 5-year, \$375 million authorization, it has been regularly extended and expanded to the point that, by the end of fiscal year 1972, its cumulative outlays totaled \$3.7 billion. (Actions taken with respect to this program since its inception are detailed in Appendix A.4.) Unquestionably, in earlier years this program made a substantial contribution to hospital and health needs. Recent reports, however, have noted an excess of hospital beds in many areas. A General Accounting Office survey of six metropolitan areas found there would be more beds available than needed in these areas, by 1975. Senator Abraham A. Ribicoff recently stated that unneeded hospitals and unused beds were contributing to the spiraling cost of medical care, and criticized government at all levels for failure to coordinate hospital construction.⁸

At least four major programs support construction of water pollution control facilities; several others provide related planning and technical assistance. The fiscal 1973 budget, submitted to Congress in January 1972 included some \$2 billion for these programs. Late last year Congress enacted — over a Presidential veto — legislation (Public Law 92-500) committing \$24 billion more over the next four years for pollution control and abatement. This law ear-

marks \$750 million for reimbursements to state and local governments for sewage treatment plant construction completed between 1956 and 1966. It also raises the Federal share of the cost of pollution abatement facilities, from 55 percent to 75 percent.

Some Specific Examples

The following items, excerpted for the most part from official reports and documents, pinpoint examples of the waste, administrative difficulties, overlapping and duplication, etc., which at least in part must be attributed to the proliferation of Federal assistance programs.

1. A General Accounting Office review of Federal manpower training programs found:

"There has been a proliferation of manpower training programs — establishing new training programs without abolishing the old ones — many of them specifically authorized in legislation and having their own funding source and eligibility requirements. Such a proliferation of specific programs has built in rigidities that frustrate efforts to allocate limited resources. Although each program is supposed to serve a distinct client group, many persons in need of training could qualify under several programs because of the often broad guidelines on eligibility. . . . Although some competition is healthy and desirable, the duplication or overlapping of services and agency responsibilities can become counterproductive. . . . For example, in one large eastern city there were 18 different organizations involved in job development and placement activities."⁹

8. *Washington Post*, December 18, 1972.

9. *Federal Manpower Training Programs—GAO Conclusions and Observations*, report of the Comptroller General of the U. S., February 1972.

2. Government agencies fail to coordinate the administration of competing or duplicative grant programs. On one occasion President Nixon noted:

"The Federal government, working through two different agencies, has been known to fund two different local authorities to build two sewer systems to serve the same neighborhood."

On another he cited the story "of one small city that applied to six different agencies for help in building a sewage treatment plant and received affirmative responses from all six."¹⁰

3. Between fiscal 1966 and 1972 the Congress appropriated about \$126 million in grant funds for projects to demonstrate new or improved methods of controlling water pollution. The General Accounting Office reported, after a review of this program:

"Many grants, however, were awarded for the construction and operation of full-scale conventional waste treatment projects which did not demonstrate new or improved waste treatment processes. . . . [the Environmental Protection Agency] had not established specific criteria or guidelines for determining the extent to which the Federal government should share the cost of constructing, operating, and maintaining full-scale demonstration plants for which only a part of the costs were related to demonstrating new or improved water pollution control methods."¹¹

4. Senator William Proxmire of Wisconsin, Chairman of the Joint Economic Committee, recently released a series of studies prepared for the committee

dealing with Federal housing subsidies. These studies, Proxmire stated, revealed "there are about 13 major and dozens of minor conflicting and overlapping subsidy programs that together constitute a system that is almost too complex to understand and certainly is too complex to manage." He called for reform "to simplify the whole business by decreasing the number and kinds of programs."¹²

5. Earlier Senator Proxmire had released another series of studies analyzing other Federal programs, including aids to higher education. In a statement accompanying the release, he charged that the higher education amendments enacted by the Congress in 1972 were "a painful example of how government can duplicate much better than it can eliminate. The fact is that Congress has made a mess of higher education subsidies by requiring that the new subsidy programs be piled on top of old subsidy programs that are still being fully funded."¹³

6. In another special message President Nixon reported: "In one city, two vocational training centers were built three blocks apart at about the same time and for the same purpose, with money from two different Federal agencies."¹⁴

7. In 1972 Comptroller General Elmer B. Staats submitted to Congress a report of the General Accounting Office (GAO) examination of the coordination of four major programs which, in 1971, provided about \$1.7 billion of aid to approximately 2.3 million students attending colleges, universities, and vo-

10. Special messages to the Congress on Urban Community Development Special Revenue Sharing, March 1971, and on Executive Reorganization, March 1971.

