OVERHAULING THE FEDERAL AID SYSTEM: REDESIGNING GENERAL REVENUE SHARING AND COUNTERCYCLICAL AID PROGRAMS
ROBERT P. STRAUSS

I. INTRODUCTION

As is well known, Federal grants-in-aid have grown steadily in importance in terms of the Federal budget (from 5 percent in 1951 to 15 percent in 1976 of Federal expenditures on an NIA basis) and in terms of overall GNP (from 1/4 percent in 1951 to 4.5 percent of GNP in 1976). The period of most rapid absolute and relative growth occurred in the late 1960's and thereafter. A related part of this expansion of Federal grants-in-aid has been the provision of relatively unrestricted aid. In part, general revenue sharing, as it is usually called, has been a response to the complexities of regulations, duplication, and red tape that accompanied the growth in Federal aid. Promised as both new money and simplification, recipients still continue to view it as a desirable form of Federal assistance. It currently amounts to 11 percent of all Federal grants-in-aid; block grants (including revenue sharing) constitute over 25 percent of Federal grants-in-aid.

Because the renewal of revenue sharing is partially complete as a result of House action on June 11, 1976, it is of interest to see where it is, and what the final legislation may contain in terms of changes from the original 1972 legislation. Not only is revenue sharing the largest Federal grant-in-aid program, but it is viewed as a major source of innovation in our Federal system. Provisions of this legislation have filtered into other Federal programs as well as into some State aid programs.

I want, therefore, to devote my remarks to a discussion of H.R. 13367 as passed by the House of Representatives, the likely form a final revenue sharing bill might take, a discussion of the related development of "countercyclical" or anti-recession revenue sharing, and, by way of conclusion, some overall discussion of the implications of these trends for our three-tier Federal system. Also, I will include a discussion of certain alternatives which were considered but not provided in the final House legislation.

II. THE HOUSE REVENUE SHARING RENEWAL BILL: H.R. 13367

A. Description

The final House bill contains six major provisions: (1) the elimination of the 8 high priority expenditure categories and the prohibition on matching other Federal aid programs with revenue sharing funds; (2) the extension of the legislation for 3 years at a $6.65 billion annual rate on an entitlement basis; (3) the provision of additional eligibility requirements as of October 1, 1977; (4) additional public hearing and publication requirements; (5) a new civil rights section which provides certain procedures under which the Treasury must enforce nondiscrimination and timetables for compliance on the part of recipients; and (6) a new requirement that recipients perform independent audits.

The elimination of the expenditure categories and matching prohibition are essentially just that, and require no further description; however, the other provisions deserve further comment.

The basic extension is noteworthy in that it provides for no growth in the dollar amount available; current law had increased the aggregate amount available by $160 million/year so that it reached a $6.65 billion annual rate in the last six months of the current law, i.e., July 1, 1976–December 31, 1976. The extension freezes for 34

*Responsibility for the views and errors in this paper rests with the author.
years this $6.65 billion amount. More important, however, is that the payments will continue to be made without an application and thus be quite certain as in the past. In order to achieve this in light of the Congressional Budget and Impoundment Control Act of 1974, "entitlement" payments are made within the meaning of sec. 404(b) of the Budget Act. This is the first time since the Budget Act was passed that a significant program has made use of the entitlement concept. I might note here that the manner of funding stirred considerable controversy in 1972, and was the focal point of considerable controversy again in 1976. However, despite the expressed concerns of the Chairmen of the House Budget and Appropriations Committees, this certain method of funding was provided.

While restrictions on use of funds were diminished, the proposed eligibility requirements make it more difficult to receive revenue sharing payments after October 1, 1977. Current law requires that a recipient government be a city, township, or county, an Indian tribe, or an Alaskan native village as defined by the Bureau of the Census. The proposed requirements in effect add that such a unit of local government must spend some amount of funds in a specified category (police protection, courts and corrections, fire protection, health services, social services for the poor or aged, public recreation, public libraries, zoning or land use planning, sewerage disposal or water supply, solid waste disposal, pollution abatement, road or street construction and maintenance, mass transportation, and education).

While intended to improve citizen participation in the budgeting process, the proposed public hearing, notification and reporting requirements are rather complex. The current proposed and actual use reports are retained and expanded to show the relationship of the proposed and actual uses of revenue sharing funds to the entire budget, and to the budgets of the previous two entitlement periods. Across organization are also to receive these reports. In addition, the actual use report must explain how the actual uses differ from the proposed uses and be available to the public.

The public hearing requirements are several. Seven or more days prior to the submission of the proposed use report to the Treasury Department, recipients must have a preliminary hearing on possible uses of revenue sharing. Seven or more days before the adoption of the actual budget, a second hearing must be held. Thirty days before this second hearing, a recipient must publish in a newspaper the proposed use reports and the budget, and the time and place of the second hearing. Thirty days after the adoption of the budget, a recipient must publish a narrative summary describing changes in the budget from proposed uses and make it generally available to the public. Finally, the actual use report must be sent to the Treasury.

