Making the New Federalism Work: Goals for General Revenue Sharing's Data Needs

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I. Introduction

I want to express my great pleasure at being with you today. The passage of general revenue sharing portends a new era in micro-data needs. I should note that the general movement towards revenue sharing and away from categorical or conditional grants-in-aid, otherwise known as the New Federalism, will require a variety of micro-data sets which are frequently updated.

General revenue sharing has highlighted the need for recurrent measures of population, community money income, and local tax collections. Not only is the "recurrency" worth noting but also the logical unit of analysis, namely general local governments. If we look down the road towards the passage of special revenue sharing, we should be able to anticipate that additional micro-variables by the same as well as other (special) geographic subdivisions will be necessary. Of course, we do have some of this data, especially for more populous areas. But my point here is that the data requirement for smaller areas have yet to be met.

A corrolary to this is that with the advent of the New Federalism, more rather than less will (or should) be spent by the Federal Government for micro-statistics. However, I want to indicate that not only should more be spent for collection and upgrading of new and current series, but serious attention be increasingly given to verify such self-reporting data to ensure accuracy. There are many areas in which formula design will depend on data or behavior which ultimately is at the control of a locality or group of recipients. The use of adjusted taxes in general revenue sharing is just one example. There are many other areas in which we might want to reward or dissuade organizational behavior for certain outcomes; however, sufficient verification (as well as careful definition) must occur to ensure that program goals are met.

Having preambled my remarks with the prognostication that the New Federalism will inevitably require more micro-data and accordingly require greater Federal resources to meet properly these increased needs, let me turn to the data implications per se of general revenue sharing. Last year I noted that a revolution in Federal statistical base was implied by the State and Local Fiscal Assistance Act of 1972; my theme today is that successful revolutions require forthright leadership, for the successful changes in the revenue sharing data base will directly affect the success of the program. I shall discuss in turn the leadership issues relevant to income, population, adjusted taxes, and the formula.

II. The Data Issues of General Revenue Sharing

A. Income Updates

During Executive Session deliberations of the House Committee on Ways and Means, repeated discussions took place on the general problem of updating the data elements ultimately used in the legislation. As you may recall, an overhaul of the welfare system was being contemplated which, coupled with changes in reporting requirements within the tax system, might yield post-censal data on total money income by jurisdiction. I do not think it is a breach of confidentiality of those proceedings to reveal now that the Committee seriously considered requiring that the welfare system contain county and incorporated place of residence as it ultimately did of those in the tax system. Because the welfare reform was pending, and because it was impractical to amend the existing Social Security Act, Undersecretary Veneman testified that costs of several hundred million would be involved as well as considerable inconvenience to modify existing reporting systems. Consequently, no legislative action was taken to gather income data about low income persons (or nonfilers). However, it was clear from Veneman's testimony and Committee sentiment, that eventually this data ought to be collected as it was their clear determination that such residence information be collected of taxpayers to facilitate estimation of money income by political subdivision.

Of course, it is now history that the 1972 1040 form required such information and is to be used to obtain income updates. Several things, however, ought to be underlined about this bit of legislative history. First, the tax forms were to be permanently modified. Second, the welfare system as it is modified should be used to provide data about low income persons.

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More recent history indicates that the commitment to change the 1040 form and to require the welfare system to report has weakened and may vanish. Apparently the Commissioner of the Internal Revenue Service (IRS) does not interpret Section 144 of the State and Local Assistance Act to mean, as I take it to mean, that incorporated place of residence must be recorded and put on tape by the IRS each year. To those of us committed to making the New Federalism work, this can only be viewed as a setback. Also, the Federal assumption of the adult welfare categories has occurred without the requisite modifications of the reporting system. While the default this year (CY73) in obtaining incorporated place of residence may be viewed as a temporary setback to the statistical community, I should note that likely tax reform in 1974 that involves tax simplification, as it undoubtedly will, may well involve the complete removal of the residence questions from the tax form. Moreover, if income maintenance replaces the existing program for Aid to Families with Dependent Children, it is likely that place of residence will not be obtained unless substantial prodding takes place.