11. *Need to Improve Administration of the Water Pollution Research, Development, and Demonstration Program*, Report of the Comptroller General of the U. S., November 1972.

12. Press release, November 1, 1972.

13. Press release, Joint Economic Committee, August 27, 1972.

14. Message to the Congress on Executive Reorganization, March 1971.

cational schools. The programs are administered by the U. S. Office of Education (OE). As a result of its spot-checks the GAO reported that several institutions "awarded aid to students under the OE programs which require a showing of need without considering whether the students also had obtained or requested loans" under other programs. Thus, the report stated, some students were provided with aid in excess of their indicated financial needs and "incurred large debts that could be difficult to repay."¹⁵

8. Still another GAO report was based on a review of the Health Professions Educational Improvement Program (administered by the National Institutes of Health, Department of Health, Education, and Welfare) designed to help alleviate the current shortages of doctors and dentists. The GAO found that the administering agencies "have not established the annual increases in enrollments needed to eliminate the shortages of health professions in the United States. In fact, there are no specific estimates as to what the desirable supply of health personnel should be." Since 1966 grants totaling almost \$375 million have been made under this program; and the Comprehensive Health Manpower Training Act of 1971 modified and expanded the purposes for which grants could be awarded and greatly increased the amount of money available for the program.¹⁶

9. In 1970 and each year since President Nixon — as did several of his predecessors — submitted to Congress proposals for reform of the Federal im-

pact area school aid program. Originally this program was designed to help a limited number of communities where major Federal installations, such as military bases, existed and where children of families employed and living on such Federal properties and making no contribution to the tax base, constitute a burden to local schools. Mr. Nixon pointed out, however, that this program, over the 20 years of its existence:

"... has been twisted out of shape. No longer is it limited to payments to schools serving children of parents who live on Federal property; 70 percent of the Federal payments to schools are now for children of Federal employees who live off base and pay local property taxes. In addition, the presence of a Federal installation (much sought after by many communities) lifts the entire economy of a district. As a result, additional school aid is poured into relatively wealthy communities . . . (and) nearly twice as much Federal money goes into the nation's wealthiest county through this program as goes into the one hundred poorest counties combined."¹⁷

Almost one-fourth of the 20,000 school districts in the U. S. now receive aid under this program; in effect, it has become a more general aid-to-education program. Yet by no means all who bear the costs receive benefits. (The legislative origin and expansion of the impact area school aid program is traced in Appendix A.5.)

10. Recently Representative Martha W. Griffiths of Michigan, Chairman of the Subcommittee on Fiscal Policy of the Joint Economic Committee, released a staff-prepared *Handbook of Public*

15. *Need for Improved Coordination of Federally Assisted Student Aid Programs in Institutions of Higher Education*, Report of the Comptroller General of the U. S. to the Congress, August 1972.

16. *Program to Increase Graduates from Health Professions Schools and Improve the Quality of Their Education*, Report of the Comptroller General of the U. S. to the Congress, October 1972.

17. President Nixon's message to the Congress on the Federal Economy Act of 1970, February 1970.

Income Transfer Programs documenting confusion and inequities of Federal income maintenance programs. In a statement accompanying its release Mrs. Griffiths stated:

“Twenty-one different congressional committees currently have responsibility for preparing social welfare legislation. Inevitably, some people

are missed by the resulting potpourri and others are covered more than once. There seems to be no set of overall principles, no guiding philosophy, to bind the programs together as a system. So we continue to revise and tinker, adding features and programs that often exacerbate the existing problems. Despite the confusion, Congress has never before attempted to review the programs as a whole.”¹⁸

18. Press release, Joint Economic Committee, Subcommittee on Fiscal Policy, October 16, 1972.

V

Alternative Approaches — And Obstacles — To Reform

A number of references have been made in previous sections to some of the recommendations of the first Hoover Commission, the Advisory Commission on Intergovernmental Relations, the Kestnbaum Commission, and other study groups. While these have represented major contributions to the exploration of possible solutions to the thorny problems of Federal-state-local fiscal relationships, they are by no means the only attempts over the years to search for solutions.

