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The development of the federal grant-in-aid system and its effect on the distribution of the national wealth

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The Development of the
Federal Grant-in-Aid System
and
Its Effect on the Distribution
of
The National Wealth

A Thesis

Submitted to the Committee on
Graduate Studies of the Univ-
ersity of Richmond as a part-
ial fulfillment of the require-
ments for the degree of Master
of Arts in Political Science.

By

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INTRODUCTION

In our modern world the problems of government are never simple. The tasks of coordinating, directing and promoting the political, social and economic affairs of a people usually present problems of the utmost complexity. Particularly is this true under the system of government embodied in our Federal constitution. Due to the system of power distribution peculiar to federalism many problems arise which are not ordinarily encountered by the so-called centralized or unitary forms of political organization.

It is not the purpose of this paper to examine in detail the characteristics of federalism. Suffice it to say that under such a system the powers of government are divided between at least two levels of authority, in our case between the national and state levels. The powers allotted to each sphere are characteristically defined by a constitution which receives its authority by virtue of voluntary adoption or acceptance by each of the participating units. Such an arrangement obviously lends a high degree

of rigidity to the over-all political entity. It is precisely this rigidity which multiplies the burdens and problems of government under the federal system. It is manifestly impossible for the makers of a constitution to envision all of the changes, new developments, and increasing demands with which the government will be faced as the nation progresses from infancy, through periods of robust growth, into maturity. Inevitably, therefore, problems will arise which confound the previously conceived scheme of power distribution in one or the other of two ways: first, they may be problems which do not fall clearly in either the state or the national governments' sphere of authority; or second, they may be problems which, though clearly under the authority of the state either by custom or statutory provision, are impossible of practical solution by the state because of financial impotence or limited territorial jurisdiction. Under such circumstances some method, or methods, must be found whereby the gap may be bridged if constitutional government is to survive.

Fortunately for the history of our government the American lawmakers and the American courts have, for the most part, been fairly ingenious in providing our federal system with the necessary degree of flexibility within the letter of the Constitution. Many devices have been contrived

for this purpose; one of these is the grant-in-aid. Over the years the grant-in-aid system has gradually expanded until today it forms one of the primary sources of state and local revenue. Although specific grants have been made for a multitude of purposes the broad program has developed principally in the following fields: education, highway aid, unemployment relief and social security. In order to obtain a comprehensive history of the development of the grant-in-aid system each of these areas will be examined as a unit. The paper will conclude with a general summation of the fiscal effects of the grant device for the purpose of demonstrating the manner in which the funds have been distributed among the states.

Chapter I

The history of Federal grants to the states for the purpose of promoting education antedates the establishment of the United States government in 1789. During the colonial period the New England colonies, particularly Massachusetts, developed the policy of making grants of land for the support of common schools and the ministry.¹ On May 20, 1785 the Continental Congress adopted an ordinance a portion of which reserved lot No. 16 of every township for the maintenance of public schools within the township.² It should be noted that these grants were made directly to the localities. As will be demonstrated in a moment this was one of two methods used for distributive purposes, the other being grants made to the states who in turn parceled them out to the townships. The well-known Northwest Ordinance of 1787 re-affirmed the Federal government's interest in the promotion of education.

1. Orfield, M. N., Federal Land Grants to the States with Special Reference to Minnesota, pp. 36-37.

2. Hill, David S., and Fisher, William A., eds., Federal Relations to Education; Report of the National Advisory Committee on Education, Part II, p. 22.

Article III of that document read as follows:

Religion, morality and knowledge being necessary to good government and the happiness of mankind, schools and the means of education shall forever be encouraged.

The Northwest Ordinance left undecided the question of control of the common school lands although in practice the lands so given were under the control of the localities, at least until the adoption of the Constitution in 1789. After the Constitution became effective the Federal government came into full control of the public domain,⁴ and thereafter the land grants became more conditional and controls of one type or another gradually came into existence. The precedent upon which most subsequent controls were based occurred in the Enabling Act for the statehood of Ohio in 1802. That act provided, as one of the stipulations for statehood, for the setting aside of one section in each township for the maintenance of schools. Section 16 was specified in the act with the provision that if such section had been sold other lands contiguous to it, or their equivalent in money, should be set aside for education purposes.⁵ Thus, the Enabling Act for Ohio continued the practice of leaving control in local hands although over-all Federal control was increased

3. Federal Grants-in-Aid, Report of the Committee on Federal Grants-in-Aid, p. 1.

4. See U. S. Constitution, Article IV, Section 3, paragraph 2.

5. Hill and Fisher, op. cit., p. 13.

since Ohio's admission as a state was made partially contingent upon its acceptance of the above mentioned provisions. In 1803, however, the Congress passed an act granting further lands to Ohio and in this instance the lands were granted to the state being placed under the control of the legislature.⁶ This latter method of land grant control proved to be much more satisfactory than had the earlier practice of local control. Hence it was followed in the Enabling Acts for Illinois in 1818, Missouri in 1820, Michigan in 1835 and Arkansas in 1836.⁷ Alabama, admitted to the Union in 1819, reverted to the older Ohio type grant whereby the sixteenth section was given to the locality.

As land values increased and the Congress gained experience in disposing of the public domain new and more complicated restrictions were embodied in the enabling acts. Thus in the Enabling Act for Colorado in 1875 Congress made specific requirements concerning the sale of the land, use of the sale proceeds and interest, the amount of land to be used for common schools and the amount to be used for universities and a reservation of mineral rights for the Federal government.⁸ Even these requirements were relatively

6. Ibid., p. 14.

7. Ibid.

8. Ibid., p. 15.

simple, however, when compared to those imposed upon subsequent states. As the various western areas reached statehood each of them was forced to submit to more and more minute instructions concerning the use of land grants made for educational purposes. The Enabling Act for Arizona and New Mexico, passed on June 20, 1910, brings to a climax the trend of increasing control through admission requirements. The previously mentioned act specifies in detail the number of acres of land for each particular type of school, the care to be taken of funds derived from the land, reservations on mineral rights, all of which had to be embodied in the constitutions of the two states in such a manner as to be unalterable⁹ by future amendment without the consent of Congress. It is not within the limits of this paper to examine the wisdom of such procedures; hence, no judgement is made concerning them. From the standpoint of historical development, however, the enabling acts clearly demonstrate the expanding nature of the federal control which accompanies federal grants.

In addition to the general grants contained in enabling acts the Congress from the days of its inception¹⁰ has made grants of land to individual institutions. In 1819 Congress bestowed land upon the Connecticut

9. Ibid., pp. 19-21.

10. Ibid., pp. 24-29.

Asylum for Teaching Deaf and Dumb. In the same year a grant was made to the state legislature of Mississippi for the support of Jefferson College. In 1832, however, the provisions of this act were amended so as to place control of the grant in the Board of Trustees of Jefferson College. In 1826 a grant of land was made to the Kentucky Asylum for Teaching Deaf and Dumb. This grant was made directly to the Board of Trustees. Subsequently this institution became identical with Centre College in Danville, Kentucky at which time the grant was transferred to the latter's name. Two institutions within the District of Columbia received land in 1832 and 1833. Columbian College in 1832 and Georgetown University in 1833 were given city lots in the district having a value of twenty-five (25) thousand dollars for each institution. In both instances the grants were made directly to the President and Board of Directors of each college. Various other colleges have been the recipients of specialized grants: Bluemont College in Kansas in 1861, Vincennes University in Indiana in 1873, and New Mexico College of Agriculture and Mechanic Arts in 1927 being some of the outstanding examples.

The first Morrill Act, passed on July 2, 1862, stands as a landmark in the history of federal grants for educational purposes. Not only did the act carry on in a

much broader scope the earlier tradition of making grants for specific types of education, but it instituted a new procedure in the distribution of federal bounties. Prior to the Morrill Act of 1862 grants of land had been made without regard to the size or population of the state to which grants were made. With the passage of this act a new formula of distribution was established which attempted to adjust the size of the grant to the needs of each state. Population was taken as the basis of the formula with representation in Congress being used as the yardstick for determining the size of the state. Section I of the act provided that each state was entitled to thirty thousand acres for each of its representatives in Congress, both House and Senate, as determined by the reapportionment following the census of 1860.¹¹ The lands thus provided were to be appropriated from public lands within each state. In the event that public lands were insufficient to satisfy the terms of the grant land script was to be issued and the proceeds of its sale were to be used for the purposes specified in the act. The owners of the script could then redeem it in public lands located in other states; public lands thus utilized were to be valued at \$1.25 per acre and not more than one million acres could be exchanged for land

11. Ibid., p. 35.

script in any one state.

Section 5 of the Morrill Act of 1862 imposed certain financial restrictions upon recipients of land grants. The pertinent paragraphs are quoted below:¹²

First, if any portion of the fund invested, as provided by the foregoing section, or any portion of the interest thereon, shall, by any action or contingency, be diminished or lost, it shall be replaced by the State to which it belongs, so that the capital of the fund shall remain forever undiminished;...
Second, no portion of said fund, nor the interest thereon, shall be applied directly or indirectly, under any pretense whatever, to the purchase, erection, preservation, or repair of any building or buildings.

The effect of these provisions was to force recipient states to match, in some measure, the grants of the Federal government. The act itself did not contain the matching provision that was to become common in later grants; however, in order to secure the Federal lands, or their equivalent in money, each state was, as a practical result, required to make outlays for capital construction. In addition to the above provisions concerning the use of funds, out of which stemmed the later requirement of state matching of Federal funds, the first Morrill Act serves also as the genesis of other stipulations that have come to be commonplace features of the grant device. Among these are:¹³

12. Ibid.

13. Federal Grants in Aid, op. cit., p. 4.

- 1) Acceptance of the act's provisions by the governor of each state and annual filing of financial reports by the governor with the Federal government.
- 2) Restrictions concerning investment of funds derived from the act.
- 3) Progress reports by the state to the Federal government indicating the development of the act's objectives.

The first Morrill Act is important, not only because it has served as the basis upon which grants-in-aid have developed, but because of the strong influence it has exercised upon the cultural and economic development of the mid-western and western states. These areas, being last in the line of American expansion, did not have the facilities of higher education that were characteristic of states along the eastern seaboard. The Morrill Act of 1862 was largely responsible for the elimination of this deficiency. The reports of the Council of State Governments on Federal Grants-in-Aid, quoting from an article by Dixon Wecter, Instruments of Culture on the Frontier, (Yale Law Review, 36, No 2, p. 256, Winter, 1947) makes the following statement:

The system of public support, assured for technological and agricultural education by the Morrill Act of 1862, rapidly became the keystone of all higher education in the Mid-western, Rocky Mountain, and Far Western regions. Lacking the colleges and universities of private endowment traditional in the East, the West built its collegiate and university structure, for cultural and vocational training, upon the base of state and federal aid.

Following the passage of the Morrill Act of 1862 Federal aid for the promotion of education remained in a static condition, except for occasional allotments to specific institutions, until the passage of the first Hatch Act on March 2, 1887. The Morrill Act of 1862 had been for the purpose of establishing within each state a college primarily devoted to the teaching of subjects "related to agriculture and the mechanic arts". The first Hatch Act was designed to further this objective through the establishment of agricultural experiment stations whose work was to be conducted in connection with the land-grant colleges. By its terms each state was authorized to receive fifteen thousand dollars (\$15,000) annually which sum was to be used for the conduct of experimental work in agriculture and related subjects.¹⁴ This provision represents another step in the development of the grant-in-aid as it is known today for it was the first instance in which the subvention, or annual payment, was utilized. Prior to the Hatch Act of 1887 all grants had been in the form of lump-sum payments of either land or money. Once the grant had been made future control over its use was restricted to the provisions contained in the act. These, especially in the early days, were usually very meager, although the tendency

14. Ibid., p. 5.

toward their expansion was clearly evident. When the system of subventions was introduced, however, the possibilities for Federal control of aided projects was increased considerably; for once the Federal contributions became an integrated part of the state's fiscal system it became increasingly difficult to dispense with them. Hence, the Federal government was in a position to enforce its demands by virtue of its power to withdraw the annual grant from states not complying with regulations. It should be pointed out that there appears to be no good evidence that the Federal governments has abused its power in this respect, although opponents of the grant system point to this and similar provisions as containing at least the possibility that the states may eventually be submerged under the authority of the national government. On the other hand at least one writer, after extensive research, has suggested that it is quite possible the grant device serves to strengthen the state to the point where it continues to exist even after purely economic forces, if left uncontrolled, would have caused its demise.

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Another provision of the first Hatch Act that is of interest both from an economic and historical point of view is the equality of payment feature. By the terms

15. Key, V. O., The Administration of Federal Grants To States, p. 375.

of the act each state was to receive a fixed sum each year, the amount being the same for all states regardless of size or population. It will be recalled that the first Morrill Act attempted to establish a formula whereby grants would be contingent upon population. In several subsequent acts the Congress has used this method, or other formulae which resulted in unequal distribution of the grants. Although the first Hatch Act interrupted the development of proportional distribution procedures they have, in the main, served as the basis of allocation. The report of the Council of State Governments finds that, in terms of total grant expenditures, the various apportionment factors rank as follows:

- 1) The open-end type in which Federal contributions, within limits, depends upon the amount contributed by the state.
- 2) Population.
- 3) Factors which determine the need for services (not including financial need).
- 4) Area.