Without going into the debate on the nature of the question that was asked on the 1972 form (let me parenthetically note here the opinion that a 70 percent response rate to the question is rather high in view of the initial 40 odd percent response rate to the zip code questions that were asked in the mid sixties with greater attending IRS publicity), I would like to comment on the definitional problems that occur when comparing adjusted gross income to total money income. During those Executive Session deliberations Congressman Vanik suggested that total money income be reported on the 1040 tax form. It is clear that a Hague-Simons concept of income is what a tax-writing committee ought to use as a reference point when analyzing changes in the IRS code, not because that is the tax base, but rather because it is a sound point of comparison for equity purposes. While sentiment apparently existed for more complete reporting of nontaxable or partially taxable income, the thought was then that while desirable, it might be better effected through separate legislation. My point here is that we may well see a broader income concept reported through the tax system which would reduce the definitional problems rather considerably in obtaining total income of particular places.

There is, then, in the area of income data update, room for improved statistical leadership that will ensure that the original vision of updated and improved local income data will occur. This is not to discount the rather substantial difficulties of convincing the Internal Revenue Service and Department of Health, Education, and Welfare that improved local income data is worthwhile. However, it is significant that the legislative history of general revenue sharing contains the elements to make continued progress in this area.

B. Population

The second area of data updates involves population. Here we are better acquainted methodologically with the problems and prospects of post-censal updates than, I think, in the micro-income area. I would like to confine my remarks here to the area of undercounts that occurred and the extent to which updates in the form of corrections should be made.

Again, reference should be made to the legislative history and the ingredients in the legislation to obtain guidance on how the problem should be solved. During Executive Session deliberations that were ultimately published (April 17, 1972), then Director of the Census Bureau, George Brown and Congressman, William Green of Philadelphia, discussed various statistical problems, among which was the undercount of certain groups in core cities. Again, the sentiment of the Committee was fairly clear: at that time, while the extent of the undercount was still being researched but was as yet unknown, the general feeling was that when adequate figures were available, corrections ought to be made.

We now know the national undercount rates by age, sex, and race, and it strikes me as appropriate to use this data to adjust the population figures. I have done this for several States, and while better data will undoubtedly be generated (State by State rates, for example) it would seem appropriate at this point to account for what we know to have occurred, and then, at a later date, improve our statistics further when possible. I should note that the Secretary of the Treasury has authority to use such estimates, and such updates would be done with attending modification of regulations to provide that retroactive adjustments in payment not be made. Moreover, there is precedent for corrections as corrections have already been made to the census in the income area.

Again, the legislative history is clear: errors were anticipated and the Secretary enpowered to use such updated or corrected data to provide corrections. And again, statistical leadership should do this expeditiously. I should note that the National League of Cities-Conference of Mayors has twice recommended that the undercount be corrected.

C. Taxes

We have more experience now with the adjusted tax data updates than with income and population. It is my judgment that the ability to update the tax data annually suggests the other two elements can be updated and corrected as well.

The points I want to stress with the tax data involve independent verification of the numbers and a hard and fast attitude concerning the definitions.

As is obvious, updating just the tax data has rewarded in entitlement terms communities with increased taxes which are below the 145 percent limitation. The nature of the data collection and verification process is clearly vital to a fair administration of the program. The data improvement program of the Office of Revenue Sharing (ORS) is a step in the right direction to ensure that the tax data is accurate; however, independent checks need to be made on local determination of taxes as adjusted by the Governments Division (Census Bureau) and then ORS to ensure that no inflation of figures is taking place. The incentive to exaggerate is rather obvious as is the incentive to report gross instead of net (of refunds) collections. State level verification is not uniform nor do all localities have local CPA certification. Leadership in this area could well involve encouraging the States to do audits and/or encouraging local CPA certification. For the budding revenue sharing research industry, some independent verification of taxes might prove useful.