President Dwight D. Eisenhower, in an address at the 1957 Conference of Governors proposed a joint Federal-state examination of "the changing governmental structure of this nation." He suggested creation of a "task force for action" charged with the responsibility to: (1) designate functions which the states would be ready and willing to assume and finance that were currently performed or financed wholly or in part by the Federal government; (2) recommend Federal and state revenue adjustments required to enable the states to assume such functions; and (3) identify functions and responsibilities likely to require future state or Federal attention and recommend the level of state or Federal effort needed to assure effective action.¹

The Joint Federal-State Action Committee established in response to the

Eisenhower proposal submitted a final report in February 1960, containing a number of specific proposals. One of its major recommendations was that the state take full administrative and financial responsibility for the vocational education grant programs and local waste treatment facility construction programs in return for the transfer of 40 percent of the revenues from the Federal tax on local telephone service. President Eisenhower proposed in 1958 that these two grant programs be discontinued effective in fiscal year 1960. This proposal was not acted upon by the Congress. Instead, by prescribing for termination of the tax on local telephone service in 1960, Congress acted to remove it as a source of financing the recommended transfer functions.²

While the joint action committee achieved some modest successes in non-controversial matters, it failed to gain agreement on other major proposals, such as the transfer of the school lunch program to the states, and the shifting to the states of greater responsibility for certain public assistance programs, together with certain revenue sources. In short, the success of this effort was, at best, extremely limited.

In 1961 the Advisory Commission on Intergovernmental Relations issued a report recommending periodic reassess-

1. Address of President Eisenhower at the 1957 Conference of Governors, Williamsburg, Virginia, June 1957.

2. Final Report of the Joint Federal-State Action Committee to the President, February 1960, p.p. 3 and 83.

ment by Congress of Federal grant-in-aid programs.³

In 1968 the Congress enacted the Intergovernmental Cooperation Act designed to (1) make possible improvements in the administration of grant programs, (2) coordinate economic development assistance programs, and (3) establish a procedure for limited periodic reviews of Federal grant programs.⁴

In 1967 Representative Wilbur D. Mills, Chairman of the House Committee on Ways and Means, searching for better ways to control mounting Federal expenditures, introduced legislation proposing establishment of a bipartisan commission drawn from leaders entirely outside of government to (1) evaluate the effectiveness of all Federal programs, (2) determine which programs and activities should be continued, and at what level, and (3) establish the relative priorities which should be assigned to the various programs in the allocation of Federal resources.⁵ Although this proposal was the object of considerable attention at the time, it never received the approval of Congress.

In 1969, in his first year in office, President Nixon proposed legislation designed to improve administration of the rapidly-expanding structure of grant-in-aid programs. Patterned after procedures used for the past 20 years to expedite reorganizations in the Executive Branch, this legislation would have given the President power to initiate and propose consolidation of closely related Federal aid programs, within

carefully defined limits, subject to the veto of either House of Congress within 60 days.⁶ This proposal, too, failed to gain approval of the Congress.

Subsequently, in submitting his fiscal year 1971 and 1972 budget messages to the Congress, the Chief Executive proposed a detailed series of proposals for restructuring, reducing, or terminating outmoded or uneconomic Federal programs. The 1971 proposals, it was estimated, would have resulted in savings of more than \$2 billion on a full-year basis; the 1972 recommendations were estimated to reduce budget outlays by almost \$3 billion. Certain of these proposals were implemented, at least in part, but the actual savings were probably well below the projected totals.

For the past three years there has been in operation a concerted effort to simplify, reduce, consolidate, decentralize, and otherwise modernize the Federal grant structure, set in motion by the President in March 1969 through the Federal Assistance Review Program (FAR).⁷ This program has focused upon efforts to streamline the delivery of services through the coordination and decentralization of grant program administration, standardization of administrative requirements, simplification of funding arrangements, and others. Program reduction or terminations, of course, are largely beyond the scope of this effort.

Dwight A. Ink, Assistant Director of the U. S. Office of Management and Budget, has described some of the results of this effort as "impressive." He

3. *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments*, Advisory Commission on Intergovernmental Relations, June 1961.

4. Public Law 90-577, enacted October 1968.

5. H. R. 10520, 90th Congress, 1st Session.

6. Message to Congress proposing Grant Consolidation Act, April 1969.

7. Established March 27, 1969 by directive of the President.

cites as examples the following: establishment in 1969 of 10 standard Federal regions, since adopted by 75 Federal field organizations; establishment of Regional Councils consisting of the chief regional representatives of the major grant agencies; delegation of grant program decisions to managers in the field; positive achievements in reducing red tape (including reduction of an estimated 10 million man-hours annually in reporting requirements); and steps by some agencies to reduce delays involved in obtaining decisions on project applications and funding. However, Mr. Ink also has observed that "the experience of FAR underscores the difficulty of controlling red tape in areas as complex and everchanging as those for which the grant-in-aid system are designed."⁸

Alternative Approaches

On occasion over the years it has been proposed that there be a reappraisal of governmental functions with a view to which level of government should have responsibility in major functional areas. Also involved, of course, would be a major reallocation of taxing powers and resources. The first Hoover Commission proposed that there be such a reappraisal in 1949 and one of its task forces explored the possibilities.⁹ However, the proposal was never pursued. Such a reappraisal would require a prodigious effort over an extended period; it is probably unrealistic to suggest that such an effort will be undertaken at this point in time.