These four methods account for over 90% of all grants now authorized by Congress according to the above report. The remaining number are distributed either upon a uniform basis or according to financial need, the latter being determined usually by the per capita income yardstick. Thus it will be noted that the first Hatch Act's method of distribution represents the minority point of view,

the vast majority of Federal funds being distributed upon an unequal basis. This should not, however, be taken as indicative of a defect in the act. The purpose of the act, it will be recalled, was to support agricultural experiment stations. Obviously the size of such a project is related in only an incidental way to the size or population of the state. Certainly the need for funds to carry on such a project would not be conditioned by population status in the same manner or degree as would funds for the purpose of supporting public health or child welfare services.

In other respects the first Hatch Act was similar to the Morrill Act of 1862. The purposes for which funds could be used under the act as between capital and operating outlays were carefully prescribed. Reports were to be transmitted through the governor of the state to the Federal government; these reports were of two distinct types. First, the experiment station was to submit annually a report on its financial operations for the year; a copy of this report was to be transmitted to the Commissioner (now Secretary) of Agriculture and one copy to the United States Secretary of the Treasury. The second type was in the nature of a progress report or bulletin which was to be issued at least every three months and was to be sent to every newspaper within the

the state or territory as well as to individual farmers who requested them, at least insofar as the financial means of the station permitted. Insofar as was practical the Commissioner of Agriculture was to prepare and submit to the stations the forms upon which these reports were to be made, and, in addition, he had the statutory responsibility to suggest new lines of inquiry and investigation to which the stations were to direct their efforts. This latter provision is interesting in that it marks the early beginning of the discretionary authority that later came to be vested in the Secretary of Agriculture or other Federal officials with respect to grant-in-aid funds.

The Hatch Act of 1887 was shortly followed by the passage of the Second Morrill Act of 1890. The purpose of this act was essentially the same as that of the First Morrill Act; however, the second act enlarged to a considerable extent upon the areas of instruction that were permitted in land-grant colleges. Whereas the act of 1862 was designed "to teach such branches of learning as are related to agriculture and the mechanic arts", the Act of 1890 broadened this to include "instruction in agriculture, the mechanic arts, the English language, and the various branches of mathematical, physical, natural, and economical sciences with special reference to their applications in the industries of life...."¹⁷ The Morrill

17. Federal Relations to Education, op. cit., p. 45.

Act of 1890 reversed the formula of distribution contained in the Act of 1862 by continuing in the precedent established in the Hatch Act of 1887. In the earlier act distribution of funds, or land, had been based upon population as evidenced by representation in the Congress; the second Morrill Act reverted to the equal shares method of distribution as outlined in the first Hatch Act. Under the terms of the Act of 1890 each state was to receive an annual grant, the amount of which was to eventually reach \$25,000, payable in cash.¹⁸ Insofar as was possible the funds appropriated under the act were to be raised by the sale of public lands; however, the appropriations could be taken from the general fund in the event that public land sales were insufficient to meet all obligations incurred under the act.¹⁹ By the terms of the Nelson amendment to the Morrill Act of 1890, passed in 1907, the amount of the annual grant was ultimately to be raised to \$50,000 through annual increments of \$5,000.²⁰

The Second Morrill Act is significant not only for the increase in appropriations which it made to land-grant colleges but also for two provisions of the act which were official "firsts". It will be recalled that

18. Federal Grants-in-Aid, op. cit., p. 5.

19. Federal Relations to Education, op. cit., p. 45.

20. Key, op. cit., p. 9. (See footnote)

the Hatch Act of 1887 had, for the first time, made annual appropriations. In that connection it was pointed out that such a device was conducive to an increased amount of Federal control of activities supported by Federal funds. Under the terms of the Hatch Act of 1887, however, such control was, after a manner of speaking, only an unofficial possibility. The act itself did not specifically grant to the Congress the power to withhold funds from states not meeting all Federal requirements. By the time of the passage of the second Morrill Act, however, the Congress had perceived the effectiveness of such a device in insuring that the receiving states used the moneys in an efficacious manner. Hence, when the second Morrill Act was written a provision was made giving the Secretary of the Interior the power to withhold funds from states which, in his opinion, were not meeting the requirements of the act. Section 4 outlines the procedure to be in such instances as follows:

- 1) On or before July 1st of each year the Secretary of the Interior shall ascertain and report to the Secretary of the Treasury concerning the eligibility of each state to receive funds under the act.
- 2) If the Secretary of the Interior withholds a certificate of eligibility from any state the facts of the situation must be reported to the President.

- 3) The amount of money involved must be kept separate in the Treasury until the close of the next Congress.
- 4) The state concerned, if it desires, may appeal to Congress from the decision of the Secretary of the Interior.
- 5) If the Congress does not allow the funds to be paid they must then be covered into the Treasury.

Since the passage of the act there has been only one instance in which funds have actually been withheld from a state. In 1891 the Secretary of the Interior withheld the grant to South Carolina on the grounds that the funds should be divided between colored and white institutions on the basis of the number of educable children of both races in the state. The state legislature appealed the decision to the Congress contending that the terms of the statute would be met by dividing the funds equally between white and colored institutions without reference to the number of children in each. Congress ordered the payment to be made, thus upholding the interpretation of the state legislature of South Carolina, and in effect giving notice that any division of the grant made by the state would be effective.

The second innovation is that provision of the act out of which the above situation arose, namely, the stipulation concerning non-segregation in schools

supported by funds derived from the act. The requirements concerning non-segregation are set forth in Section 1 of the act as follows: first, it is expressly stated that no funds shall be paid for the support or maintenance of any college in any state or territory wherein a distinction of race or color is made in the admission of students; second, the act provides that the above requirement will be assumed to have been met if the state provides separate colleges for colored and white students and the funds receivable under the act are divided "equitably" as between the colored and white institutions. ²³ The wording of the act made no reference as to any necessary state of equality of facilities between the two colleges, the only requirement of this nature being the one stated above respecting equitable distribution of benefits received under the act. As was noted the Congress by its decision in 1891 established the rule that any division of benefits made by the state legislature would prevail over the Secretary of the Interior.

In 1906 the Adams Act was passed as an extension of the aid given by the first Hatch Act to agricultural experiment stations, and in 1925 the Purnell Act increased even further the Federal support of these projects. Except for minor details the two acts are almost identical

23. Federal Relations to Education, op. cit., p. 46.

and for that reason they are treated here in combination. By their provisions the annual allotments to the experiment stations was increased to \$90,000, the Adams Act adding \$15,000 to the original allotment of \$15,000 and the Purnell Act increased this amount by \$60,000 to each state annually.²⁴ None of these funds were contingent upon matching by the individual states the entire amount being an outright grant.

In 1911 Congress passed the State Marine School Act. The act has little significance in the history of the grant program except for one provision contained therein. The grants under the act were comparatively small and their benefits were restricted to a small group, those interested in nautical education. Yet despite these considerations the State Marine School Act of 1911 marks another of those transitional stages through which the entire system of grants-in-aid has developed to its present scope. The pertinent provision is contained in Section 2 of the act which reads in part as follows:²⁵

Section 2: That a sum not exceeding the amount annually appropriated by any State or municipality for the purpose of maintaining such a marine school or schools or the nautical branch thereof is hereby authorized to be appropriated for the purpose of aiding in the maintenance and support of such school or schools.... .

24. Federal Grants-in-Aid, op. cit., p. 5.

25. Federal Relations to Education, op. cit., p. 49.

Thus was initiated the famous "matching" requirement so characteristic of the modern grant-in-aid. Under this type of distribution formula the amount to be received by each state is dependent, in part at least, upon the amount that the particular state or locality is willing, or able, to devote to the purpose involved. As a general rule certain minimum and maximum requirements are used in connection with the matching provision, i.e., the state or locality must contribute at least a minimum appropriation before any federal funds can be obtained, and the Federal government will not continue to match state appropriations beyond a given maximum amount. Although in the State Marine School Act of 1911 the matching provision called for equal matching of State and local funds by the Federal government not all subsequent acts have been upon this basis even though a matching provision of some type was included. More will be said concerning the exact formulae used when various grants for purposes other than education are discussed. Suffice it to say at this point that the Federal contributions may be either more, less or equal to the amount supplied by the state or locality.

In 1914 the Congress passed what many persons consider to be the first of the modern grant-in-aid acts.

Reference is made here to the Smith-Lever Act which was passed on May 8, 1914. The purpose of the act was to encourage the expansion of agricultural education in areas not served by the land-grant colleges and agricultural experiment stations. Around 1900 the Department of Agriculture had instituted a program of agricultural demonstrations in cooperation with the agricultural experiment stations. The purpose of this program had been to carry agricultural education down to the local level and as a result the well-known "county agent" system came into being. The movement was aided by private contributions from the Rockefeller Foundation²⁶ and by 1914 there were almost one thousand agents throughout the country, particularly in the South. By its passage of the Smith-Lever Act the Congress recognized the importance of this work to the farming population and took steps to establish a more extensive system based upon the cooperation of the land-grant colleges with the United States Department of Agriculture. Since the Smith-Lever Act marks the beginning of the modern type of grant detailed attention will be paid to some of its more important provisions.

Under the terms of the act a new system of distribution was initiated which, though it had not been utilized prior to 1914, was in essence a combination of

26. Federal Grants-in-Aid, op. cit., p. 5.

methods that had been used previously. The provisions of the legislation dealing with distribution established two funds each of which was to be distributed in a different manner. The first, amounting to \$480,000 annually, was to be divided equally among the forty-eight states, each state receiving \$10,000 per year. In this way the Smith-Lever Act continued the equal division method that had been utilized in the Hatch Act of 1837. The second fund consisted of an annual appropriation of \$4,100,000 which was to be divided among the several states according to the proportion which the rural population bore to the total population of the state. Thus the Congress attempted to direct a portion of the funds appropriated for the act to those areas where the need for agricultural extension work was greatest.

In addition to making the funds available to the states in a manner bearing some relation to their needs the Smith-Lever Act also continued the precedent established by the State Marine School Act of 1911 in that each state was required to match the funds it received upon the basis of its rural population.²⁷ The funds thus required could be obtained from the state, the localities, the land-grant colleges, or from individual contributions. The

27. Federal Relations to Education, op. cit., p. 51.

uniform grant made to each state did not require matching by state or local funds. It appears that these arrangements relating to apportionment of funds and matching requirements have proved to be satisfactory to most states. In a series of questions sent by the Council of State Governments to the various state agencies in charge of grant programs the following were asked concerning these two factors: ²⁸

- 1) Are existing provisions relative to the matching of funds satisfactory?
- 2) Are existing provisions relative to the apportionment of funds among the states satisfactory?

Out of thirty-one agencies replying to the first question thirty-one, or 100%, stated that present provisions are satisfactory. Out of thirty-one agencies replying to question 2, twenty-two, or 71%, answered in the affirmative, while nine replied negatively. Hence, it would appear that in most instances the states find the provisions of the Smith-Lever Act acceptable insofar as the allocation of funds and matching requirements are concerned. Among those agencies which answered negatively to question 2 there was a marked tendency for suggested improvements to follow the type of state making the reply, i.e., states having low per capita income wanted to use income as the basis of apportionment, heavily populated states suggested apportionment upon the basis of population,

28. Federal Grants-in-Aid, op. cit., pp. 279-280.

etc. It should be pointed out that the above remarks pertain only to grants of the type contained in the Smith-Lever Act, for the support of agricultural extension work, and not to the grant-in-aid program generally.

Another point of similarity between the Smith-Lever Act and the modern grant-in-aid is the degree of supervision over program planning which was placed in the hands of the Secretary of Agriculture. It will be recalled that the first Hatch Act introduced the idea of Federal discretionary powers into the grant-in-aid system. The terms of that act provided that the Secretary (then Commissioner) of Agriculture should have the power to make suggestions regarding the type of investigative work to be pursued by the experiment stations. The Hatch Act of 1887 makes no mention of any authority to withhold Federal funds pending approval of state plans. The Smith-Lever Act, however, grants this power to the Secretary of Agriculture. Section 2 of the act specifies that "...this work shall be carried on in such manner as may be mutually agreed upon by the Secretary of Agriculture and the State Agricultural College or colleges receiving benefit under this act." Section 3 of the act, however, places the following qualification upon this arrangement:

29. Federal Relations to Education, op. cit., pp. 51-52.

Section 3. ...provided further, that before the funds herein appropriated shall become available to any college for any fiscal year plans for the work to be carried on under this Act shall be submitted by the proper officials of each college and approved by the Secretary of Agriculture...

Unless the plans submitted by the college official received the approval of the Secretary of Agriculture that particular institution was ineligible for Federal aid. The purpose of this provision was the raising of standards of administration and to insure that the funds were to be spent in accordance with the provisions of the act. Whether or not such Federal supervision has resulted in any appreciable elevation of state standards is primarily a matter of administration and the administrative aspects of the grant-in-aid system, and as such is not strictly within the purview of this paper. It is interesting to note in this connection, however, that in response to a question contained in the above mentioned investigation by the Council of State Governments as to whether Federal supervision had improved state standards of administration and service over 70% of the state officials replied in the affirmative. Out of 317 replies 223, or 70.3%, said "yes"; 78 replied in the negative; 8 thought state standards had been raised slightly; and 8 expressed themselves as being uncertain. The replies in this case refer to the entire grant system, and the percentage of

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affirmative replies is an average figure covering all grant programs. For individual programs the percent of affirmative replies ranged as low as 15.4% in the case of grants for airport construction and as high as 96% in the case of vocational education grants.

It has been remarked that the Smith-Lever Act was the first of the modern grants-in-aid. The reasons for this should now be apparent. Ogg and Ray have stated that the modern grant is characterized by the following features:³¹

- 1) The state shall spend the money only for the purpose set forth in the act.
- 2) Concurrent appropriations by the state in order to be eligible for Federal funds.
- 3) Creation by the state of a suitable administrative agency.
- 4) State recognition of the Federal government's right of inspection, approval of policies and fixing of minimum standards.