The civil rights provisions are also quite complex. Essentially, a general prohibition against discrimination is provided and applies to all programs in the recipient's budget; discrimination on the basis of age, religion, and handicapped status are additional forms of discrimination which are prohibited. Also, discrimination is now defined in accordance with titles II, III, IV, VI, and VII of the 1964 Civil Rights Act, title VII of the 1968 Rights Act and title IX of the Educational Amendments of 1972, with respect to discrimination on the basis of race, color, religion, sex or national origin. Current law references only Title VI of the 1964 Civil Rights Act.

Second, an exception to this general prohibition is provided where a recipient can prove by clear and convincing evidence that the program on which discrimination is alleged to take place was not funded in whole or in part, directly or indirectly, with revenue sharing funds.

The third part of the civil rights provision is a series of procedures the Treasury must follow in administering the general prohibition. Without detailing these provisions here, of interest is that: (1) a finding of discrimination by an agency other than the Treasury Department or the Justice Department can trigger the notification-compliance process which may culminate in a suspension or termination of revenue sharing funds; (2) a civil action may be brought directly against a recipient by a citizen only after exhaustion of administrative remedies which is taken to mean a 60-day period. Thus, the passage of certain amounts of time and the concomitant absence of a resolution of an allegation of discrimination (e.g., a finding of nondiscrimination), result in the suspension of further revenue sharing payments; (3) the Attorney General has essentially concurrent authority with the Secretary of the Treasury in administering the civil rights provisions. This last aspect of the provisions is the most notable.

The auditing provision requires that recipients conduct independent financial audits in accordance with generally accepted audit standards.

B. Discussion

I would like to turn now to a discussion of these provisions in terms primarily of their relation to problems in current law as identified by the committee that developed the legislation.

Overall, I think it is fair to characterize the final House legislation as being supportive of the concept of revenue sharing and quite realistic about the problems of fungibility. That is, without a local maintenance of effort requirement, it is virtually impossible to know how the revenue sharing funds were spent. In fact, there seemed to be general agreement that one could not now know from one budget "how" revenue sharing funds have been used, that was in effect endemic to the general revenue sharing approach and that one might be able to make some judgments about how much of the general revenue sharing approach and that one might be able to make some judgments about how such funds were used only by examining entire budgets over time.

As a result of this view on fungibility, it was thought essential to strengthen certain local control mechanisms to ensure that funds would be spent according to local preferences, without discrimination, and in accordance with general accounting principles. The more stringent public hearing and reporting requirements, civil rights structures and accounting requirements reflect this. These areas were also strengthened because revenue sharing as administered by the Treasury Department had been faulted for not encouraging local participation and for lax civil rights enforcement.

I think it is fair to point out with respect to citizen participation in State and local government that interest in the budget process has been generally low. Also, in many states open public budget hearings at the local level are not mandated by state law. That participation and general interest in revenue sharing diminished after the first year of the program can therefore come as no surprise to observers of State and local government. It should also be pointed out that media coverage of the local budget process has generally been minimal, although local newspapers do publish the planned and actual uses reports.

The public hearing requirements should improve the general level of citizen participation; however, by requiring two hearings and allowing the Secretary of the Treasury broad waiver authority, the proposal may both go too far and not far enough. There is a possible problem of applying this requirement at the state level, for there are usually two (House and Senate) committees that act on the proposed budget rather than the one body contemplated by the House.

There are three basic ways that suspension of a recipient's revenue sharing payments can occur under the bill: (1) if, after notification of an allegation of discrimination and the passage of 90 days, the recipient does not sign a voluntary compliance agreement, and an administrative judge does not rule that the recipient would prevail in a subsequent compliance hearing, suspension may occur; (2) if in the above mentioned 90-day period, a locality directly requests a compliance hearing and is found in noncompliance, termination may occur; (3) if the Attorney General finds that a civil action is pending in which the Attorney General's action prays for suspension or termination of payment, and the recipient asks for but does not get preliminary relief within 45 days of initiation of the action, suspension by the Secretary can occur. Also, if in such an action, the recipient does not seek preliminary relief and the matter is not resolved before the court in the 45-day period, suspension can occur.

Payments will be suspended if: (1) a recipient enters into a compliance agreement with the Secretary after the 90-days period; (2) the recipient complies with a Federal or state court order to end the alleged discrimination; (3) the Secretary finds, 120 days after the passage of the initial 90-day period, that compliance has been achieved; (4) after a compliance hearing, the recipient is found in noncompliance by the Secretary, the recipient may appeal the finding to a Federal court which can rule in favor of the recipient.
bill. Also, by keying the various reports to the settlement period, which will be the new Federal fiscal year (October 1 to September 30 of the following year), the reports may not be as useful to the public as they might otherwise be.