The President has certain powers which he can exercise to limit numerous programs and program outlays, includ-

ing the power to "impound" or reserve funds appropriated by the Congress, and these powers have been used by various chief executives over the years. President Nixon has impounded funds quite extensively. The practice has come under heavy fire from the Congress, from state-local officials, and other interests affected by these actions. These powers have limitations; impoundment represents, in many instances, a decision simply to defer or "stretch out" expenditures for specified programs or projects, rather than effect program reform in the usual sense.

The question remains: what possible approaches are available to achieve meaningful reform of the grant structure, including consolidation, reduction, and/or termination of outmoded, ineffective, or uneconomic programs? There are several possibilities, most of which have already been mentioned.

One would be a mechanism along the lines proposed by President Nixon in 1969 giving him power to initiate grant consolidation plans, with limited authority to adjust distribution formulas, eligibility requirements and other terms and conditions of existing programs. These consolidations would go into effect automatically unless rejected by either House of Congress within 60 days.

The major advantage of this approach is that it might enhance prospects for achieving some consolidation of similar programs, at least to a greater extent than could be achieved through reliance on the normal legislative process, which would require positive committee and floor action in both Houses. This ap-

8. "Federal Assistance Review (FAR) Program," by Dwight A. Ink, Assistant Director, U. S. Office of Management and Budget, in *Public Management*, November 1972.

9. *Federal-State Relations*, Report of the Commission on Organization of the Executive Branch of the Government, March 1949.

proach has limitations, however, especially with respect to possible reductions or terminations of low priority, ineffective, and outmoded programs.

More recently the President has advanced a series of special revenue sharing proposals, designed to complement the general revenue sharing program, under which large numbers of categorical grants would be converted into block grants in the areas of education, law enforcement and criminal justice, manpower training, and urban community development. The major purposes would be to give state-local governments greater flexibility in the application and use of grant funds, and to relieve those governments of the requirement for matching these funds out of their own revenue sources. These proposals would constitute a first—though limited—step toward reforming the grant structure. The Congress, up to the present, has shown little enthusiasm for this approach.

Another approach which might be worthy of consideration would be the establishment of a special study commission, along the lines proposed by Representative Mills, to review and evaluate all Federal programs and activities with a view to recommending specific priorities. The special value of this approach might lie in the opportunities it would present for informing and educating the public as to program objectives, achievements, and failures or weaknesses. Again, however, whatever recommendations such a study commission might make could be implemented only through affirmative legislative action, as well as the concurrence of the President.

The Chief Executive, of course, always has available the option of proposing specific program reforms, reduc-

tions, terminations, consolidations, or, for that matter, new programs. History suggests, however, that new program proposals, or program expansions, are much more likely to receive favorable and expeditious treatment than proposals to reform or reduce the Federal program structure.

One other possibility recommends itself, namely the adoption of a zero-based budgeting concept, under which every Federal program and activity, in its entirety, would be subjected to evaluation, and justification required, each year. At present, particularly in the Congressional budgetary process, attention is focused primarily on newly proposed programs and appropriation increases.

The zero-based budgeting concept has been advocated by Dr. Arthur F. Burns, a former Counselor to the President and currently Chairman of the Board of Governors of the Federal Reserve System. In a 1969 address he stated:

“Customarily, the officials in charge of an established program have to justify only the increase which they seek above last year’s appropriation. In other words, what they are already spending is usually accepted as necessary, without examination. Substantial savings could undoubtedly be realized if both the Budget Bureau examiners and the Congressional appropriation committees required every agency to make a case for its entire appropriation request each year, just as if its program or programs were entirely new. Such a budgeting procedure may be difficult to achieve, partly because it will add heavily to the burdens of budget-making, and partly also because it will be resisted by those who fear that their pet programs would be jeopardized by a

system that subjects every Federal activity to annual scrutiny of its costs and results. However, this reform is so clearly necessary that I believe we will eventually come to it."¹⁰

Obstacles to Reform

Major obstacles confront efforts to reform the Federal grant structure. First, there are the weaknesses inherent in present budgetary procedures. High-level Office of Management and Budget officials insist that, particularly since the adoption of the unified budget concept, individual programs are reviewed and evaluated annually in their entirety. The program reform, reduction, and termination proposals included in recent budgets undoubtedly reflect these efforts. The OMB, however, can only recommend; its proposals must prove acceptable, first, to the President and, second, to Congress.