The Smith-Lever Act, as well as several prior acts, contained detailed legislation concerning the manner in which appropriated funds should be spent; hence, requirement one was met. As was pointed out above the Smith-Lever Act was the first piece of legislation to require matching appropriations by the state; the State Marine School Act of 1911 had been the first to incorporate this provision, but the Marine School program was conducted on a relatively small scale in comparison to the agricultural extension program of the Smith-Lever Act.

31. Ogg and Ray, Essentials of American Government, p. 75.

The agency charged with responsibility for administering the act was the land-grant college within each state; thus, under the aegis of prior legislation each state had, in 1914, an agency in existence which was suitable as a state administrative organization. Requirement four above was automatically met when each state accepted the Federal funds since the Smith-Lever Act specified that in accepting funds the state thus agreed to submit to Federal supervision by the Secretary of Agriculture. After 1914 the pattern for grant legislation was fairly well established along the lines of the Smith-Lever Act with the incorporation of the matching provision, a distribution formula other than flat, equal grants to each state, Federal supervision of the supported program and decentralized administration being taken almost as a matter of course. Several states have objected strenuously to the invasion of "state's rights" which the Federal supervision inevitably entails, but it is an extremely rare occurrence for a state to refuse a Federal grant on this ground.

In 1928 the so-called Capper-Ketcham Act extended further aid to the states for the promotion of agricultural extension work. The provisions of the act of 1928 are almost identical with that of the Smith-Lever Act of 1914

except for certain stipulations concerning the use to which the additional funds might be put. In this connection Section 1 of the Capper-Ketchum Act makes the following statements:

Section 1: The additional sums appropriated under the provisions of this act shall be subject to the same conditions and limitations as the additional sums appropriated under such act of May 8, 1914, except that (1) at least 80 per centum of all appropriations under this act shall be utilized for the payment of salaries of extension agents in counties of the several States to further develop the cooperative extension system in agriculture and home economics with men, women, boys, and girls; (2) funds available to the several States and the Territory of Hawaii under the terms of this act shall be so expended that the extension agents appointed under its provisions shall be men and women in fair and just proportions; (3) the restrictions on the use of these funds for the promotion of agricultural trains shall not apply.

These provisions do not, of course, affect the general tenor of the Smith-Lever Act. Their primary significance lies in the tendency which they exhibit in relation to the increasing degree of Federal supervision which Federal subsidization involves. For a number of years now the appropriation acts for the Department of Agriculture have carried an item containing supplementary funds for the original Smith-Lever Act. A major increase in the amount of Federal funds available for agricultural

32. Federal Relations to Education, op. cit., p. 53.

extension was contained in the Jones-Bankhead Act of 1933.³³ By the terms of this act the Congress increased the funds available to the sum of twelve million dollars annually. These additional funds were given to the states on a non-matching basis, i.e., they were in the nature of an outright grant which was not contingent upon any state appropriation. In addition to this marked alteration of the distribution formula contained in the original Smith-Lever Act the Jones-Bankhead Act also changed the method of allocating the Federal funds. Whereas the Smith-Lever Act had allocated the conditional grants provided for in the act upon the basis of rural population in each state, the Jones-Bankhead Act stipulated that the funds over and above the annual uniform grant of \$10,000 should be allocated upon the basis of the farm population within each state.

In 1917 the Congress launched a new Federally aided educational program with the passage of the Smith-Hughes Act on February 23rd of that year. Preparation for World War I had disclosed the disconcerting fact of a lack of balance in the American educational system. Federal aid, which for many years had been given to the states for the promotion of agricultural work, had completely bypassed the common school system as well as the field of

33. Federal Grants-in-Aid, op. cit., p. 6.

vocational training. As a result training in the industrial arts was at a low ebb at a time when military requirements for trained personnel were at a peak. Partly to remedy this situation, but principally to establish a long range program leading to adequately trained industrial and home economic workers³⁴ the Congress passed the Smith-Hughes Act to provide Federal funds in the promotion of these activities. The act established three categories of work that were to receive aid; those interested in agricultural training, those interested in trade or industrial training, and those interested in home economics. Separate funds were established for the aid of each of these classes. The initial appropriation amounted to \$1,660,000 with the provision that it would be increased annually until it ultimately amounted to \$7,000,000 annually.³⁴ In an effort to place the funds at the points of greatest need the writers of the Smith-Hughes Act made several refinements upon previously used methods of distribution. The distribution formula, or more accurately, the three distribution formulae were adjusted so as to bear some relationship to the needs of the states with respect to each of the three aided projects. Following this pattern the funds for the support of agricultural training were to be distributed among the states according

34. Ibid., p. 9.

to the proportion which the rural population of each state bore to the total rural population of the United States. In the case of funds for industrial or vocational training the basis of distribution was the ratio between urban population of each state to the total urban population of the United States; funds for training in home economics were to be distributed upon the same basis as were the vocational training funds. In addition to the support given to each of these education fields the act also provided a subsidy for the training of teachers in each of the three areas of agricultural, home economics and vocational training. Funds for this purpose were to be distributed according to the ratio between the total population of each state and the total population of the United States. There is thus evidenced a desire upon the part of the Congress to place the Federal grants with some reference to the needs of each state. The means of distribution contained in the Smith Hughes Act also reveal the growing experience of the Congress in the matter of grants-in-aid. As more and more grants were made for the promotion of more and varied projects the complexity of the situation impressed itself upon the Congress and an obvious effort was made to adjust the grants to the needs of the individual states by means of something more than hit or miss politics. This, though it is an encouraging

sign, should not be taken as indicative of perfection in the matter of grant-in-aid distribution. Even to the present time there are serious defects in the distributive formulae. One of the greatest hindrances to more effective distribution is the political factor which, though not always of paramount consideration, is still of weighty significance. Evidence of this is contained in the bill recently before the Senate the purpose of which was to provide financial assistance to the common, or public, school system (S.B. 472). One of the provisions of that bill would have given to every state, regardless of its financial status, \$5 for each child of school age within the state. This condition was obviously the result of political consideration since the more wealthy states had to have some inducement else they would not have voted for the passage of the bill. As a result of this provision New York, by all standards one of the wealthiest of the states, would have received over \$12,000,000 whereas Virginia would have received only \$8,000,000. Pennsylvania, another wealthy state, would have received over \$10,000,000, while West Virginia, notorious for its poor education system, would have received \$10,000,000 also. In spite of such inequities as the above figures

35. Mid-West Debate Bureau, Federal Aid to Education, p. 67.

indicate, however, it must be admitted that the overall picture demonstrates a gradual amount of progress in the direction of scientific allocation of Federal funds. The Smith-Hughes Act, with its varied distribution formulae, is, therefore, a legislative landmark along the path of this progression.

Following the pattern established by the State Marine School Act of 1911 and the Smith-Lever Act of 1914 the Smith-Hughes Act required each state receiving funds to match the Federal contribution. Section 9 of the act states in part that "... the money expended under the provisions of this act ... shall be conditioned that for each dollar of Federal money expended for such salaries the State or local community, or both, shall expend an equal amount for such salaries" The same condition was made applicable to Federal funds for the purpose of teacher training.³⁶ It has been argued that such matching requirements constitutes an invasion of state budgetary rights in that the state is required to appropriate certain of its funds to specific projects if it is to regain a portion of the money its citizens have contributed to the Federal government in taxes. The above type of matching requirement is particularly subject to this criticism. Such a grant is known

36. Federal Relations to Education, op. cit., p. 55.

as an "open end" grant meaning that within certain limits the amount which the Federal government will contribute is determined by the amount contributed by the state; the more one state contributed the more the Federal government will contribute. Such an arrangement obviously tempts the state to devote a larger share of its revenues to Federally aided projects than would ordinarily be the case, and this, of course, adversely affects many worthy state enterprises that are not within the scope of Federal programs.

The Smith-Hughes Act created an innovation in the grant-in-aid system which is worthy of notice. It has been previously observed that in accepting the Federal funds the state must designate an agency to administer the program on the state level. In the case of agricultural extension work and the agricultural experiment stations the work was under the direction of the land-grant colleges on the state level and under the Secretary of Agriculture on the national level. The Smith-Hughes Act was responsible for this creation of a new administrative agency, on both the state and national levels, namely, the Federal Board for Vocational Education. On the Federal level the board consisted of the Secretaries of Agriculture, Commerce, Labor and the United States

Commissioner of Education plus three citizens of the United States who were to be appointed in such a way as to be representatives of manufacturing and commercial interests, agricultural interests and labor.³⁷ The Federal Board for Vocational Education originated out of the controversy preceeding the passage of the Smith-Hughes Act.³⁸ When the bill came up for consideration in the Congress each of the three interested factions, agriculture, manufacturing and education, wanted to administer the act in a different manner. Agricultural interests advocated administration by the Secretary of Agriculture; educational lobbyist favored administration by the United States Office of Education, while manufacturers favored administration by a representative board. The final result of the Congressional debate was the Federal Board for Vocational Education which, as may be seen from the composition of its membership, represented a compromise agreement which was, however, rather heavily influenced by The National Society for the Promotion of Industrial Education, a manufacturer's organization. During the course of it's existence the board suffered from the controversy surrounding its origin; consequently it was never very effective, even though under the terms of the act it was supposed to have

37. Federal Relations to Education, op. cit., p. 56.

38. Key, op. cit., pp. 208-210.

exercised rather broad powers. In 1932 the National Advisory Committee on Education recommended in its report that the Board be transferred to the Department of the Interior under the special direction of the Office of Education. President Hoover issued an Executive Order in December, 1932 effecting the transfer, but the order was reversed by Congress. In June, 1933, however, President Roosevelt, under the authority of the Economy Act, ordered the functions of the Board transferred to the Department of the Interior and the Board itself retained in an advisory capacity with its members serving without compensation. The Roosevelt order became effective in August, 1933.

The Federal Board created for the administration of the Smith-Hughes Act was granted extensive supervisory powers. Although, as was noted above, the Board's effectiveness was somewhat diminished as a result of the controversy surrounding its origin, it nevertheless was in a position to exercise a considerable amount of control over the several states receiving funds under the act. Perhaps the greatest instrument of control was the Board's authority to review and approve the plans for vocational training submitted to it by the states. The act required that the Board approve all plans which were in conformity with the provisions of the act thus

making approval mandatory if the minimum requirements were satisfied. In spite of the mandatory approval provision, however, the Board was able to exert quite a bit of influence over the states for the reason that it possessed the authority of approval over the standards which each state was required to accept in order to receive Federal money. Thus, by having the authority to declare exactly what constituted a "minimum" standard to be met by the states, the Board was in a position to exercise power totally inconsonant with the mandatory approval provision. Indeed, from the standpoint of practical effects the power of approval over standards virtually negated the intent of the mandatory approval provision.

Insofar as financial restrictions relating to the expenditure of funds received under the act are concerned the Smith-Hughes Act follows closely in the pattern established by previous grant-in-aid legislation. Indeed, the only change that might be noted was the tendency of the Smith-Hughes Act to go even further in the way of controls over state use of Federal funds. For the most part these controls were in the nature of categories for which funds could or could not be spent. For example, not more than 20% of the funds received in any given year

could be spent for the training of home economics instructors; nor could any funds be paid for instructional purposes unless the teachers met the minimum requirements established by the Federal Board.³⁹ As in all previous acts it was stipulated that no part of the money appropriated under the act could be used for capital construction; a further provision of the act prohibited the use of Federal money for the support of private or religious institutions. It should not be inferred that the writer is speaking in direct condemnation of such provisions. Indeed, it seems for the most part that they represent sincere attempts by the Congress to insure the adequate and proper use of public funds. That such a duty is incumbent upon the legislature, whether state or national, no one will deny. Experience has demonstrated that the individual states, if left entirely to their own devices, are not the most vigilant protectors of the taxpayer's interests; nor, for that matter, is the national government in many matters. Yet it seems the part of common sense to require that funds given for a specific purpose be used for that purpose and for no other, and this is essentially what the Federal financial restrictions attempt to do. The question of Federal control which has arisen

39. Federal Relations to Education, op. cit., pp. 60-61.

out of the grant device is one of the most perplexing in the whole realm of federal government. In the final analysis it would seem that the matter resolves itself into a question of alternatives. On the one hand is what might be called the "hard-headed" business point of view which demands that all funds appropriated be accounted for in precise terms. In order to do this controls of some nature are absolutely necessary; there is no way of assuring proper use of Federal funds without them, even though such controls may impair the fabric of the federal structure. On the other hand is the view of the constitutional theorist who holds that the separation of powers is essential to the maintenance of a federal form of government. Federal controls over state finance serve to deteriorate the sovereign power of the states; hence, reasons the constitutional fundamentalist, Federal controls are harmful and are to be avoided at all costs.

The answer to this dilemma will not be found within these pages. The argument rages on both sides, and on both sides there are factors that merit consideration. Suffice it to say at this time that history has decreed in favor of Federal grants accompanied by Federal controls. Whether or not this will ultimately result in the extinction of our federal form of government and its re-

placement by a centralized political structure only time can disclose. However, it is not speculation, but historical fact, that the Smith-Hughes Act was, and is, a bulwark in the legislative procession leading to strong unitary power.