Once fungibility is acknowledged, then the expenditure categories and matching prohibition are essentially unenforceable. It was with this in mind that these requirements were eliminated. The basic form of the civil rights provision also is shaped by the fungibility issue. Note that these provisions do not apply in cases where the recipient can demonstrate that the program or activity was not funded by revenue sharing. This represents an isolation of revenue sharing in the budget from own-source-funded programs. Because of fungibility, there was the possibility that Federal civil rights legislation would apply to all items in the budget. Of interest will be the extent to which recipients can demonstrate that certain civil rights provisions do not apply.

In terms of administration of existing civil rights provisions, it is apparent that Treasury has a substantial backlog of civil rights complaints, and that the response time from date of filing to actual action is prolonged. On the other hand, the internal civil rights compliance staff is quite small, and requests for additional personnel have not been met. A related issue is whether civil rights under general revenue sharing are being violated in a manner other or different than under other Federal grants-in-aid. Since the recipients of revenue sharing are generally the same as those of other Federal programs, it seems reasonable to suppose that the extent of discrimination is about the same, and the extent of any relief or diminution of these violations is about the same as in other programs. I say this not, of course, to excuse discrimination, but rather to point out that it would appear unlikely that recipients are discriminating more with revenue sharing than they have in the past with their own or other Federal funds.

Perhaps the least noticed but potentially most significant new requirement in the House bill is that independent and complete audits be performed by each recipient. As I noted some time ago, the Treasury imposed through their regulatory authority a rather modest set of audit requirements; this new requirement is far more stringent. It has not been possible to ascertain how many states and local governments do not currently have independent audits of their accounts payable. There are several states which have biennial budget cycles and from which such annual audits might be burdensome. It is generally thought that many of the smaller localities have relatively simple accounting systems and probably do not have independent certified public account signoffs each year. Also, there may be large localities which are not audited annually as well; the District of Columbia has recently been required for not keeping a coherent set of books. Yet, we know from the experience of New York City, having an independent comptroller and audit procedure does not ensure that budgets will be accurately, realistically, and informatively kept. Presumably, the purpose of such Federal audit requirements is to force states and localities to manage their funds in a businesslike fashion as well as to ensure that funds are honestly dispensed. However, because such funds can be costly and cause considerable dislocation until certification can be achieved, the requirement may be resisted.

C. Other Areas of Consideration.

The final House legislation described did not include three provisions which were recommended by the full Government Operations Committee: changes in the inter and intra state formulae, required modernization plans, and the application of the Davis-Bacon Act to all capital projects funded in whole or in part by revenue sharing. At this point I will, therefore, digress to discuss the options considered in these three areas.

1. Formula Issues—In examining the formula, three considerations at various times can be now said to have been made: a desire to direct funds increasingly to "needy" local governments; a desire to "hold harmless" any recipients which would be disadvantaged by a change in the formula; and a desire to hold constant the overall size of the program at the $6.65 billion rate of the last six months of current law. Clearly, it is not possible to simultaneously achieve all three goals, for to make certain recipients better off is to make the rest worse off when the amount of funds for distribution is fixed through time. Moreover, with such a fixed amount, there can be no hold-harmless funding available.

While the outcome was to leave the current formulas intact, a rather wide variety of options was considered. First, the Administration proposal to raise the upper limitation on allocations was examined, and rejected because it did not systematically aid older, central cities, and had the disadvantage of allowing the so-called industrial enclaves an advantage for lower rate of local taxation. Moreover, the ceiling was found to impact primarily small places with aberrant tax effort values. Of the 1,155 units at the 145 percent ceiling, 841 had populations under 3,000; 1,018 had populations under 10,000, and 1,117 have populations under 50,000. Only 5 of the nations 25 largest cities gained and 17 lost from the higher ceiling.

Second, the relationship between certain lower limitations allocations was examined. Under current law, localities may not receive more than 50 percent of the sum of their taxes and transfers nor less than 20 percent of the average statewide per capita grant. Various lower percentages were examined. Finally, the sequence of application of the tax rates was examined. Of all the permutations of formula changes which were considered, the only lowering of the tax rate threshold figure to countries actually were the more uniform rates lower than losers, and a rather sensible pattern of allocations was achieved.

11 Under current law, no locality may receive more than 20 times the average per capita local grant for the state overall.

Under current law, no locality may receive more than 2.5 times the average per capita local grant for the state overall.


13 See, for example, General Accounting Office (1970), and Subcommittee on Civil and Constitutional Rights of the Committee on the Judiciary (1975).

14 Under current law, no locality may receive more than 2.5 times the average per capita local grant for the state overall.
formula considered), 33,231 of the 39,000 plus jurisdictions were worse off and only 2,584 (many of whom were the industrial enclaves) were better off when compared to the current formula at the same funding level, and 28 of 51 states (many were the larger, industrial states) were worse off. In any event, the Government Operations Committee favorably recommended this formula change to the House although without the comparative data just noted. In the final analysis, however, this formula change was deleted.