The second issue involves the definitions themselves. The use of taxes rather than revenues has been criticized by some and suggestions for broadening the definition or moving to revenues instead have been made. Several points are in order: First, the choice was a deliberate one made by the Congress; and second, it resulted from an exhaustive interstate and intrastate analysis of the effects of the two concepts. Finally, while it may affect rather dramatically certain municipalities financed by utility operations, I think we have to examine rather carefully the geo-equity implications of such a revenue structure as well as the more esoteric, but nonetheless important issue of whether or not that is a proper role for the local public sector to play. Without discussing these in any greater detail, let me indicate my own personal reservations on both these issues.

D. Availability

General revenue sharing has been with us for more than a year. It was planned to be a grant-in-aid program characterized by a small central administrative office and a maximum amount of openness about the manner in which it is administered. I think the first goal has been reached, but worry about the second. Computer tapes of the basic data are still not available to the research community, and there is no prospect of their being available in the foreseeable future. While printed copies of the data are available, and I should note parenthetically that this is a step in the right direction, the rather crucial interstate data has yet to be published. Most would seem to be available from various Census Bureau and Bureau of Economic Analysis sources; however, it strikes me as entirely reasonable that the interstate data be published as well as the intrastate data. There is, then, room for additional leadership to make the data more available.

III. Formula Issues of General Revenue Sharing

My remarks so far concern data-related issues of general revenue sharing. A few points about the formula are in order as well.

A. Formula Availability

While the data is available in hard copy form, researchers as well as recipient units remain mystified about how the formula actually, that is, computationally works. The program(s) that create the intrastate allocations have not been made public to date, and I think some leadership in this area would be desirable. The incentives in the legislation require local awareness which in turn requires they be informed of how it works. Making the program tape available was always contemplated by the Congress. It strikes me that time has now come to do this.

B. Floor Considerations

As I noted in San Juan at the December, 1973 National League of Cities Meetings, it is my understanding that the application of the 20 percent floor differs somewhat from the original algorithm; some quick research done indicated a $6 million annual difference for Chicago. This may explain the rather dramatic change in allocations to townships in the Midwest. I suggest to the interested a comparison for rural Midwest counties of percentage of funds going to townships as reported by ORS and those reported in, say, the Senate Finance Committee Report.

IV. Conclusions

From my perspective, general revenue sharing has been and will continue to be a huge success. The funds are being spent for locally identified priorities with increased citizen participation. The incidence of fradulent use of funds has been miniscule, and I conclude, far less than in those categories of grant-in-aid which were "outside" the local budgetary process.

The statistical burden of general revenue sharing has been enormous, but one that has been well-shouldered to date. Creative leadership in the future is absolutely essential for continued success of the program and the subsequent passage of the special revenue sharing bills. It strikes me as crucial that the Federal Government work closely with the States to encourage them to better monitor local micro-statistical efforts. State interests are vital in this, but they need to be led if not pressed by the Federal Government. Correlative to this is a more significant commitment by the Federal Government to maintain the spirit of the New Federalism. Public availability of data and formula are part of this. Continued progress in the use of existing Federal information devices, such as the determined use of individual income tax for population estimation purposes, is another. Finally, we must anticipate our micro-data needs of the future and press for additional micro-data sources. As noted before, planned revamping of the welfare system can provide us with income and population data on a geodisaggregated basis if the Federal Government can be convinced of their utility. The rationalization of our Federal system of government, indeed our general capability of social problem solving, demands a foresighted and co-ordinated micro-data program. It might be quite useful for the American Statistical Association in concert with the Office of Management and Budget's Statistical Policy Division, the Census Bureau, and the Federal Statistics User's Conference to organize a continuing discussion of micro-data needs for the coming grant-in-aid consolidations.