Federal assistance in the promotion of vocational education was carried to even further heights by the passage of the George-Reed Act of 1929. The George-Reed Act was in the nature of a supplementary appropriation since it followed the basic outlines of the Smith-Hughes Act of 1917 with a few exceptions. Perhaps the most important change in the 1929 legislation was its omission of funds for the support of training in trade and industrial subjects. By the terms of the George-Reed Act all appropriations made under its authority were to be divided equally between agricultural teaching and the teaching of home economics. In 1936 the George-Deen Act increased the annual authorization for vocational education grants to approximately \$22 million. Of this sum approximately \$14 million was authorized by the basic legislation in the field, the Smith-Hughes Act, and the remainder was authorized by the Acts of 1929 and 1936.⁴⁰ In 1946 the 79th Congress passed Public Law 586 under the terms of which Federal grants for vocational education

40. Key, op. cit., p. 14.

were increased to approximately \$36 million per year.

With the exception of a few minor acts the Smith-Hughes Act, along with supplementary appropriations contained in the George-Reed and George-Deen Acts of 1929 and 1936 respectively, was the last of the legislative enactments authorizing aid for various educational purposes. During the early days of the Roosevelt New Deal several pieces of legislation came into existence which aided education in one way or another. Principal among these were various acts resulting in the erection of school buildings. Such legislation had as its primary purpose the relief of destitution resulting from the depression of 1929-33, and hence will be discussed under the heading of grants for public assistance. During the war years sundry grants of an emergency nature were made to several states and localities for the purpose of aiding in the training of war workers. These subventions expired at the conclusion of hostilities, however, and thus are not of great importance to a survey of permanent grant-in-aid legislation. In the years following World War II and down to the present time the Federal government has annually spent millions of dollars for the education of veterans under the authority of Public Law 316 for dis-

41. Federal Grants-in-Aid, op. cit., p. 9.

abled veterans and Public Law 346 for non-disabled veterans. The program for the rehabilitation of veterans, however, is entirely under the auspices of the Federal government; it is financed in toto by the Federal government, and is administered by the Veterans Administration working in conjunction with various institutions, both public and private. Under these circumstances it cannot be classified under any type of grant-in-aid scheme, and hence is not a proper subject for discussion in a paper of this limited scope. One other program, the school lunch program, may possibly be put in the category of grants for educational purposes. The basic purpose of the program, however, does not seem to be educational in its intent; rather, it is a program for the amelioration of certain detriments to the health of school children. Hence, it will be discussed under the chapter dealing with grants for public health.

Chapter II

Having examined in some detail the major acts authorizing Federal aid for the support of various types of education attention will now be directed to another prolific area of the grant-in-aid system, that of Federal aid for highway construction.

The grant-in-aid device had been in use for many years before it was directed to the construction of an adequate system of inland transportation. The reasons for this are not difficult to understand. Prior to the invention and wide use of the automobile the need for an extensive system of inland roads had not been overly pressing. Travel was relatively limited and the transportation of freight was largely a monopoly of the railroads, with inland waterways sharing a portion of the freight traffic wherever possible. Consequently the financial resources of the Federal government were directed to more urgent matters, and road construction was generally financed by state and local governments. In order to understand the gradual development of our highway system

and the role that the grant device played in it, it will be necessary to review briefly its historical background.

Shultz and Harris, writing in the field of Public Finance, have divided the historical development of roads in this country into three periods.¹ The first period, which began as early as 1780 and lasted until the late 1840's, was characterized by private construction of roads; these roads were the well-known toll roads or turnpikes a few of which are still in existence. The view taken toward roads during this period was similar to that which the businessman takes toward any area of prospective profits. Roads were constructed by private corporations and a fee, or toll, was charged to those who used them. This toll constituted the source of the builder's profit. While most of the toll roads were constructed by private interests a few were financed by various state governments, and one, the Cumberland Road, was constructed by the Federal government.

After the development of railroads on a commercial scale during the late 1840's the revenues to be obtained from toll roads began to decline, and after the Civil War, when railroad construction began to boom, toll road profits became almost non-existent. Thus, the second period in the history of our highway development was initiated.

1. Shultz and Harris, American Public Finance, pp. 75-79.

This period, which lasted until around 1890, was characterized by the complete dominance of local governments in the field of road construction and repairs. The roads of this period reflected the secondary relationship which they bore to the railway systems. Practically all of them were simply feeder roads leading to rail stations or water ports. Construction was on a make-shift basis which quite naturally resulted in inferior roads; hard surfacing was virtually unknown except in swamp areas where corduroy log surfacing was employed. Since local governments have traditionally been the poorest element in our system of government the financing of even the most rudimentary road represented major difficulties. County and municipal governments quite generally solved this problem through the use of statute labor. By means of this method a road tax was levied upon the individual and the tax was paid in labor, such labor being expended in the repair or construction of roads within the county. This rudimentary system was in use in this country as late as 1880.

During the latter part of the Nineteenth century, however, the growth of urban centers gradually imposed upon the populace an awareness of the disparities which existed between the roads of rural and urban areas. In

time this led to the Good Roads Movement the purpose of which was to equalize the standards of rural transportation with those of the urban areas. Very largely as a result of this movement three adjustments of major importance occurred in our system of road management between 1890 and 1916.² The first of these was the gradual replacement of statute labor by money taxes; generally the tax employed for this purpose was a tax on property. Second, the taxing and administrative unit was steadily expanded in size. It rapidly became obvious that local governments were incompetent to deal with the financial and administrative problems involved in extensive road construction; hence, while the property tax was still administered on the local level there gradually appeared various state agencies whose purpose it was to use the taxes in the creation of a balanced and sustained program of road building throughout the state. Third, the Federal government gradually began to assume an interest in the construction of adequate roads, although at the outset Federal participation was confined to educational and promotional work. With one small exception, the Post Office Appropriations Act of 1913 which carried an appropriation of \$500,000 for the improvement of roads over which rural delivery had been established, the Federal

2. Dearing, Charles L., American Highway Policy, p. 47.

government did not contribute financially to the construction of roads until the passage of the Federal Aid Road Act of 1916. With the passage of this act the third period in the development of our highway system was initiated.

The Federal Aid Road Act of 1916 provided the basis of a grant-in-aid program that was to eventually become second in size only to public assistance grants from the standpoint of money spent. At its inception, however, the highway program involved only modest appropriations, at least as they are judged by present-day standards. The original amount authorized was \$75 million which was to be spent over a period of five years. By virtue of subsequent authorizations contained in the Highway Act of 1921, the Emergency Relief and Construction Act of 1932, the Hayden-Cartwright Act of 1934, the Defense Highway Act of 1941 and the Highway Act of 1944 this amount was greatly increased. At the present time the highway program receives an annual appropriation of \$450 million dollars authorized during the fiscal years of 1950 and 1951 by the Federal Highway Act of 1948.

Since the Act of 1916 provided the pattern for all subsequent highway legislation it is necessary to consider in some detail the provisions of this act, especially as they relate to allocation and matching formulae. Before

undertaking a discussion of these points, however, a brief survey of some of the administrative details of the act will be helpful in the understanding of later legislation. In this respect the Federal Aid Road Act of 1921 is responsible for the creation of one of the most important of the modern state agencies, the highway department. By the terms of the act the state was declared to be the smallest political unit with which the Federal government would deal in the administration of the highway grants.³ Consequently it was necessary for those states which did not already maintain highway departments to create them. A majority of the states were in this category in 1916. From an administrative point of view the highway department of many states has been the center of an almost continuous controversy between the rural and urban influences within the states. Particularly has this been true since the institution of grants for the construction of farm-to-market roads in 1936. The crux of this controversy was the question of whether or not the Federal government would deal directly with local units of government. Obviously the rural areas desired to establish direct relations with the national government since it would materially improve their chances of securing grants for rural, secondary roads. The Bureau

3. Key, V. O., The Administration of Federal Grants To States, p. 230.

of Public Roads, however, has consistently clung to the policy established in the Act of 1916 of dealing only with the state agency.⁴ The continuation of this practice has had many practical advantages not the least of which is the greatly increased strength which it imparts to the state during a time when that political level has been losing ground on most other fronts.

Although certain refinements have been introduced from time to time the basic elements of the apportionment formula contained in the Act of 1916 are still in use. According to this formula highway funds were to be distributed among the states on the basis of three factors, area, population and mileage of rural mail routes.⁵ In this manner all of the states, whether predominantly rural or urban, received fair consideration in the dissemination of Federal funds. After determination of the allocation of the funds was completed it remained for each state to make itself eligible for its share by submitting to the Bureau of Public Roads a plan of operation. If and when this plan was approved the funds were made available to the states through the usual disbursement channels. It may be noted at this point that the allocation of the funds within the state was completely in the hands

4. Ibid., p. 231.

5. Federal Grants-in-Aid, Report of the Committee on Federal Grants-in-Aid, p. 219.

of the state administrative agency; the Federal act required simply that the grants be spent on the construction of "any public road over which the United States mail now or may hereafter be transported". Federal participation in the costs of construction was limited to \$10,000 per mile of road although in an appropriation act of 1919 this amount was increased to \$20,000 per mile.⁶

As experience demonstrated the principal weakness of the Act of 1916 lay in the amount of discretion it placed in the hands of the state agency. As was previously observed, supervision over the way in which funds were actually spent was almost completely a matter for the state official to determine. As might have been expected this resulted in wide variations among the highway systems of the several states; in fact, there was an almost complete lack of coordination among the road systems that emerged from the Act of 1916. The Highway Act of 1921 attempted to rectify this situation by requiring the Secretary of Agriculture and the several state highway departments to arrive at a systematic and coordinated national highway policy by means of joint consultation. As later events disclosed this was one of the happiest provisions in all of the history of Federal grants-in-aid. Not only did it result in effecting a material improvement

6. Ibid., p. 220.

in the coordination of the national highway system, but by virtue of the joint effort involved it served to create a "partnership" attitude toward the highway program which has been the means of eliminating much of the bickering and animosity that have characterized other grant programs. The roads affected by this provision were limited to 7% of the rural roads then in existence; in highway terminology this section of the highway system has come to be known as the Federal aid highway system. The revisions contained in the Act of 1921 were responsible for one further adjustment in the distribution of Federal grants. The Act of 1916 had stipulated that all Federal funds must be matched on a 50-50 basis. After it became apparent that this requirement was working a hardship on those states containing large areas in public lands and Indian reservations the Congress moved, in the revisions of 1921, to ameliorate this condition by authorizing Federal payments in excess of 50% of the total construction costs. The formula for determining the amounts to be given to these public land states was based upon the ratio between public and private lands within any state in which this ratio exceeded 5%; no provisions were made for those states having a ratio of less than 5%. For states that could qualify under this provision the percentage of construction costs financed by the Federal government was increased by one-half of

of the ration between public and private lands.

Prior to 1930 the funds appropriated for highway construction were based upon the philosophy that adequate highways were a responsibility of the Federal as well as the state governments. The grants made to highway construction during this period were conditioned exclusively by the desire to create a coordinated system of inland transportation. After 1930, however, the idea of using highway construction as a vehicle for relief expenditures came to be widely accepted. In conformity with this new attitude the Congress in 1930 made an appropriation of \$80 million which was intended as a payment in lieu of the matching requirements upon which other grants were conditioned. Strange as this procedure may seem its purpose was entirely sound. Not only was it in the national interest to maintain normal expenditures on highway construction, and without these funds this could not have been done due to the sagging condition of state finances, but it was equally important to maintain as high a level of employment as was possible under the circumstances. In 1932 this procedure was repeated with an appropriation of 120 million dollars. In both instances the advances were intended as loans, but with the exception of the first \$80 million, which was deducted from regular appropriations

7. Ibid., pp. 220-221.

for the fiscal year 1933, their repayment was permanently waived, so that in effect they became 100% grants with the matching requirement eliminated entirely.⁸

In the face of continuing difficulties on the part of the states in meeting the Federal matching requirements the fiction employed in 1930 and 1932 was dispensed with in 1933 and the National Industrial Recovery Act contained an appropriation of \$450 million for road construction with no matching requirements attached. The Hayden-Cartwright Act of 1934 continued the practice of outright grants to the states with an appropriation of \$200 million. This act is primarily important because it represents the first Federal contribution for the specific purpose of secondary road construction. Not less than 25% of the allocation to each state was required to be applied to secondary roads.⁹ A major portion of the work financed by these funds was carried on under the direction of the Public Works Administration. While the economic effects of road construction upon national employment are not a pertinent aspect of this paper the reader who is interested in matters of this nature will find an interesting and informative account of them in Harold L. Ickes book, Back To Work.

8. Ibid.

9. Ickes, Harold L., Back To Work, p. 83.

Although World War II interfered seriously with the normal progress of highway construction the Federal government found it necessary and expedient to make several grants of considerable size for the purpose of preparing our highway system for the unusual demands made upon it by military movements. All of these grants dispensed with the matching requirement and apportionment of most of the funds was dictated by military necessity rather than by the principles normally governing the distribution of highway grants. In the strictest sense, therefore, these appropriations were not grants-in-aid, the only resemblance being the part played by the various state highway departments in the work financed in this manner.

In 1944 the Federal Aid Highway Act was passed to lay the groundwork for a gigantic program of highway construction in the years immediately following the culmination of hostilities. Under the terms of this act the aims of Federal participation in highway construction were greatly broadened; for the first time provision was made for an integrated program involving urban as well as primary and secondary roads.¹⁰ The Federal Aid Highway System was expanded to the point where it encompassed a total of 40,000 miles of roadway. Funds for this tremendous enterprise were appropriated in the amount of

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10. Federal Grants-in-Aid, op. cit., p. 223.