Perhaps the most persistent criticism of the in-state allocation formula has been that it fails to provide sufficient funds to "needy" communities. It is sometimes difficult to ascertain what "needy" means. The most common benchmark used by critics is the differential presence of poor families. In this view, a concentration of poor families is prima facie evidence of a greater "need" for revenue sharing. On the other hand, it may also be that the local government (the object of the program) is in sound fiscal health and does not have jurisdiction over welfare and health programs which are devoted toward the poor. There is the additional question of how redistributive such a general (as compared to a categorical) program of fiscal assistance should be. While the program is usually thought to be somewhat equalizing, as a result of the inverse per capita income factor in the in-state formula, it is held by some to be sufficient for the purposes of a program of general assistance which goes to all units of government.

In many respects, the issue of how redistributive revenue sharing should be cannot be resolved, either because data on certain factors (e.g., differential service costs) is unavailable, or because the matter is primarily a judgemental one. Of related interest is to compare how revenue sharing impacts jurisdictions vis-à-vis other major grant-in-aid programs.

To make such comparisons, I have taken the ratio of Entitlement Period 6 allocations to the individual incomes taxes needed to finance nationally the program for several city-county governments. Two such ratios are computed: the first assumes financing as a surcharge to Federal liabilities, the second assumes financing via a simple flat tax on AGI. When the ratio is greater than

one, the area is a "winner"—that is, it gets more in revenue sharing than it implicitly pays to finance the program. When it is less than one, the area is a "loser"—it pays in more than it gets back. Analogous ratios have been computed for 19 other Federal aid programs under the same financing assumptions.

Several caveats to this net fiscal incidence analysis should be stressed: the data refer to the fiscal year and not just cities. Another limitation is that the Federal data refer to 1972, and are preliminary. Finally, the other 19 Federal program data is based on the OEO 1972 Federal outlay surveys which in turn have certain limitations.

With these limitations in mind, let us look at the results of this analysis (Table 1). Under either financing assumption, 4 of 6 are not fiscal "winners" under revenue sharing. For example, Philadelphia receives 9 percent more than it "pays in" on a surcharge basis and 1 percent more a percent of liability basis. Viewed in isolation for these few observations, revenue sharing is redistributive, if we take that to mean that bigger cities should get more than they implicitly pay in through Federal individual income taxes.

When we compare revenue sharing to other Federal programs, the comparison for these few observations is less favorable, although there is a fair amount of variation.

Modernization Report—A second, less controversial proposal was to require the states to file plans for modernizing state and local government and the progress through time in achieving it. However, since modernization is an illusive concept to operationalize, and there was little sentiment for making the reports meaningful, e.g., defer funds to those who failed to provide or achieve stated plans for modernization, it became apparent that the resultant paperwork might not be justified.

Broadening Davis-Bacon Requirements—Current law requires that the Davis-Bacon Act be applied to contracts funded by 25 percent or more with revenue sharing funds. At one point in the development of the legislation, it was thought that eliminating the percentage test might help improve the construction industry. On the other hand, such a requirement might materially reduce the ability to smal-

---

Table 1

<table>
<thead>
<tr>
<th>City/County</th>
<th>Incidence Index</th>
<th>Payments/Net Fiscal Incidence of Grant-in-Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>PHILADELPHIA</td>
<td>1.68</td>
<td>2.00</td>
</tr>
<tr>
<td>WASHINGTON D.C.</td>
<td>1.64</td>
<td>2.00</td>
</tr>
<tr>
<td>ST. LOUIS</td>
<td>1.76</td>
<td>2.00</td>
</tr>
</tbody>
</table>


---
lor jurisdictions to engage in capital construction projects. After some consideration, the 26 percent test was left in place.

D. Possible Parameters of Final Bill—

In certain respects, the major philosophical battles over the renewal of general revenue sharing have been completed. The provision of entitlement funding for 3 and 3/4 years in the House bill could well remain. Recognition of fungibility and various procedural requirements as well as expanded civil rights guarantees could well be parts of a final renewal bill; however, it is likely that some of the details of the House bill may be altered (e.g., the public hearing, reporting, and civil rights provisions) to make them both more workable vis-à-vis the diversity of state and local government and more effective in terms of achieving overall goals.

Whether or not the program will be continued for another 3-year period and at a fixed or growing dollar figure is difficult to predict. However, it would appear at this juncture that the formula of current law, which was examined rather carefully in the House, will not be changed in a significant fashion. Nor only do apparently small modifications affect many jurisdictions, they generally do so in surprising and unintended ways.

III. ANTI-RECESSION OR COUNTERCYCLICAL REVENUE SHARING

A. General

While the Congress has been considering general revenue sharing, there has been a parallel consideration of anti-recession or countercyclical revenue sharing as part of a package of fiscal stimulus. The justification for such grants is based on the following: In periods of declining GNP, state governments, and to some extent, local governments find revenues either dropping off or not growing adequately to meet expenditures needs. As a result, the state-local sector tends to raise tax rates and/or cut expenditures to balance their budgets at the same time the Federal government is doing the reverse to stimulate aggregate demand. Overall, public fiscal policy tends to be more neutral than countercyclical in nature, and has led to the suggestion that periodic Federal grants be made which would be based on the business cycle.