The greater difficulty lies with the Congress. Its authorization and appropriation process is extremely fragmented, with no mechanism enabling or requiring the Congress to weigh one spending action against another, or to relate the totality of those actions to an overall outlay ceiling, or to prospective revenues. In short, there is nothing in the present Congressional budgetary process requiring the application of stern program priorities.

Perhaps an even more formidable obstacle, alluded to by Dr. Burns, involves the combination of forces which become natural allies in resistance to proposals to reform or reduce the grant structure. The beneficiaries or "fiscal constituencies" of these programs represent one element of this alliance. Those in the bureaucracy who administer these programs represent Congressional

sponsors, and the committees which recommend the programs initially and have oversight responsibilities over them are also prone to become advocates and protectors.

The Advisory Commission on Intergovernmental Relations, which in 1961 recommended periodic reassessment of all Federal grants, recognized this problem:

"The Commission notes two general obstacles to terminating or redirecting the grants, once they have served their purpose. In the first place, with the initiation of a new grant, vested interests — both governmental and private — in its continuation come into being. Subject matter staffs are created or expanded at national, state and local levels of government for the purpose of administering the grant program. Aside from any instincts of organizational self-preservation which may exist, these staffs, if they are competent and conscientious, acquire a sense of mission with respect to their particular program. Being responsible for a specific program or function they are not especially concerned with general problems of intergovernmental fiscal relations across-the-board. Consequently, their recommendations for change in the grant program are typically in the direction of expansion rather than contraction.

"Furthermore, once a particular grant continues for a few years it becomes an integral part of state and local budgets and constitutes one of the assumed sources of revenue in the process of budgetary planning. With states and localities being always hard-pressed with respect to revenue sources, state and local officials naturally are averse to seeing a particular grant reduced or eliminated with

10. Dr. Arthur F. Burns, address at Tax Foundation's 32nd Annual Dinner, New York, December 2, 1969.

the consequent necessity of diverting state or local funds to continue the function at the existing level. Also, those parts of the private sector of the economy which benefit from the grant program, such as professional organizations, suppliers of material, or the providers of services which are purchased with grant funds, are all interested in continuing the program.... "Secondly, efforts to redirect grant programs toward newer and more urgent problems within a given program area usually result in an *additive* rather than a *substitutive* appropriation . . ."11

One further point is worthy of mention. Decisions as to whether individual programs should be expanded, reduced, terminated, redirected, or reformed

must, to a substantial degree, depend upon an analysis of program performance. Cost-benefit analysis can be one measurement of performance. Another may involve the weighing of objectives achieved against objectives sought. However, with respect to these programs, evaluation of this kind is often made more difficult by reason of the fact that so many grant authorizations do not define goals and objectives in specific terms. It therefore becomes difficult, almost impossible, to measure their success or failure in these terms. More often than not the emphasis is upon the amounts authorized or expended, or the numbers of individuals, agencies, or governmental units receiving Federal aid, rather than on what is being accomplished in relation to needs.

11. *Periodic Congressional Reassessment of Federal Grants-in-Aid to State and Local Governments*, Advisory Commission on Intergovernmental Relations, June 1961.

VI

Summary and Conclusions

The Federal domestic assistance structure consists of a complex network of more than 1,000 programs. Included are more than 650 programs providing aid, primarily through cash grants, to state and local governments and related agencies, institutions and organizations. These programs have been established in piecemeal fashion over the years, often with little or no coordination. They involve a wide variety of regulations, restrictions, and matching requirements, and are administered by scores of different Federal departments and agencies. An arrangement that has 13 major and dozens of minor conflicting and overlapping housing subsidy programs, for example, hardly qualifies as a Federal aid "system."

Over the past decade grant expenditures have increased dramatically. Federal aid outlays rose from \$3.1 billion in fiscal 1955 to almost \$11 billion in 1965. Since 1965 these aids have increased four-fold, and are estimated to exceed \$45 billion in the current fiscal year. In fiscal 1960 grant outlays represented about one-fifth of total Federal domestic expenditures; in the current year they will approach one-third of domestic outlays. While total Federal domestic spending increased a little more than four times over this period, grant outlays increased 6½ times.

There is an impressive body of evidence to show that reevaluation and reform of this complex aid structure is now needed, quite apart from its explo-

sive and largely uncoordinated growth during recent years.

The categorical grant programs have come under increasingly heavy criticism. State-local officials have been among these critics, and even the supporters of expended Federal aids have complained of their weaknesses and failures. Advocates of the recently enacted general revenue sharing program cited these failures as one of their principal arguments.