\$500 million for each of the three years 1946, 1947 and 1948. These funds were to be distributed according to¹¹ the following formula:

- 1) The sum of \$225 million was to be expended on the Federal Aid highway system, one-third according to total population, one-third according to area, and one-third according to rural delivery and star route mileage.
- 2) The sum of \$150 million was to be spent on secondary and feeder roads in rural areas according to the above formula except that rural population is used instead of total population.
- 3) The sum of \$125 million to be used for the development of urban road systems according to a formula based on urban population alone.

The program envisioned in the Act of 1944, however, encountered the same problems that were faced by virtually all projects involving the use of labor and materials. Costs were high and labor and materials were scarce. As a result of these factors the highway construction program was slow in getting underway. Another difficulty lay in the fact that the Act of 1944 had reverted to the traditional pattern of requiring all Federal funds to be matched on a dollar for dollar basis; and although many of the states found themselves in possession of surplus funds at the conclusion of the war the outlays demanded by a program of the size contemplated in the 1944 legislation were not to be undertaken lightly,

11. Ibid., p. 57.

especially in view of the pressing nature of other state requirements, particularly educational facilities.

With the view, therefore, of adjusting the 1944 act to the needs and capacities of the states Congress in 1948 passed another Federal Highway Act. Although this act carried increased Federal appropriations its primary importance, from the viewpoint of many of the states, lies in the provision it makes for the deferrment of state obligation of Federal funds. This provision allows the states a grace period of two years after the year in which the appropriation was authorized during which time Federal funds may be legally obligated by the states. The 1948 act thus has the practical effect of spreading over a period of eight years the program that was originally contemplated as a four-year program. This will allow many states to take advantage of Federal grants that would otherwise have been impossible for them to do so or would have had to apply a detrimental pressure on other state services in order to obtain the funds necessary to match the highway grants.

The experience of the Federal government in the field of highway construction has been one of the most fruitful and satisfying of all the grant-in-aid programs. By and large this has been the result of the feeling of mutuality

and endeavor in a common cause created by the joint efforts of both Federal and state officials. That such a pattern was established during the very early days of the program and has continued down to the present is an indication of the way in which Federal-State relations can be made to serve effectively the common needs and interests of the nation as a whole. In 1948 the members of a Conference on Federal-State Relations, meeting under the auspices of the Council of State Governments, was moved to declare publicly that the highway program had evolved into a well-defined and eminently satisfactory relationship from the standpoint of the states as well as of the Federal government. Other grant-in-aid programs would do well to emulate this record of achievement.

Chapter III

The third great area in which grants-in-aid have been employed on an extensive scale is that of social security and public assistance. The advent of both social security and public assistance programs is a relatively recent phenomenon in our political and social history, particularly as they relate to action on the part of the Federal government. As in the case of previous grant programs, however, it will be necessary to trace the development of the trends which led to the adoption of full Federal participation in social welfare work if the present programs are to be viewed in their proper perspective.

When the early settlers came to this country they were not, as so many history books imply, completely imbued with a new sense of freedom, equality and brotherly love. Most of these people came to America because of personal reasons, i.e. : they hoped to better their own particular lot in the new country; highly

developed schemes of social welfare seldom, if ever, came to their minds. Indeed, the transfer of their homes to the New World did little to change their previous ways of life or outlook upon society and politics in general. Thus it was that practically all of the early social and political philosophy in this country had an Old World flavor. At the outset the predominant economic philosophy was that of mercantilism in which emphasis was upon the enlargement and strengthening of the State with little concern for the welfare of the individual except insofar as the individual was contributory to the upbuilding of the State. Under these circumstances it is obvious that little or nothing would be done for the indigent; indeed, it is doubtful that any thought was given to them at all. Certainly they were not considered to be the responsibility of the national government.

In 1776 Adam Smith published his great work entitled The Wealth of Nations in which he presented the concept of a free economy, unhindered by government regulations and restrictions. The publication of this book may, for purposes of discussion, be taken as the end of the mercantile system and the beginning of a laissez-faire philosophy in economics and politics. Under this new

system the individual was given the primary responsibility for obtaining a livelihood and preparing for future years when his productive abilities had diminished or vanished entirely. As a corollary to this philosophy of individualism there arose the idea that the poor, if they were unable to meet their own responsibilities, were the proper objects of private charity, particularly upon the part of their more opulent relatives. This point of view rested upon the assumption that if a person were poor it was his own fault; if he should become the object of public charity it would only perpetuate him in his pauperism. In order to forestall this latter possibility the poor laws were intentionally made extremely harsh and a social stigma was attached to the person who, for any reason at all, was forced to accept the charity of another. Such public assistance as there was, was strictly in the hands of the local township and a person became the subject of local public charity only after all other possibilities had been exhausted. In the simple economy of those days such a system sufficed without producing an uncommonly great amount of hardship. For the most part the indigent were taken into the homes of relatives or friends who quite frequently were happy to have them as a source of inexpensive labor.

As in the case of other areas in which the grant device has been utilized the passage of time and with it the increase in the complexity of the economic system, necessitated changes. Gradually the new circumstances forced upon the people a greater understanding of the problems of the indigent, the handicapped and the otherwise economically incompetents. Particularly was this true after the industrial revolution began to be felt in full force. From time to time various reform groups sprang up advocating more humane treatment for the economically unfortunate. The natural agency to which these reformist looked for relief was the state. Necessity for state action stemmed largely from three factors:¹

(1) local governments were unable to cope with the increasing size of the problem and therefore the state was the next logical agency; (2) in order to get new standards applied with uniformity throughout the state it was necessary to secure state legislative action; and, (3) in most states the powers and duties of local government were to undertake some new function it was necessary to have state approval. Thus the responsibility for social relief was gradually shifted to the states. It must not be assumed, however, that the state became sole agency for the disbursement of relief. Rather, it was, by and

1. Meriam, Lewis, Relief and Social Security, pp. 9-10.

large, a joint effort with the state usually leading the way toward uniform action through the use of shared tax schemes or grants-in-aid to local units of government.

This method of handling the problems of social security and public assistance was the accepted pattern until the depression of 1929-33 was well into its second year. As late as January, 1931, President Hoover stated publicly that relief was not primarily a Federal function and that state and local governments should bear the burden.²

In pursuit of this policy the several states spent approximately \$150,000,000 during the next two years for relief purposes. Among the leaders in this movement were New York spending forty million dollars, New Jersey with thirty million and Pennsylvania with twenty-two million dollars.³ Other states made contributions in smaller amounts.

As the depression became more intense, however, it became obvious that state and local governments could not deal with its problems upon anything approaching an adequate scale. One of the primary reasons for their inability was the severe crisis in state and local credit which set in during and following 1931.⁴ In 1931 and

2. Toll, Henry W., "Contributions of the States to the Public Works Program", State Government, December, 1933, p. 7.

3. Ibid.

4. Ibid., p. 9.

In 1931 and 1932 state and local bond sales dropped to their lowest point in ten years. From 1924 to 1931 state and municipal bond sales had averaged around 1.4 billion dollars annually, in 1931 this average fell by \$150,000,000, in 1932 by \$450,000,000 and in the first eight months of 1933 by about \$400 million. The seriousness of the situation may be appreciated more keenly when it is realized that this decline in sales occurred in the face of increasing interest rates; during the latter part of the decline rates of up to 5% were not uncommon.

In view of these conditions the states began to search frantically for new sources of revenue and/or ways in which current expenditures could be decreased. An examination of the magazine, State Government, published by the Council of State Governments, for the years 1930 through 1935 reveals the intensity with which state finances were reviewed in an effort to find ways to balance state budgets. This preoccupation with money matters continued until well into 1935. For example, at the Second Interstate Assembly, held February 28 through March 2, 1935 twenty-one reports and resolutions were discussed and adopted. Of this twenty-one, sixteen dealt in some fashion with the problem of finances.

5. "Resolutions of Second Interstate Assembly", State Government, April, 1935, pp. 99-107.

In the meantime, however, the Federal government had entered the field of public assistance, and after its entrance rapidly became the central agency for the amelioration of economic destitution. It is quite commonly believed that the Federal government's participation in relief work began only after the inauguration of the Roosevelt administration in 1933. While it is quite true that most of the great public relief measures came after President Roosevelt's arrival at the White House it should be pointed out, in the interests of accuracy, that Federal relief measures of a sort had been undertaken under President Hoover's leadership. These measures will be discussed in the subsequent paragraphs. Before beginning a more detailed examination of the legislative revolution that occurred after 1932, however, it will be helpful to undertake a brief survey of its major outlines in order to maintain some degree of overall perspective.

The material being discussed under the heading of Social Security and Public Assistance may be divided into three primary categories, namely, emergency relief measures, the Social Security Act of 1935 and finally miscellaneous legislation designed to benefit particular groups. Within each of these broad categories there is much that is not pertinent to the subject of this essay for the reason

that several of the programs involved in each did not work upon the grant-in-aid principal. Among the topics to be discussed under each of the above divisions are the following:

- 1) Emergency relief: RFC Loans, FERA grants, PWA.
- 2) Social Security Act: Old-age assistance, aid to dependent children, maternal and child welfare, aid to the blind, unemployment compensation, crippled-children services.
- 3) Special grants: Airports, School Lunch Program, hospital construction, venereal disease control.

As has been pointed out in the previous paragraphs the depression of 1929 caught local, state and national governments almost completely unprepared to cope with unemployment and destitution on so vast a scale. Furthermore, President Hoover persisted in viewing the relief problem as being essentially a responsibility of the state and local governments. Indeed, it was not until late in 1932 that the national government undertook to assist the states in dealing with problems of the depression. In that year the Reconstruction Finance Corporation, a creation of the Hoover Administration, authorized loans to the several states for the purpose of financing relief programs. While ostensibly these transactions were in the form of

6. Federal Grants-in-Aid, Report of the Committee on Federal Grants-in-Aid, pp. 171-172.

direct loans in reality they were outright grants since there was no intention upon the part of the RFC to require payment. As a method of solving the problems of relief growing out of the depression the loans were very unsatisfactory largely because of the inequitable manner of their allocation. There were six states which never received any funds under this program,⁷ while others received aid completely out of proportion to their relief needs. All in all the RFC loans proved to be temporary in nature and totally inadequate as a long-range program. Inadequate as they were, however, they did prove valuable in two respects: first, they enabled the states to ameliorate some of the hardships arising out of the depression and thus hold the line until more permanent relief programs could be organized; and second, they assisted the states in establishing administrative agencies which proved valuable under later programs.

Very shortly after the inauguration of the Roosevelt administration the Federal Emergency Relief Administration was organized to provide a systematic approach to public assistance. Under the Federal Emergency Relief Act of 1933 \$500,000,000 was appropriated for the first year. This sum was divided into two parts each of which was to be distributed in a different manner. Half of the

7. Connecticut, Delaware, Massachusetts, Nebraska, Vermont and Wyoming.

appropriation was to be used to reimburse the states for their expenditures for relief purposes. This portion was in the form of a matching grant based upon the formula of one Federal dollar for every three dollars spent by the state.⁸ The other half of the funds authorized by the act was to be a "discretionary" fund under the control of the Relief Administrator. This money could be given to the states, when, in the discretion of the Relief Administrator, the particular state could not itself provide funds for relief.⁹

Grants under the FERA differed in several respects from all previous legislation embodying grants-in-aid. Perhaps the greatest difference was in the power given to the Federal government in the person of the Federal Relief Administrator. It will be recalled that in previous grant legislation Federal control gradually became a standard characteristic. Yet in all of the acts prior to the FERA the administration was highly decentralized and Federal control consisted largely in the approval of plans submitted by state agencies and certain financial restrictions. Under the provisions of the Federal Emergency Relief Act, however, the Federal administrator was given extremely broad grants of power.

8. Hopkins, Harry L., "A Statement to the American Legislators by the Federal Relief Administrator", State Government, September, 1933, p. 8.

9. Ibid.

He could, if he deemed it necessary, seize in the name of the Federal government any state program using FERA funds. Furthermore, his powers in the allocation of the "discretionary" fund were virtually unlimited. As a result of this vague and somewhat lax method of allocation several peculiar circumstances arose. In some states all, or almost all, of the relief burden was financed by the FERA money while in other states only a small percentage of the total cost was Federally financed. According to one reliable report on the subject the Federal share of relief expenses varied as follows:

10
 Less than 50% in four states.
 From 50% to 75% in twelve states,
 and the District of Columbia.
 From 75% to 90% in twenty states.
 Over 90% in twelve states.

A survey conducted by the Federal Emergency Relief Administration in twenty-eight of the nations largest cities in May, 1933 disclosed that the distribution of the expense as among levels of government was very heavily weighted on the side of the Federal government. According to this report the national government carried 72.7% of the total expense, state governments financed 6.8%, while local governments paid 20.8% of the total cost.

10. Federal Grants-in-Aid, op. cit., p. 173.

11. Hopkins, Harry L., loc. cit., p. 9.

The Federal Emergency Relief Administration was in operation from 1933 until 1936. During that time it made grants to the states of over three billion dollars, approximately two-thirds of which was expended during the fiscal year 1935.¹² In retrospect its operation cannot be termed a complete success; most of the difficulty resulted from the ambiguous delineation of authority between the state and national governments and the unusual amount of authority given to the Federal Administrator. During the years 1933 and 1934 the Administrator actually seized the control of relief organizations in six states, Oklahoma, North Dakota, Massachusetts, Ohio, Georgia and Louisiana.¹³ The assertion was made by some Democratic senators that this control provision was inserted in the FERA act in order to assume control in those states where the governor was a Republican. Although in several instances where actual control of the relief administration did occur the governors were not overly enthusiastic concerning the New Deal there appears to be no substantial evidence indicating political chicanery on the part of the national government. Indeed, such corruption as was brought to light during the course of FERA's operation

12. Federal Grants-in-Aid, op. cit., p. 172.

13. Key, V. O., The Administration of Federal Grants To States, pp. 172-173.

was attributable to the states for the most part, and in one instance, namely Ohio, President Roosevelt personally intervened and directed Federal seizure of the relief administration when it became apparent that the state was distributing relief funds on a corrupt political basis.¹⁴ In spite of the administration's effort to maintain distribution of the funds free of political corruption, however, differences between the states and the Federal Relief Administrator occurred frequently and as a result the operation of the relief program was marred to a considerable extent by bickerings, lack of cooperation, and impatient and arbitrary action on the part of both levels of government.