In this section, I will like to discuss alternative approaches to providing such assistance. I should note parenthetically that all of them make anti-recession payments, but none obtains repayments or tax collections in periods of excessive economic growth.

B. Unemployment Triggered Assistance

The two versions of countercyclical revenue sharing that have received active consideration rely on unemployment rate levels to indicate whether or not such assistance should be provided. In particular, funds become available for distribution to state and local government when the national unemployment rate exceeds 6 percent for two consecutive quarters. The amount available per quarter for allocation is $125 million plus $22.5 million times each one-half percentage point of unemployment in excess of 6 percent. The first version of the countercyclical formula then allocates funds to state and local government if their unemployment rates exceed certain base period unemployment rates observed over 1965-69; one-third of the initial national amount would be available for state governments and two-thirds of the initial amount would be available for local governments. In both instances allocation for eligible units (e.g., those with unemployment rates in excess of the base period) would be based on the excess unemployment rate weighted by nonpayroll taxes.

The second version of the countercyclical revenue sharing formula would follow the one-third, two-thirds division of available funds; however, allocation to each state area would be based on the excess unemployment rate (but using a fixed 4.5 percent base point) times the general revenue sharing allocation. Essentially, the general revenue sharing allocation replaces taxes in the formulas.

There are, however, several practical and conceptual difficulties with both of these. Perhaps the most difficult issue to resolve is whether one is seeking to achieve fiscal

14 See Stanley (1976) for a further discussion of countercyclical revenue sharing.
coordination with such a program of assistance (and, therefore, eliminate the fiscal
consequences noted earlier), or one is seeking to provide a form of job creation assistance
in those areas worst hit by a recession. This is not to suggest that the two goals are
contradictory, but rather that emphasis on ensuring fiscal coordination may result in
something other than an unemployment
rate triggered program.

A second conceptual issue involves the
pattern of lags in the economy. Generally,
unemployment developments in the labor market
will decline in production (and thus
decline in source income conditioned tax rev-
euveness such as sales and individual income
taxes). Providing aid based on labor market
conditions may result in making payments
quite late in the recession and well into the
recovery. More desirable might be assis-
tance which occurred early in the recession
so that it would be more countercyclical.

There are several practical considera-
tions beyond these general matters. The
most difficult aspect of an unemployment
based formula is that there is very little
unemployment data by jurisdiction, and
that data available is subject to rather large
sampling error. Unofficial BLS guess
estimates put the standard error of estimates
at 20 percent or higher. While there are
such data for only 1,200 potential recipi-
ents, these are the major population and
economic centers. However, I must confess
some unease at the prospect of allocating
over a billion dollars on the basis of data
which will not stand up under scrutiny.
There has been some rather extensive li-
mentation over similar data used to administer
the Comprehensive Employment Training
Act.

C. Assistance Triggered by Declines in
Real Wages

An alternative approach to the un-
employment rate trigger is to compensate
state areas directly for taxes foregone due
to a recession in that state. Under this
approach, there is no national trigger, but
rather state specific triggers based on
whether or not private real wages in each
state have declined for two consecutive
quarters. By looking at private wages
(rather than GNP) at the state level, one
isolates activity which contributes to tax
collections from various Federal transfers
(e.g., welfare payments) and built-in
stabilizers. In a sense, a decline in real
wages by state is a definition of a recession
and a primary indicator that there will be a
fiscal coordination problem.

Allocations could be equal to the tax ef-
fort of the state area multiplied times the
decline in real wages; this is in effect the
amount of taxes foregone as a result of the
recession. Diagram 1 displays the pattern of
timing of this type program of assistance.
The entry of a "1" means real wages have
declined in that quarter compared to the
previous quarter; back-to-back "1"s means
a payment would be triggered. Especially
interesting is the variation among states in
the pattern of the 1949, 1954, 1967-8, 1960,
1970, and 1974-5 recessions. For the in-
dustrial states, the recessions were
generally earlier, and lasted longer. Table 2
indicates the quarterly and annual total costs
of such a program over the period 1960-1975.
Of interest is that the costs would have
exceeded $1 billion/year in 1974 and 1975.
In 1975, the costs would have exceeded $6 bil-
on a year.

While the state-level trigger has certain
attractions in that it better reflects the
timing of a recession and its location, it has
havent disadvantages. For example, there
may be circumstances when a state will in
aggregate be economically healthy, but
have certain depressed or declining areas,
(e.g., the State of Maryland and the City of
Baltimore). Also, with 51 separate "tri-
ergas," there is less predictability in
required Federal payments and thus an
increase in the uncontrollability of the
program vis-a-vis one based on a single na-
tional trigger.