Federal revenue sharing, in fact, brings a new dimension to the problem. It adds annual outlays of \$5 to \$6 billion on top of the already tremendous aids provided through categorical grant programs. Further, it comes at a time of disturbing deterioration in the state of Federal finances. Unified Federal budget deficits over the past three fiscal years have totaled \$49 billion, with another deficit of \$25 or \$30 billion in prospect in the current fiscal year. Moreover, Federal revenue sharing comes at a time when the financial status of state and local governments is generally quite favorable.

Nevertheless, while existing grants continue to increase in cost, proposals are being advanced for expensive new environmental, transportation, education, child care, and other new aid programs. Given the present state of Federal finances, it becomes obvious that new program initiatives will have to be financed through tax increases,

cutbacks in existing programs, more debt with its inflationary potential, or some combination of these.

Another — and very important — reason suggesting the need for reform of the present aid structure is to be found in the extremely heavy burdens it imposes on state and local governments. They are required to commit substantial amounts of their own revenue resources to match some Federal grants, a requirement that often tends to distort state-local budgets and priorities. Of at least equal concern are the administrative burdens imposed. Federal grant requirements also can be an impediment to efforts to reorganize or strengthen state-local government structures. Finally, the proliferation and complexities of grant programs have required state-local officials to devote increasing attention to the practice of what is now called "grantsmanship"; the fact that so many states and cities have established offices in Washington, or currently employ private consultants, to represent their interests speaks for itself.

Among the hundreds of existing grant programs are unquestionably many which duplicate, overlap, or compete with each other. The examples cited in this study represent only a sampling taken from official sources. To the extent this exists it obviously involves waste. Moreover, many programs have been established, and are regularly extended and expanded, with no specified goals and objectives. Too often programs are measured in terms of the amounts expended or the numbers of individuals or organizational units which receive aid.

On the other hand, there are undoubtedly areas in which use of the grant-in-aid device is clearly justified, and important national objectives can

be served. Among the primary objectives of a reevaluation of the entire aid structure should be the elimination of duplication and waste and ineffective programs, and establishment of meaningful priorities, so as to insure the most effective use of Federal aid funds — which, after all, are not unlimited.

Both the Federal budgetary situation and the legitimate needs of state and local governments could be served by meaningful reform of the Federal aid structure. Among various proposals to effect needed reforms in Federal aid are the following:

1. Give the President power to consolidate grants and make other changes in distribution formulas, etc., with Congress retaining veto power over the suggested plans.
2. Establish a special citizens' study commission to review and evaluate Federal programs with a view to recommending specific priorities.
3. Convert the myriad categorical grant programs into a more manageable group of block grants by Congressional action.
4. Adopt zero-based budgeting, which would require that grant programs, as well as other activities, be subjected to detailed evaluation and justification each year.
5. Apply principles of cost-benefit analysis to weed out grant programs that are not achieving their purposes.

Each of these approaches has advantages and drawbacks but the grant problem has become so serious that every proposed reform should be thoroughly studied in the hope of finding a solution.

For any reevaluation and reform of

the aid structure to be meaningful, however, certain elements are essential.

First, specific goals and objectives should be established for each program.

Second, there must be a procedure for regular evaluation to measure the achievements or failures of each program against those objectives, and to insure that corrective action is taken whenever such action is indicated.

Finally, the Executive and Legislative branches of the Federal govern-

ment must accept equal responsibility for review and justification of every dollar requested, appropriated, and expended for each of the aid programs.

Meeting these conditions obviously would impose burdensome responsibilities. However, an aid structure which involves expenditure of \$45 billion in Federal funds, and perhaps a third as much at the state-local levels, would appear to demand rigorous measures to protect against waste, extravagance, and inefficiency, and to insure the most effective use of these huge sums.

Appendix Tables

Appendix Table A.1
Federal Domestic Assistance Programs by Agency

Department or agency	Number of programs	Percent of total
TOTAL	1,051	100.0
Health, Education, and Welfare	284	27.0
Interior	93	8.8
Agriculture	79	7.5
Housing and Urban Development	71	6.8
Commerce	58	5.5
Labor	47	4.5
Defense	43	4.1
Veterans Administration	39	3.7
Environmental Protection Agency	34	3.2
Justice	33	3.1
Atomic Energy Commission	31	2.9
National Science Foundation	30	2.9
Transportation	25	2.4
National Foundation on the Arts and the Humanities	23	2.2
Small Business Administration	17	1.6
Smithsonian Institution	14	1.3
Appalachian Regional Commission	14	1.3
Civil Service Commission	11	1.0
All other (less than 10 programs each)	105	10.2

Source: Compiled by Tax Foundation from *Catalog of Federal Domestic Assistance*, Office of Management and Budget, 1972.