The third and final program of an emergency nature which employed the grant device was the Federal Emergency Administration of Public Works, later known as the Public Works Administration or PWA. The Public Works Administration was established in 1933 for the purpose of promoting a public works program that would help to sustain the national economy. It should perhaps be noted that, although the PWA and the FERA operated concurrently, there is a very basic difference in the philosophy underlying the two programs. Since both programs had as their

14. Ibid., p. 173.

ultimate goal the relief of suffering caused by fluctuations in the nations's economy the difference must necessarily be in the methods whereby this goal was to be achieved. Under the FERA relief was distributed as a gift, or dole, with no work required as a condition for receiving it. The FERA program did embody some work relief projects, but in the main it was based upon the dole principle. The PWA program, on the other hand, was based exclusively upon the theory of work relief. The proponents of this view urged its acceptance on the grounds that it did not engender the attitude of shiftlessness and irresponsibility that resulted in the granting of outright doles. In addition to this a work relief program could, and should be the vehicle for providing the community with varied and useful projects that would add in measurable terms to the total wealth of the nation.

The administration of the Public Works Administration was highly centralized in form. Virtually all of the administrative details were decided upon in Washington, and though regional offices were established throughout the country they were given very little discretion in the conduct of their work. Mr. J. K. Williams in an article cited in the report by the Council of State Governments on Federal Grants-in-Aid makes the following

statement which, because of its insight into the administrative functions of the Washington office of the PWA, is quoted in full:

The reluctance of the Washington office to delegate authority to the field was declared to be motivated by the desire to keep the P.W.A. from degenerating into a public trough. Public construction in the United States had long been associated in the American mind with graft and careless expenditure. Administrator Ickes, whose personality and philosophy set the tone for the P.W.A. organization, had become familiar in his pre-P.W.A. days with municipal waste and corruption in the city of Chicago. Consequently, it seemed to him both logical and necessary to keep the public works program under constant and thorough Washington scrutiny, at least until sufficient trained personnel was available for a complete field organization, broad policies clarified, and routing procedures firmly established. Carrying this philosophy to excess, the Washington office attempted during the first two years of P.W.A. existence to keep under its thumb practically every detail of activity in the field.

Quite naturally such minute supervision from the central office resulted in unnecessary delay, irritation of regional and local personnel concerned with administration and a consequent degree of ineffectiveness that could have been avoided.

Equally as serious as the administrative ineffectiveness of the program, and partially stemming from it, was the method of distribution utilized by the Public Works Administration. Contrary to most of the previous grant legislation Federal contributions under P.W.A. were

guided by no established formula. Where the money was spent, how it was spent and when it was spent were all determined by the administrator of the program. No discretion was given to the states; all was in the hands of Harold L. Ickes, the administrator. Grants were made to political sub-divisions on the basis of first come, first served, and no effort was made to distribute the funds throughout the country. Consequently, many areas received exceptionally large grants while others were virtually ignored. Such procedure naturally resulted in arousing the enmity of the neglected areas. Mr. Ickes in recounting his experiences as P.W.A administrator has vividly recorded the vicissitudes of the person who is suddenly vested with authority over the expenditure of some three billion dollars and to whom the entire country looks for hand-outs.¹⁵ He was vociferously criticized because of "red tape", because the program did not boost the economy as much as some expected it would, because he had to refuse grants to some, and many other petty reasons. Not all of these charges were unfounded, and Mr. Ickes admitted the validity of some of them, though in practically every instance he had some perfectly valid reason as to why things turned out as

15. Ickes, Harold L., Back To Work, passim.

they did, or at least he felt that he had thoroughly justified reasons in each case. While it is difficult within the limited scope of this essay to objectively evaluate the effectiveness of P.W.A. operations, in the interest of fairness it should be observed that much of its ineffectiveness stemmed from the actions of the states themselves, or perhaps a more accurate statement would stress the lack of action on the part of some states. Practically all states constitution contain some type of provision concerning debt limitations, both in relation to the state government and to local governments. Since most states had already reached their debt limits by the time the P.W.A. legislation was enacted these restrictions seriously hampered the effectiveness of its work. Mr. Ickes, in an effort to facilitate the work of the Federal Public Works Program, made the following suggestions to those states which were precluded from accepting Federal loans by virtue of debt limitation provisions in their constitutions:

- 1) Pass a revenue bond act
- 2) Legislative action to relax the statutory provisions restricting or preventing local governments from borrowing from the Federal government.
- 3) Establishment of a state commission having authority to raise municipal debt limits. In this connection, however, he stressed the necessity for

16. Ickes, Harold L., "A Statement to the American Legislators by the Federal Administrator of Public Works", State Government, December, 1933, pp. 3-4.

commissions approval of loans to municipalities.

- 4) Passage of omnibus legislation to deal with the relief problem such as was passed by the Virginia General Assembly in 1933 (Chapter 26, Laws of 1933).

It will be noticed from the above suggestions that the Public Works Administration made loans as well as grants to the states and localities. While the loans are not properly within the scope of this paper it is interesting to note that during the early part of the program emphasis was placed upon loans to the states, while during the last years of the P.W.A., particularly after 1935, grants became the more important of the two. Total disbursements by P.W.A. to state and local governments included over \$800 million in loans and something less than \$1.5 billion in grants.¹⁷

Notice should also be taken of the fact that loans and grants were made directly to local governments, the states in many instances being completely by-passed. Insofar as the grants were concerned this was an innovation; all prior grants, regardless of their purpose, had been made to the states who, in turn, distributed them to the local governments, where the latter were concerned. Many persons saw in this new procedure a further danger to the structure of our federal system in view of the

17. Federal Grants-in-Aid, op. cit., p. 175.

damaging effects it might have on the prestige of the state governments. However, there appears to be no serious ramifications of such procedure as of the present time.

If one is able to disregard the long range political and social effects of a program of public assistance such as the P.W.A. was perhaps the next most important question is that which concerns itself with the direct and tangible results of the program. In other words, after spending over three billion dollars on various relief projects what did the nation at large have to show for its expenditures? It will be recalled that at the outset of this discussion the primary purpose of the Public Works Administration was said to be the elimination of unemployment and its resulting vicissitudes and to serve as a continuing support to the national economy. Measured in terms of this objective it cannot be said that the P.W.A. program was overly successful. The following figures indicate the status of employment in this country from 1929 through 1940:

	<u>Employment</u>	<u>Unemployment</u>	<u>% of labor unemployed</u>
1929	47.9	0.4	0.9
1930	45.2	3.8	7.8
1931	41.6	8.1	16.3
1932	37.7	12.5	24.9
1933	38.1	12.7	25.1
1934	41.0	10.4	20.2

1935	42.4	9.5	18.4
1936	44.8	7.6	14.5
1937	46.6	6.4	12.0
1938	43.6	10.1	18.8
1939	45.3	9.1	16.7
1940	45.9	9.0	16.3

The above figures, given in millions except for percentage items, clearly indicate two aspects of the relief programs. First, they demonstrate concisely that relief programs undertaken upon an extensive scale can reduce unemployment. In 1933 25.1% of the total labor force was unemployed. By 1934 this figure had fallen to 20.2%, and by 1937 had dropped to an even 12%. In 1937 our economy suffered a mild depression and as a result unemployment immediately rose to over 18% of the total labor force. From 1937 until after the effects of the defense program began to be felt in 1940 and 1941 total unemployment remained at around 16% of all employables. Thus it is evident that government relief expenditures, even on a vast scale, are insufficient to sustain the economy in the absence of extensive private investment. This aspect of the problem is further complicated by the fact that large governmental expenditure, particularly when made hastily and without proper coordination among the various levels of government, tend to depress private investment. Government expenditures must be financed either by taxation or by borrowing; ultimately the taxpayer must assume the entire burden since borrowed capital at some time must be repaid

out of taxes. In the event that a major portion of any government expenditure program is financed through taxation its likely consequence is to reduce private investment incentives and thus exert a downward pressure on the economy. The program of government expenditure will therefore be ineffective if it is not sufficiently large to overcome the lags in private investment resulting from it. If, on the other hand, the government program is financed through borrowings it will exert an inflationary effect on the economy, particularly if a large portion of the government bonds are placed with the commercial banking system as is usually the case. In this event high prices will wipe out many of the gains resulting from any increase in purchasing power flowing from the relief program. In view of these considerations and the over-all working of the relief programs of the New Deal, including P.W.A., Shultz and Harris¹⁹ reach the following conclusions:

The "pump-priming" spending of the 1930's failed to translate depression into a recovery that could continue under its own momentum. The idea of the country's "spending its way out of depression" only heightened the mistrust of business men already hostile to the Roosevelt administration and, together with other New Deal Programs and weaknesses of the economy, discouraged private investment. Much of the potential benefit was lost because the spending raised prices rather than physical output. And,

19. Schultz and Harris, American Public Finance, p. 97.

from the vantage point of hindsight, we can realize now that, large as were "pump-priming" expenditures, they were insufficient to counterbalance the shrinkage of private expenditures in the same period.

In spite of this very serious condemnation of the program, however, it is felt that it was not a total loss. During the course of its existence P.W.A. was responsible for the creation of many facilities which, without doubt, added to the total store of wealth in this country. Whether or not these additions more than offset the economic loss incurred in their creation is a debatable proposition; yet it is only fair to note that there were some tangible results. Not all of the money "went down the drain", so to speak. Among these more or less concrete results of P.W.A.'s operation are the following: ²⁰ 260 water systems, 235 street and highway projects, 216 schools and 200 sewer and sewage disposal plant projects. In addition to these, of course, thousands of P.W.A. dollars went for the purpose of vast power dams, housing projects, and reclamation projects; as a slightly humorous aftermath it might be noted that the Washington Monument received a thorough "wash-job" with a P.W.A. allocation of \$100,000.

In 1935 a change was apparent in the outlook of the national administration toward relief. The Federal government by a unilateral decision announced that henceforth

20. Ickes, Back to Work, p. 258.

the task of caring for "unemployables" would be a responsibility of the state and local governments, and that Federal aid would be extended only to the category of "employables". Still another factor that was to profoundly affect the entire social and political structure in future years was the passage in 1935 of the Social Security Act, an omnibus piece of legislation which incorporated the grant-in-aid device in several of the programs it brought into existence.

The passage of the Social Security Act of 1935 marked a definite turning point in the attitude of the American people toward social policy. In previous paragraphs it has been noted that the traditionally American view regarding social security held it to be primarily a responsibility of the state and local governments. This view was consistently upheld even after the Depression of 1929 had begun to be fully felt by business and labor alike. Even the tremendous grants to the public for relief of the early 1930's were considered to be of an extraordinary nature and not something that the national government should undertake on a permanent basis. In time, however, the excruciating impact of unemployment on a national scale began to manifest itself in a concerted movement to persuade the national government toward the enactment of legislation designed to provide a permanent bulwark against the ravages of prolonged unemployment and the vicissitudes of old age. By 1935 the attitude of President Roosevelt

toward the recovery program had also changed and he was apparently convinced that measures based upon the co-operation of business and government, the code provisions of the famous MIRA, was insufficient to induce prosperity on a lasting basis. Having become of this conviction he turned his attention toward the economic reinforcement of the masses by means of unemployment compensation, old-age assistance and aid to various particular groups such as the needy blind, dependent children, etc. .

Still another compelling factor in the evolution of the new social concept was the inability and/or reluctance of the states to provide security for the working classes. By 1935 there were still twenty states without any pension laws; five others had optional arrangements which were of little practical value.²¹ Even those states which had enacted pension laws of some kind were unable to provide adequate benefits due to their own financial impoverishment. The average monthly pension for the early part of 1934 was only \$19 and by December²² of that year this pitiful sum had fallen to \$16.16.

In view of these factors there was a rising ground swell demanding action on the part of the Federal government. As a result of this increasing demand a bill was

21. Douglas, Paul H., Social Security in the United States, pp. 8-9.

22. Ibid.

introduced in the Congress in January, 1935 under the auspices of Senator Wagner and Representatives David J. Lewis of Maryland and R. L. Doughton of North Carolina. An indication of the animosity of most of the Congress and the Administration to the more radical forms of social security may be seen in the fact that when the bill was referred to committee for hearings it was given to the Ways and Means Committee of the House and the Committee on Finance in the Senate rather than to the Labor Committees of each branch in order to avoid the more radical measures that might be reported out of the extremely liberal committees on Labor.²³

Since many of the state legislatures were in session in the winter of 1935 and, after their adjournment in the spring, would not meet again until 1937 it was necessary to act as quickly as possible if the new legislation were to go into effect immediately. Even with the haste that marked the passage of so momentous a piece of legislation the act was not ready for final passage until August 5, 1935 when it was passed by both houses. The vote in the House was 372 for and 33 against; in the Senate the vote was 76 for and 6 against.²⁴ An effort was made to attach a deficiency appropriation to the act in order that it might go into effect immediately. Due

23. Ibid., p. 85.

24. Harris, Joseph P., "State Responsibility", State Government, October, 1935, p. 192.

Due to the opposition of Senator Long of Louisiana, however, this measure was defeated; hence the act did not become effective until after the Congress had convened in January of 1936.²⁵

Having surveyed the events and factors leading up to the passage of the Social Security Act of 1935 attention will now be directed to those portions of the bill which employ grant-in-aid arrangement for financing its programs.