With respect to the allocation of funds
within each state area, there are several
possible allocation formulas. For example,
one could use the current intrastate rev-
ue sharing formula, although it is
primarily a general fiscal assistance formula
rather than one aimed at achieving fiscal
coordination. Variants of the unemploy-
ment rate approaches discussed earlier
might be used, although the inavailability
and unreliability of data would seem to be
an intractable problem. Most desirable, of
course, would be to allocate intrastate on
the same basis as inter-state—that is, on
the basis of foregone tax revenues. Unfor-
### Table 2

Total U.S. Allocations under Countercyclical Revenue Sharing Formula Based on Decline in Private Real Wages* ($ millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Total Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>88.9</td>
<td>0.0</td>
<td>0.0</td>
<td>138.5</td>
<td>225.4</td>
</tr>
<tr>
<td>1961</td>
<td>359.9</td>
<td>359.3</td>
<td>2.1</td>
<td>762.4</td>
<td></td>
</tr>
<tr>
<td>1962</td>
<td>0.6</td>
<td>0.0</td>
<td>0.0</td>
<td>1.4</td>
<td>18.8</td>
</tr>
<tr>
<td>1963</td>
<td>29.8</td>
<td>2.2</td>
<td>3.7</td>
<td>10.7</td>
<td></td>
</tr>
<tr>
<td>1964</td>
<td>2.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>1965</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>1.3</td>
<td>1.8</td>
<td>3.1</td>
<td>3.0</td>
<td></td>
</tr>
<tr>
<td>1967</td>
<td>7.9</td>
<td>1.0</td>
<td>0.0</td>
<td>23.0</td>
<td></td>
</tr>
<tr>
<td>1968</td>
<td>9.8</td>
<td>0.0</td>
<td>0.0</td>
<td>9.7</td>
<td></td>
</tr>
<tr>
<td>1969</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>4.9</td>
<td>78.7</td>
<td>494.0</td>
<td>289.4</td>
<td></td>
</tr>
<tr>
<td>1971</td>
<td>633.0</td>
<td>27.1</td>
<td>6.9</td>
<td>146.9</td>
<td></td>
</tr>
<tr>
<td>1972</td>
<td>98.3</td>
<td>0.0</td>
<td>2.4</td>
<td>0.0</td>
<td></td>
</tr>
<tr>
<td>1973</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td>1974</td>
<td>125.0</td>
<td>211.9</td>
<td>872.5</td>
<td>558</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>1486.3</td>
<td>2772.3</td>
<td>1447.6</td>
<td>335.7</td>
<td>6041.9</td>
</tr>
</tbody>
</table>

**Note:** Quarterly totals reflect the sum across 50 States and the District of Columbia of tax effort times the decline in real wages per State. Tax effort is as measured by the Census Bureau in annual numbers of Governmental Finances; real private wages refer to private wages by State deflated by the Consumer Price Index. Table entries reflect data lags. Unfortunately, data by jurisdiction on wages is not frequently available.

Another approach to the intra-state allocation of funds would be to make such payments proportional to the net taxes of state government and adjusted taxes of local government. (See tables 3 and 4.) In this view the fiscal coordination problem is dealt with quite neutrally. To make the intra-state allocation more redistributive, one could adjust the formula for tax effort and inverse per capita income on the grounds that localities sacrificing a larger percentage of income have a more serious fiscal coordination problem as do those with lower per capita incomes, e.g., abilities to pay.