Appendix Table A.2
Grant Outlays by Agency and Major Purpose
Fiscal Years 1967 and 1972
(Millions)

Agency and purpose	1967	1972
Department of Agriculture:		
Child nutrition programs	\$ 302.1	\$ 987.2
Food stamp program	106.0	1,862.6
Cooperative extension and research programs	149.1	221.7
Other	420.7	537.1
Civil Service Commission	—	2.6
Department of Commerce	65.8	187.3
Corporation for Public Broadcasting	—	35.0
Department of Defense	28.8	49.2
Environmental Protection Agency	—	459.7
Funds Appropriated to the President:		
Office of Economic Opportunity	1,079.1	936.1
Appalachian development	—	213.1
Other	72.4	90.6
Department of Health, Education, and Welfare:		
Vocational education	233.1	501.4
Elementary and secondary school aid	1,242.7	1,882.9
Impact area school aid	416.5	598.7
Higher education assistance	170.8	215.6
Other, education	192.3	499.5
Health programs	306.9	1,244.0
Public assistance	4,347.3	13,090.1
Rehabilitation services and work incentives	259.9	739.6
Other social services	1.4	27.5
Department of Housing and Urban Development:		
Low-rent public housing	245.6	749.1
Model cities program	—	449.5
Urban renewal	370.4	1,222.3
Other housing	92.1	262.8
Department of the Interior	245.4	284.4
Department of Justice	2.6	323.2
Department of Labor:		
Neighborhood Youth Corps	—	490.4
Public employment program	—	558.0
Other manpower training, employment aids	23.8	810.0
Unemployment compensation, Employment Services Administration	535.8	776.5
National Foundation on the Arts and Humanities	8.6	5.4
Tennessee Valley Authority	11.9	25.7
Department of Transportation:		
Federal airport program	64.1	105.5
Highway grants (trust fund)	3,919.6	4,561.5
Other highway programs	62.5	115.9
Urban Mass Transportation Administration	—	205.8
Other	—	2.7
Veterans Administration	9.9	19.2
Miscellaneous	205.9	591.2
Total	15,193.1	35,940.6

Source: Treasury Department.

Appendix Table A.3

**Federal Grant Programs Making Aid Available to Individuals
or Nongovernmental Agencies, by Function**

Function	Number of programs				
	Cash grants	In kind	Services	Loans/loan guarantees	Insurance
National defense	9	12	12	—	—
International affairs and finance	3	—	4	7	1
Space research and technology	—	—	1	—	—
Agriculture and rural development	16	1	10	14	1
Natural resources	2	5	7	2	—
Commerce and transportation	3	5	32	16	4
Community development and housing	6	1	1	33	3
Education	30	7	12	2	—
Manpower	9	1	20	—	2
Health	23	—	4	1	—
Income security	7	1	6	—	2
Veterans benefits and services	12	4	12	6	—
General government	5	1	19	—	1
Total	125	38	140	81	14

Source: Compiled by Tax Foundation from *Catalog of Federal Domestic Assistance*, Office of Management and Budget, 1972.