The first of these programs is that of old-age assistance which is provided for under Title I of the act. This program is divided into two major divisions, that of assistance for the indigent old and that of compulsory old-age insurance. In the former case the grant-in-aid device is employed extensively; indeed, as of the present time grants for old-age assistance account for a greater portion of total Federal grants than does any other program financed in this manner.²⁶ Under the provisions of the act, as amended, the Federal government will pay to the states a sum equal to three-fourths of the first \$20 granted to each recipient plus one-half of the remaining monthly allowance per individual to a maximum of \$50 monthly.²⁷ This, in effect, means that the Federal government will pay \$30 as a maximum to each recipient monthly.

25. Ibid.

26. Federal Grants-in-Aid, op. cit., p. 155.

27. Douglas, op. cit., p. 151.

It does not mean that the state receives thirty Federal dollars for each of its residents on the assistance pay-rolls. The amount that each state receives is conditioned entirely by the amount that it is willing and able to provide from its own state and local funds. Nor does it mean that the Federal government will pay an amount in excess of \$30 per individual per month even though the state does provide greater amounts. In order to illustrate the allocation of funds under the old-age assistance program of the Social Security Act the following table²⁸ is of interest:

<u>Total Monthly Assistance Payment</u>	<u>State Share</u>		<u>Federal Share</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
\$20	\$ 5	25.0	\$15	75.0
\$30	\$10	33.3	\$20	66.7
\$40	\$15	37.5	\$25	62.5
\$50	\$20	40.0	\$30	60.0
\$60	\$30	50.0	\$30	50.0
\$75	\$45	60.0	\$30	40.0

In order to receive the Federal funds under this program the state must conform to rather strict Federal requirements. Among the most important of these are²⁹ the following:

- 1) After January, 1940 the state law must provide that no person under 65 years of age be eligible for old-age assistance. The five year period was allowed in order to give states having statutes setting the age limit at 70 years to make the necessary adjustments.

28. Federal Grants-in-Aid, op. cit., p. 154.

29. Harris, loc. cit., p. 195.

- 2) State residence requirements must not exceed five out of the last nine years. A year's residence immediately preceding application for assistance could be required by the states in order to prevent an influx of the aged into those states having the higher pensions.
- 3) Citizens of the U. S. could not be disqualified by excessive citizenship requirements. This provision was directed primarily toward the southern and western states having large minority groups.
- 4) The assistance plan must be state wide in scope and if administered on the county level it must be mandatory upon them. A single state agency was required for administration on the state level.
- 5) Annual reports were to be submitted to the Federal Social Security Board.
- 6) Provisions for the appeal of state agency decisions must be provided.
- 7) One-half of any sum recovered by the state from the recipient or his estate must go to the Federal government.

Under the provisions of Title I no definite amounts were to be appropriated. The pertinent section of the act says only that after the first year, for which the sum of \$49,750,000 was appropriated, there shall be appropriated each year "a sum sufficient to carry out the purposes of this title".³⁰ The allocations to the states are made by the Social Security Board quarterly and are paid in advance upon the basis of estimates submitted to the Board by the state agency. The natural tendency concerning the amounts necessary for operation of this section of the Social Security Act is for it to increase. Dr. Edwin E. Witte, of the University of

30. Douglas, op. cit., p. 437.

Wisconsin, stated during the House committee hearing that by the second year of its operation, when the system became relatively stable, the total estimated cost to the Federal government probably would not exceed \$125 million.³¹ This figure, in time, can be presumed to enter a decline due to other provisions of the act whereby old-age assistance will largely be taken care of through contributory payments by employers and employees. That it has not been the case as of the present time is indicated by the fact that during the fiscal year 1948 the Federal government's share of the cost of old-age assistance amounted to \$573,304,000.³²

The second division of the old-age assistance program can be disposed of in relatively brief fashion since it employs the grant-in-aid principle to only a limited extent. This division is provided for in Title III of the Social Security Act and deals with unemployment compensation. The purpose of the system established under this title is the creation of a reserve fund upon which the individual worker can draw during periods of temporary unemployment. The unemployment compensation fund is financed by means of a tax on those businesses which employ eight or more persons at least twenty weeks out of the year. It is important to note that the Social Security Act does not establish this fund, but rather

31. Ibid., p. 133.

32. Federal Grants-in-Aid, op. cit., p. 59.

it induces the separate states to establish such a reserve fund by means of the above mentioned Federal tax. While this may sound somewhat complicated it is in reality a very simple scheme to coerce the states into complying with Federal policy. The Federal tax of 3% of the total payroll of each employer is levied uniformly throughout the United States except for certain industries and classes of employees which, by statutory provision, are exempted, when and if a state adopts a satisfactory unemployment compensation system a portion of this Federal tax, up to 2.7%, may be offset by the taxes levied by the individual state. Needless to say, all states have approved unemployment compensation systems at the present time. The extra 3% of the Federal tax is then made available to the states in the form of a grant-in-aid for the purpose of administering their unemployment compensation systems. When the Social Security Act was originally enacted it was thought that the entire system in all forty-eight states could be adequately administered with the means provided in this manner. Experience has indicated, however, that this is one instance in which the government actuaries miscalculated on the plus side; ever since the inception of the system in 1936 the funds collected under the non-offset tax of 3% of total payrolls have greatly exceeded the total costs of administration.

The exact figures relative to this conclusion are given
33
below:

<u>Fiscal Year</u>	<u>Collections</u> In Thousands	<u>Expenditures</u> In Thousands	<u>Surplus</u> In Thousands
1936	**	**	**
1937	\$ 57,840	\$ 12,420	\$ 45,420
1938	90,127	44,901	45,226
1939	100,759	62,375	38,385
1940	105,156	63,688	41,468
1941	100,086	67,443	32,643
1942	119,981	76,406	43,575
1943	158,279	59,849	98,430
1944	179,945	33,059	146,886
1945	184,508	31,318	153,190
1946	179,930	58,121	121,809
1947	<u>184,800</u>	<u>62,500</u>	<u>122,300</u>
Total	\$1,461,411	\$572,079	\$889,332

Since the excess of collections over expenditures reverts to the general funds of the Federal government it appears that the latter has used what amounts to an ear-marked tax to accrue a "profit" of slightly less than one billion dollars. The reason for this lies in a legal fiction that is maintained by the government relative to taxes involved. When the act was written it was feared that an ear-marked tax would seriously weaken the constitutionality of the provisions having to do with taxation. In order to prevent any resemblance to an ear-marked tax, and thus avoid its invalidation on constitutional grounds, the provisions having to do with payroll taxes were placed in Title IV and the taxes derived therefrom were made a part of the government's

general funds. In reality, however, it was clearly understood by all concerned with the bill that the non-offset portion of the 3% payroll tax was to be earmarked for administrative purposes.

The relative amounts to be granted to the various states for administrative purposes are not determined in the act itself. Instead they are left to the discretion of the Social Security Board. The act provides, however, that the Board in determining the grant for each state shall take into account the relative population of the states, the number of persons in the state covered by the system and the proper amount necessary for administrative purposes.³⁴ In addition to these factors the Board is empowered to refuse a grant to any state unless certain requirements concerning personnel and administrative technique are met. Among these requirements are (1) that the state make provision for appeals by those persons to whom assistance is denied, (2) that the state make periodic reports to the Board along such lines as the latter may direct, (3) that the state make available to Federal authorities the names, occupations, etc., of those persons receiving unemployment benefits.³⁵

Insofar as the grant-in-aid principle has been employed in the system of unemployment compensation its

34. Douglas, op. cit., p. 149.

35. Ibid., p. 150.

operation has been fairly satisfactory on the whole. In the questionnaire published by the Council of State Governments, previously cited, the following answers were obtained in relation to questions concerning the grants for unemployment compensation:

- 1) When questioned as to whether or not Federal aid had stimulated activity 27 out of 31 replied in the affirmative.
- 2) When asked if Federal aid had improved standards in the field of unemployment 22 out of 31 said "Yes".
- 3) Sixteen out of twenty-six agencies felt that Federal aid for this purpose should be increased.

From the above it would appear that most of the state agencies are relatively well pleased with the operation of this particular program.

Title IV of the Social Security Act makes provision for another grant-in-aid program, that of aid to dependent children. In order to qualify for assistance under this program the state must establish a suitable plan providing for the following requirements: (1) the plan must be state-wide in scope, (2) it must provide for financial participation by the state, (3) it must provide for a single state agency to administer the plan, (4) provision must be made for the hearing of appeals by those denied assistance, (5) reports must be made to the Social Security Board from time to time as the Board may require. Para-

36. Federal Grants-in-Aid, op. cit., pp. 273-281.

37. Social Security Act of 1935, Title IV, Section 402 (a).

graph B of Section 402 of the Act makes it mandatory for the Board to approve any state plan that complies with the above provisions, except that the Board may deny grants to any state imposing a residence requirement having the effect of denying aid to dependent children providing the child has been a resident of the state for one year preceding application for benefits.

Payments are made to the state upon a quarterly basis.³⁸ In order to qualify for the quarterly payment the state agency must submit a report to the Social Security Board detailing its plans for the ensuing quarter. If the Board approves the plan it will certify the amount estimated to be needed to the Secretary of the Treasury who then makes the disbursement to the state. The Board, in reviewing the plan of the state, may either raise or lower the amount requested by the state agency. In any event the Federal grant cannot exceed the following maximum amounts:³⁹ three-fourths of the first \$12 for the first child plus one-half of any additional payments up to \$27 per month, and three-fourths of the first \$12 for additional children plus one-half of any additional payments up to \$18 per month. In other words, Federal payments cannot exceed \$16.50

38. Ibid., Section 403, paragraphs (a) and (b).

39. Federal Grants-in-Aid, op. cit., p. 155.

per month for the first child and \$12 per month for each additional child. Section 406 of the Act defines the term "dependent child" as follows:

The term "dependent child" means a child under the age of sixteen who has been deprived of parental support or care by reason of the death, continued absence from the home, or physical or mental incapacity of a parent, and who is living with his father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, uncle, or aunt in a place of residence maintained by one or more of such relatives as his or their own home.

By a later amendment the definition was expanded to include children eighteen and under who were regularly attending school and who otherwise met all of the above requirements. If a child does not fulfill all of the above requirements the state will not be reimbursed for aid given to the child regardless of how needy he may be.

In addition to the grants given to the states for the purpose of providing direct assistance to dependent children the act also provides for grants to the states equal to one-half of the total costs of administering its provisions. For the year 1948 total grants for all phases of the dependent children program amounted to \$141,738,000.⁴⁰

Title V of the Social Security Act carried an

40. Ibid., p. 59.

appropriation of \$3,800,000 for the purpose of promoting maternal care and child welfare among the several states. While this program is not as extensive as some of the other grant programs authorized by the Social Security Act it is interesting because of its matching and allocation provisions. Before proceeding into a discussion of these it will be well to note that insofar as state plans, methods of disbursement and general administration were concerned there was a marked similarity to the comparable provisions relating to grants for dependent children.

The original terms of Title V provided for a uniform grant to each state of \$20,000. By subsequent amendments this amount has been increased to \$35,000 per year. The remainder of the original appropriation was deposited in a "discretionary" fund and was placed at the disposal of the Secretary of Labor who was to allot the money to the states according to the ratio of live births in the state to the total number of live births in the United States.⁴¹ More recently Title V of the act has been amended to provide for a slightly different method of distribution. By the newer provisions the total appropriation was raised to \$11 million annually. From this sum each state receives a uniform annual grant

41. Social Security Act, Title V, Section 502.

of \$35,000; this grant must be matched on a dollar for dollar basis by the states. A total of \$3,645,00 is to be apportioned among the states according to the number of live births in each state; this grant also requires matching state contributions on a 50-50 basis. The remaining sum of \$5,500,000 is to be apportioned among the several states on the basis of financial need after taking into consideration the number of live births within each state; this grant does not require any matching by the receiving states.⁴²

Part II of Title V was included in the Social Security Act to provide aid to crippled children. The act carried an original appropriation of \$2,850,000 which, by subsequent amendments, has been raised to \$7,500,000 annually. According to the present formula for distribution, these funds for each state are appropriated as an annual uniform grant of \$30,000 which must be matched on a dollar for dollar basis. A sum of \$2,160,000 is to be apportioned according to the need for crippled-children services within each state; this too must be matched on a 50-50 basis. The third and final allocation is for a sum of \$3,750,000 which is distributed on the basis of financial need with no matching required.⁴³

42. Federal Grants-in-Aid, op. cit., p. 63.

43. Ibid., p. 64.

Both of the above grants, for maternal care and crippled children were originally under the direction of the Secretary of Labor on the national level. By virtue of recent governmental reorganization plans their administration has been made the responsibility of the Children's Bureau which is a subdivision of the Federal Security Agency.

There were, of course, numerous other programs embodied in the Social Security Act of 1935. Those that have been discussed in the preceding pages, however, were the principal programs operating on the grant-in-aid principle. In addition to the Social Security Act and the various programs designed to provide insurance against unemployment which have been discussed in the preceding pages the New Deal and Fair Deal Legislation included several acts of a miscellaneous nature; including in this group, grants for airports, the school lunch program, hospital construction and venereal disease control. This chapter on Federal grants in the general field of social security and public assistance will be concluded with a brief discussion and resume' of this legislation.