### Table 3

1975 Countercyclical Grant Under ($ Millions) Decline in Real Wage Formula

<table>
<thead>
<tr>
<th>State</th>
<th>Total 1/ Local Taxes</th>
<th>Total State 2/ Total Taxes</th>
<th>Total 1975 Countercyclical Grant 3/ Total Taxes</th>
<th>Grant as Percent of Total Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>259.047</td>
<td>1017.4</td>
<td>1276.447</td>
<td>63,928</td>
</tr>
<tr>
<td>Alaska</td>
<td>59,068</td>
<td>205.9</td>
<td>255,468</td>
<td>0</td>
</tr>
<tr>
<td>Arizona</td>
<td>217,369</td>
<td>1253.6</td>
<td>1470,989</td>
<td>90,883</td>
</tr>
<tr>
<td>Arkansas</td>
<td>64,665</td>
<td>605.4</td>
<td>670,065</td>
<td>42,669</td>
</tr>
<tr>
<td>California</td>
<td>4047,337</td>
<td>7971.7</td>
<td>12019,037</td>
<td>641,271</td>
</tr>
<tr>
<td>Colorado</td>
<td>305,983</td>
<td>797.6</td>
<td>1103,583</td>
<td>68,138</td>
</tr>
<tr>
<td>Connecticut</td>
<td>426,550</td>
<td>1092.9</td>
<td>1529,450</td>
<td>182,468</td>
</tr>
<tr>
<td>Delaware</td>
<td>37,091</td>
<td>308.1</td>
<td>345,191</td>
<td>24,479</td>
</tr>
<tr>
<td>D. C.</td>
<td>-</td>
<td>-</td>
<td>9,706</td>
<td>-</td>
</tr>
<tr>
<td>Florida</td>
<td>796,961</td>
<td>2786.6</td>
<td>3583,561</td>
<td>443,259</td>
</tr>
<tr>
<td>Georgia</td>
<td>452,807</td>
<td>1514.9</td>
<td>1967,707</td>
<td>189,500</td>
</tr>
<tr>
<td>Hawaii</td>
<td>148,611</td>
<td>494.9</td>
<td>643,311</td>
<td>4,848</td>
</tr>
<tr>
<td>Idaho</td>
<td>50,340</td>
<td>256.2</td>
<td>194,946</td>
<td>0</td>
</tr>
<tr>
<td>Illinois</td>
<td>1461,996</td>
<td>4083.0</td>
<td>5542,596</td>
<td>364,212</td>
</tr>
<tr>
<td>Indiana</td>
<td>523,420</td>
<td>1874.2</td>
<td>2199,712</td>
<td>199,776</td>
</tr>
<tr>
<td>Iowa</td>
<td>302,332</td>
<td>1055.1</td>
<td>1307,432</td>
<td>20,588</td>
</tr>
<tr>
<td>Kansas</td>
<td>246,976</td>
<td>702.7</td>
<td>949,676</td>
<td>12,072</td>
</tr>
<tr>
<td>Kentucky</td>
<td>186,005</td>
<td>1106.1</td>
<td>1292,105</td>
<td>11,259</td>
</tr>
<tr>
<td>Louisiana</td>
<td>318,336</td>
<td>1319.5</td>
<td>1637,826</td>
<td>23,619</td>
</tr>
<tr>
<td>Maine</td>
<td>107,164</td>
<td>326.3</td>
<td>453,464</td>
<td>30,096</td>
</tr>
<tr>
<td>Maryland</td>
<td>556,050</td>
<td>1578.2</td>
<td>2134,25</td>
<td>85,055</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>1319,956</td>
<td>2204.7</td>
<td>3524,666</td>
<td>215,561</td>
</tr>
<tr>
<td>Michigan</td>
<td>1057,707</td>
<td>3681.2</td>
<td>4739,907</td>
<td>324,813</td>
</tr>
<tr>
<td>Minnesota</td>
<td>436,509</td>
<td>1843.1</td>
<td>2279,609</td>
<td>125,699</td>
</tr>
<tr>
<td>Mississippi</td>
<td>137,508</td>
<td>746.5</td>
<td>834,008</td>
<td>19,491</td>
</tr>
<tr>
<td>Missouri</td>
<td>523,117</td>
<td>1300.4</td>
<td>1023,517</td>
<td>83,697</td>
</tr>
<tr>
<td>Montana</td>
<td>84,181</td>
<td>220.0</td>
<td>304,181</td>
<td>0</td>
</tr>
</tbody>
</table>

Because central cities generally have higher per capita taxes, tax effort, and lower per capita income than other jurisdictions, such a formula would substantially concentrate funds to them. For example, New York City would get 28 percent more under this approach than under the general revenue sharing formula (with identical state area amounts available for local distribution).

where Y is total money income and PCY is per capita income.

With respect to the matters of the 20 percent floor, the 145 percent ceiling, and the sequence of constraints, one might eliminate the floor and the ceiling except for those units with aberrant tax effort values.

Algebraically, the grant, G, for the jth unit of government in a state would be:

\[ G = \frac{G_j}{\frac{Y_j}{T_j}} \]

where F is the aggregate state area amount.

The ratio of F to T, t, is the percentage of taxes each locality will receive.