Appendix Table A.4

Legislative History of The Hill-Burton Hospital Construction Grant Program

Year	Public Law	Legislative action
1946	79-725	Hospital Survey and Construction Act (Hill-Burton Program) Authorized grants (up to 1/3 of project cost) to states to assist in constructing and equipping needed public and voluntary nonprofit general, mental, tuberculosis and chronic disease hospitals and public health centers; \$75 million annually for each of five fiscal years ending June 30, 1951 — \$375 million total.
1949	81-380	Hospital Survey and Construction Amendments of 1949 Authorizations for fiscal years 1950 and 1951 increased to \$150 million annually, and a similar amount authorized for each of the three succeeding fiscal years (\$600 million total). Federal share increased to 2/3 of project cost. Grants made available for research, experiments, and demonstrations for development, effective utilization and coordination of hospital services, facilities and resources.
1953	83-151	Public Law 79-725 extended for two additional years, through fiscal year 1956.
1954	83-482	Medical Facilities Survey and Construction Act of 1954 Authorized grants to assist in surveying and constructing diagnostic or treatment centers, hospitals for the chronically ill and impaired, for rehabilitation facilities, and for nursing homes (\$60 million additional authorized for each of the three fiscal years, ending June 30, 1957).
1956	84-911	Public Law 79-725, as amended, extended for two additional years, through fiscal year 1959.
1958	85-589	Hospital Survey and Construction Act Amendments Provided sponsors who met the standard eligibility and priority qualifications the option of a long-term loan (not to exceed 2/3 of project cost) in lieu of a grant.
1958	85-664	Public Law 79-725, as amended, extended for five additional years, through fiscal year 1964.
1961	87-395	Community Health Services and Facilities Act of 1961 Increased authorization for construction of nonprofit nursing homes from \$10 million to \$20 million annually. Authorized grants to \$10 million annually for improving community health centers.
1964	88-443	Hospital and Medical Facilities Amendments of 1964 Extended hospital and medical facilities survey and construction grant program through June 30, 1969. Authorized grants and loans for new construction, modernization, and replacement of hospitals, long-term care facilities (including nursing homes), public health centers, and rehabilitation facilities over a 5-year period totaling \$1.34 billion; provided for use by states of 2 percent of allotment (up to \$50,000) for administrative expenses.
1968	90-574	Hospital and Medical Facilities Construction and Modernization Assistance Amendments of 1968 Extended program through June 30, 1970; provided authorizations of \$180 million each for fiscal years ending June 30, 1968 and 1969, and authorized \$195 million for fiscal year 1970.
1970	91-296	Medical Facilities Construction and Modernization Amendments of 1970 Authorized over a three-year period (fiscal years 1971-1973) \$1.20 billion in grants for new construction and modernization of hospitals, long-term care facilities, public health centers, out-patient facilities, and rehabilitation facilities. Provided \$500 million in loans and loan guarantees annually for construction and modernization of health facilities. Authorized \$20 million annually for project grants to aid in the construction or modernization of emergency rooms in general hospitals. Increased the portion of a state's allotment which may be used for administrative expenses from two to four percent, or \$100,000 whichever is less. Permitted Federal share to be increased up to 90 percent of project cost for (1) facilities providing service for persons in rural or urban poverty areas, or for (2) projects offering potential for reducing health care costs through shared services, interfacility cooperation or through free-standing outpatient facilities.

Total outlays under Hill-Burton program, through fiscal year 1971:

Federal funds	\$3.7 billion
State-local funds	\$9.1 billion

Source: Compiled by Tax Foundation from public documents.

Appendix Table A.5
Federal Grants for Operation and Maintenance of Schools
in Federally-Affected Areas

Year	Major legislative actions	Entitlements		Outlays (millions)
		School districts	Pupils	
1951	Public Law 81-874, enacted September 30, 1950, provided financial assistance for the maintenance and operation of free public elementary and secondary schools to those local educational agencies upon which the United States has placed financial burdens by reason of the fact that (a) local revenues of such agencies have been reduced as the result of acquisition of real property by the United States, or (b) such agencies provide education for children residing on Federal property, or (c) such agencies provide education for children whose parents are employed on Federal property, or (d) there has been a sudden and substantial increase in school attendance as the result of Federal activities.	1,172	439,008	\$ 13.8
1952		1,753	625,191	35.5
1953		2,212	762,432	65.9
1954	Additional land declared Federal property; eligibility broadened to include children of parents in un- formed services; program extended two years.	2,524	849,415	70.2
1955		2,683	892,106	85.1
1956	Eligibility broadened; program extended one year.	2,825	960,062	85.6
1957	Provisions extended to Guam; program extended one year.	3,321	1,158,757	97.8
1958		3,343	1,198,826	109.3
1959	Provisions extended to include Alaska; entitlements based on children of persons residing and working on Federal property made permanent; program relating to other children extended to June 30, 1961; eligibility extended to include Indian children.	3,757	1,389,796	138.9
1960		3,797	1,490,526	174.9
1961	Program extended to include Hawaii.	3,926	1,595,777	207.7
1962	Program extended to June 30, 1963.	4,005	1,715,680	226.4
1963	Program extended to June 30, 1965.	4,110	1,796,325	276.9
1964		4,052	1,876,691	283.7
1965	Program extended to June 30, 1966.	4,047	1,977,155	311.4
1966	Provided assistance for operation of public elementary and secondary schools in areas affected by a major disaster; established uniform eligibility requirements for school districts.	4,036	1,534,735	383.8
1967	Provided for alternative means of meeting eligibility requirements; provided that children of servicemen shall be deemed to reside with a parent employed on Federal property; program extended to June 30, 1967.	4,048	2,345,523	411.2
1968		4,236	2,674,191	486.4
1969		4,344	2,632,689	505.9
1970	Program extended through June 30, 1973; certain refugee children and children residing in low-rent public housing designated as Federally-connected children.	4,659	2,588,789	507.9
1971		4,824	2,450,603	536.1
1972		4,789	2,360,934	592.6

Public Law 81-874 expenditure total from inception to June 30, 1972 — \$5.6 billion.

Source: Compiled by Tax Foundation from public documents.