\[ G = \frac{\sum \frac{Y_i}{PCY}}{\sum \frac{Y_i}{PCY}} \]
TABLE 3 (cont’d.)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nebraska</td>
<td>167.804</td>
<td>405.6</td>
<td>573.404</td>
<td>11.107</td>
<td>1.9</td>
</tr>
<tr>
<td>Nevada</td>
<td>112.046</td>
<td>231.6</td>
<td>363.646</td>
<td>9.322</td>
<td>2.6</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>86.381</td>
<td>165.1</td>
<td>251.491</td>
<td>22.877</td>
<td>9.1</td>
</tr>
<tr>
<td>New Jersey</td>
<td>1429.017</td>
<td>2056.3</td>
<td>3485.317</td>
<td>370.498</td>
<td>10.6</td>
</tr>
<tr>
<td>New Mexico</td>
<td>49.530</td>
<td>437.7</td>
<td>487.23</td>
<td>8.533</td>
<td>1.8</td>
</tr>
<tr>
<td>New York</td>
<td>5434.393</td>
<td>5816.4</td>
<td>13951.094</td>
<td>668.995</td>
<td>4.6</td>
</tr>
<tr>
<td>North Carolina</td>
<td>419.694</td>
<td>1806.4</td>
<td>2226.094</td>
<td>59.457</td>
<td>2.7</td>
</tr>
<tr>
<td>North Dakota</td>
<td>47.190</td>
<td>218.7</td>
<td>265.89</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Ohio</td>
<td>1081.396</td>
<td>2788.9</td>
<td>3870.296</td>
<td>372.661</td>
<td>9.6</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>184.365</td>
<td>777.5</td>
<td>961.865</td>
<td>16.229</td>
<td>1.7</td>
</tr>
<tr>
<td>Oregon</td>
<td>158.086</td>
<td>701.5</td>
<td>859.596</td>
<td>42.463</td>
<td>4.9</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>1213.548</td>
<td>4609.1</td>
<td>5822.646</td>
<td>427.461</td>
<td>7.3</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>96.017</td>
<td>333.7</td>
<td>430.217</td>
<td>33.842</td>
<td>7.9</td>
</tr>
<tr>
<td>South Carolina</td>
<td>116.881</td>
<td>901.5</td>
<td>1018.381</td>
<td>88.039</td>
<td>8.6</td>
</tr>
<tr>
<td>South Dakota</td>
<td>78.570</td>
<td>165.6</td>
<td>244.17</td>
<td>2.190</td>
<td>0.9</td>
</tr>
<tr>
<td>Tennessee</td>
<td>333.519</td>
<td>1092.4</td>
<td>1445.919</td>
<td>67.840</td>
<td>4.7</td>
</tr>
<tr>
<td>Texas</td>
<td>1202.493</td>
<td>3287.9</td>
<td>4390.393</td>
<td>32.873</td>
<td>7</td>
</tr>
<tr>
<td>Utah</td>
<td>85.421</td>
<td>363.1</td>
<td>448.524</td>
<td>12.789</td>
<td>2.9</td>
</tr>
<tr>
<td>Vermont</td>
<td>40.829</td>
<td>179.6</td>
<td>220.420</td>
<td>14.728</td>
<td>6.7</td>
</tr>
<tr>
<td>Virginia</td>
<td>567.875</td>
<td>1307.9</td>
<td>2075.775</td>
<td>101.936</td>
<td>4.9</td>
</tr>
<tr>
<td>Washington</td>
<td>327.548</td>
<td>1359.7</td>
<td>1687.248</td>
<td>27.549</td>
<td>1.6</td>
</tr>
<tr>
<td>West Virginia</td>
<td>85.682</td>
<td>610.1</td>
<td>695.782</td>
<td>9.648</td>
<td>1.4</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>446.878</td>
<td>2032.2</td>
<td>2479.078</td>
<td>108.921</td>
<td>4.4</td>
</tr>
<tr>
<td>Wyoming</td>
<td>23.886</td>
<td>124.2</td>
<td>148.086</td>
<td>4.036</td>
<td>2.7</td>
</tr>
</tbody>
</table>

1/ Source: Staff tabulations of Entitlement Period 6 revenue sharing tape.
2/ Table 17, Governmental Finances in 1973-4, U.S. Bureau of the Census.

IV. IMPLICATIONS FOR THE FEDERAL SYSTEM

The renewal of general revenue sharing and the likely passage and funding of a program of countercyclical assistance do not in and of themselves constitute a trend from which one can generalize. Also, it is not likely that both will occur without substantial opposition. On the other hand, revenue sharing has been with us since 1972, and appears to be a relative fixture; the block grant approach is also becoming more important in terms of overall Federal grants-in-aid.

There are several noteworthy characteristics of the two programs reviewed here that may spread to other programs of Federal assistance: (i) direct, formula allocation of fixed amounts of Federal funds to local governments, (ii) provision of assistance to general governmental units rather than special districts or multi-district entities, (iii) reliance on strong Federal procedural requirements (e.g., civil rights, citizen participation, and auditing and accounting). In fact the renewal of general revenue sharing involves primarily changes in these procedural requirements, rather than in the universe of recipients, the formula, definitions of data, etc.

This direct allocation to localities represents a Federal recognition of a three-tier Federal system. It has historically been argued that because localities are the constitutional creatures of the states that there really is only a two-tier system. With a possible Federal takeover in certain state responsibilities, notably welfare, the question arises what sort of role the states will play in the future. While procedural requirements on the state and local governments may increase over time, and funds will be provided on the basis of Federal defined, nonmatching formulas, it is interesting to note that certain basic organizational problems in state and local government have so far been unaddressed. The matters of overlapping jurisdictions, outdated allocations of functional responsibilities, and annexation and zoning powers are usually not thought to be the proper concern of the Federal government. Yet, as resources increasingly are spent at the local level to deliver services, these matters of organization and boundary will become increasingly important.

BIBLIOGRAPHY


Southern Regional Council (1975). Government in the Sunshine: Open Records Open Meetings (Atlanta, Georgia).