The Federal Airport Act was approved May 13, 1946. The most significant aspect of this legislation from the standpoint of this essay is that of the matching

requirements contained in the act. In the Federal Airport Act these requirements were carried to a degree of finesse not usually found in grant-in-aid appropriations. The administration of the act was under the direction of the Civil Aeronautics Administration whose head, the Civil Aeronautic Administrator, is responsible for the allocation of the funds. The act carried a fixed appropriation of \$500,000,000 which is to be spent over a period of seven years, beginning with the fiscal year 1946-47. Of the amount which the Congress determines is to be spent each year 75%, after administrative expenses are deducted, is to be apportioned among the states on the basis of area and population.⁴⁴ The remaining 25% is placed in a discretionary fund which is to be allocated to sponsors of projects within the states; distribution of this fund is in the hands of the Congress. When a project is submitted to the Civil Aeronautics Administrator its approval or disapproval is conditioned by the way in which the proposed project fits into the over-all scheme of airport construction and national security. If the project is approved it becomes eligible for Federal funds. Grants made to the states must be matched on the basis of dollar for dollar for construction costs and one Federal dollar for every four dollars spent by the state for the acquisition

44. Ibid., p. 234.

of land. There are exceptions to this rule, however, which are designed to spread the Federal expenditures over as wide an area as possible consistent with the objectives of the act. For example, a sliding scale of Federal grants is brought into effect for all projects costing over \$5 million. Up to the amount of \$5 million the Federal government will contribute on a 50-50 basis; from that point on up to \$10 million the Federal government contributes on a gradually decreasing scale with only 20% of projects costing over \$10 million being financed by the national government. On the other hand, an effort is also made to assist the so-called public land states whose revenues are decreased as a result of large Federal holdings within their borders. In these states the Federal government's share of the total cost may amount to as much as 62.5%, the exact percentage being dependent upon the size of Federal land holdings within the particular state.⁴⁵

During the first three years of the act's operation a total of \$117 million was authorized for the construction or improvement of 1,089 projects. As of the end of September, 1948 sixty projects authorized under the act had been completed and 244 projects were under construction.⁴⁶ Analysis

45. Ibid., p. 236.

46. Ibid.

of approved projects discloses that on the average Federal participation amounted to approximately \$25,000 for the smaller projects and about \$270,000 for the largest.⁴⁷

The School Lunch Program was authorized by the National School Lunch Act of 1946. Under the terms of this act an annual appropriation of an indeterminate amount is made available to the states for the purpose of providing agricultural and other commodities for consumption by school children as well as the provision of equipment necessary to carry out this objective. The formula for distributing the funds is based upon the number of school children between the ages of five and seventeen within any state as well as the financial status of the state as determined by per capita income.⁴⁸ Administration of the act is under the Department of Agriculture on the national level and the state department of education on the state level. The matching requirements contain a provision for the gradual diminution of Federal assistance beginning in the fiscal year 1950. Prior to that time matching is to be on a 50-50 basis. This amount will gradually decline until Federal contributions will be at the rate of one for every three state dollars in 1956.

47. Ibid.

48. Ibid., p. 66.

In 1946 the Congress passed the Hospital Survey and Construction Act. The purpose of this act was to assist the states in the establishment of adequate hospital, clinical and similar services. Grants under this act may be made to states, localities or other non-profit agencies. Such grants as are approved must be spent only to defray the costs of surveys, planning and construction; operation and maintenance costs must be borne by the local units. The original appropriation was in the amount of \$3 million for surveys and planning with an additional \$75 million to be expended over a period of five years in the form of grant-in-aid for hospital construction. The funds are apportioned among the states according to population and percapita income with the criterion weighted in order to provide greater assistance to the low per capita income states. Insofar as the matching provision is concerned the states must put up two dollars for every one dollar of Federal money received. In 1948 grants-in-aid for hospital construction amounted to only \$4 million.

The program for the establishment and assistance of plans for the control of venereal disease is similar to other public health grants. The program is authorized

49. Ibid., p. 62.

50. Ibid., p. 64.

by the Public Health Service Act of 1944 and carries an annual appropriation of an indeterminate amount, the exact sum being whatever is necessary to carry out the purposes of the act. Allocation of the funds is in the hands of the Public Health Service which distributes them on the basis of population and extent of the venereal disease problem within each state, as well as the per capita income of each state. By regulation the Surgeon General has determined that approximately 60% of the funds available will be allocated according to the extent of the venereal disease problem with 20% apportioned according to population and 20% according to financial need. States receiving Federal funds are required to match them on the basis of two state dollars for every Federal dollar.

Chapter IV

Aside from the question of Federal control of state activities the issue creating the greatest controversy in the grant-in-aid system is that of the incidence of Federal grants. Quite generally the remark is heard that the more wealthy states are taxed in order to finance governmental activities in the poorer areas of the nation. The purpose of this chapter will be to examine the statistics relative to grant-in-aid incidence in order to determine the validity, or invalidity, of this contention.

In order to place the problem in its proper perspective it will be necessary at the outset to determine those states which, by commonly accepted standards, are among the wealthiest in the nation. For this purpose two criteria will be used, namely, the average per capita income of the state and the average per capita income tax collections within the state. While these criteria are not absolutely accurate as indications of wealth they are

sufficiently so for the purpose for which they are here employed. The latest figures available to the writer with respect to both of the above criteria are for the year 1947.

Turning first to an examination of the average annual per capita income, statistics of the Federal Security Agency for the above year reveal that the ten highest states in this category are as follows:¹

Nevada -----	\$1842
New York -----	1781
North Dakota ----	1678
Conn. -----	1671
Delaware -----	1646
Calif. -----	1643
Montana -----	1641
Illinois -----	1624
New Jersey -----	1542
R. I. -----	1521

The same report, dealing with the same criterion, lists the following as the ten poorest states from the standpoint of average annual per capita income:

Mississippi -----	\$659
Arkansas -----	710
South Carolina ----	778
Alabama -----	837
Kentucky -----	850
Georgia -----	885
North Carolina ----	890
Louisiana -----	892
Tennessee -----	916
Oklahoma -----	930

In the case of each of the above states the average annual

1. Federal Security Agency, Social Security Bulletin, June, 1948, p. 53.

per capita income was well below the national average of \$1,323.

Turning now to the figures concerning individual income tax payments, derived from the same source as the per capita income statistics, the states listed among the first ten are as follows:

Delaware-----	\$377
New York-----	296
California-----	217
Connecticut-----	216
Illinois-----	213
Nevada-----	182
Massachusetts-----	179
Michigan-----	164
Ohio-----	159
Oregon-----	159

The ten lowest states in this category were:

Mississippi-----	\$30
Arkansas-----	40
South Carolina-----	45
Alabama-----	51
Kentucky-----	60
North Carolina-----	62
West Virginia-----	63
New Mexico-----	68
Louisiana-----	68
Georgia-----	68

Close examination of the above four columns will reveal that among the highest in each category, Delaware, New York, California, Connecticut, Illinois, and Nevada, rank within the first ten with respect to both per capita income and per capita income tax collections. It therefore seems reasonable to conclude that these

states are among the wealthiest in the nation. Within the low per capita income and per capita income tax collections group seven states, Mississippi, Arkansas, South Carolina, Alabama, Kentucky, North Carolina, and Louisiana, are listed under both categories. By the same token, therefore, we may conclude that these states are among the poorest in the nation.

Returning now to the original contention that the grant-in-aid system effects a transfer of wealth from the richer to the poorer states it is obvious that for this to be true there should be an inverse correlation between the above states and a listing of the states that receive the greatest and the least amounts in grant funds. In other words, the wealthy states should receive the least amount in grants while the poorer states receive the larger grants. The Social Security Bulletin for June, 1948 reveals that Federal grants on a per capita basis were distributed as follows among the ten highest and the ten lowest states:

<u>Highest</u>	<u>Lowest</u>
Nevada -----\$34.85	New Jersey -----\$4.22
Oklahoma ----- 22.06	Virginia ----- 4.23
Wyoming ----- 20.31	Maryland ----- 4.60
Arizona ----- 16.87	New York ----- 5.23
Idaho ----- 16.63	Connecticut ----- 5.23
Colorado ----- 16.56	Pennsylvania ----- 5.32
Montana ----- 15.28	Rhode Island ----- 5.42
Utah ----- 14.94	Ohio ----- 6.10
Washington -----14.55	North Carolina ----- 6.28
New Mexico ----- 14.33	West Virginia ----- 6.59

Of the ten states receiving the greatest per capita amount in grants one, Nevada, is also among the wealthiest group of states ranking first in per capita income also. Furthermore, of the ten poorest states only one, New Mexico, is among the first ten in the amount of funds received through the grant-in-aid system. This would seem to indicate that whatever re-distribution of the national wealth that occurs by virtue of the grant system does not, in the vast majority of instances, find its way into the poorer states.

On the other hand, the above statistics do indicate that a re-distribution of the national wealth does occur to some extent. Among the ten states receiving the least in per capita grants five, or 50%, are included in either one or both of the categories showing the wealthiest states. Since these states have the greatest amount of annual per capita income and, as a general rule, pay the larger amounts in per capita income taxes it seems clearly evident that they are, from a dollar and cents point of view, losing money to other of the states. It should be reiterated, however, that this flow of money in most instances does not go into the poorer states of the nation.

From comparative statistics based on the amount of income tax paid per capita and the amount of grant funds received per capita it would appear that the general areas

receiving the greatest benefits are the Mid-west and Far Western states. The Report of the Council of State Governments on Federal Grants-in-Aid lists the states receiving the greatest benefit and the least benefit in the following order:

States Most Benefited In Order of Rank

Oklahoma
New Mexico
South Dakota
Utah
Wyoming
Arizona
Idaho
Montana

The above states, according to this report, receive the greatest benefits under the grant-in-aid system in relation to the amount of per capita income taxes paid.

States Receiving Least Benefit

New York
Connecticut
New Jersey
Ohio
Illinois
Pennsylvania
Maryland
Rhode Island

The above ten states paid more in taxes in relation to the benefits received in grants than any other states in the Union. It is interesting to note that in the majority of cases these states are among the wealthiest in the nation.

The relationship between the per capita grants received and the per capita income of the states shows slight variations from the above listings, but it does not materially affect the conclusion that the grant program is effecting a shift in wealth toward the Mid-western and Far Western states. This relationship is shown in the following tables:

States Most Benefited

Nevada
 Montana
 Wyoming
 North Dakota
 Colorado
 California
 Washington
 Idaho

States Least Benefited

Virginia
 North Carolina
 Kentucky
 Mississippi
 Alabama
 Arkansas
 Tennessee
 Louisiana

The above tables demonstrate that on the basis of the grant-income relationship the greatest benefits under the grant system are still being channeled to the western sections of the country. It is interesting, and somewhat anomalous, that those states which by all commonly accepted standards are among the poorest in the nation receive the least benefits from the grant system.

The above analysis may be summarized in the following conclusions:

- 1) The grant-in-aid program has effected a re-distribution of wealth in this country.
- 2) While no precise correlation between taxes paid and benefits received may be obtained such evidence as is available indicates that the shift in wealth is from the more heavily populated and highly industrialized sections of the North and East to the more thinly populated, agricultural sections of the Mid-west and Far West.
- 3) The South, which is by far the poorest section of the nation at the present time, received the least amount of benefit under the grant-in-aid system.

It remains now to inquire briefly into the reasons why this peculiar distribution pattern has obtained in the grant programs. At the outset these reasons may be summarized in two phrases; formulae of apportionment and matching requirements. In order to see how these two factors have affected the distribution of funds it will be necessary to review the major methods under each.

Apportionment of funds under the various pieces of grant legislation take several forms but for the most part general outlines and basic formulae may be discerned that are common to most of the major programs. In the first place, apportionment may be on the basis of uniform grants to each state. It is obvious that under this system very little shifting of wealth will occur since each state receives an amount equal to that received by all other states.

Another extremely important and widely used method of apportionment is the "open end" grant referred to earlier in this paper. The importance of this method is derived from the fact that it is the principal means of apportioning funds under the old-age assistance provisions of the Social Security Act. Since this is the largest single grant program it is easy to see how the "open end" method of apportionment greatly affects the over-all distribution of grant funds. To recount briefly the nature of an "open end" grant it may be defined as any grant the amount of which is dependent upon the amount spent by the state. The more the state spends for a project with an "open end" grant the greater becomes the Federal contribution. When old-age assistance grants are analyzed by states it becomes apparent why many of the states enjoying high total grant benefits are located in the West; in practically all of the states receiving the greatest amounts in grant funds there is in operation an extremely liberal old-age assistance program. Since most of the high-payment pension states are located in the western part of the United States it is therefore not too difficult to see why the per capita grants in these states are unusually large.

Another of the factors used to determine the apportionment of grant funds is that of population which, from the

standpoint of the amount of money involved, is the second most important apportionment factor. Originally population was used without any refinements whatsoever, the grant being determined by the number of representatives each state had in the Congress. In later grants distinctions have been made among the various elements within the population of a given state; grants conditioned upon the ratio of rural or urban population to total population are illustrative of this type. When population as a factor of apportionment is considered it also sheds some light upon the present distributive pattern. Most of the states of the western sections of the country are relatively more sparsely populated than states of the eastern United States. This in itself tends to increase the per capita grants within such states. The full effect of this factor is not clearly evident, however, until it is remembered that area is also used as a basis for apportioning Federal grants. This factor is of particular importance in the highway and airport construction programs. A brief glance at any map of the United States will show clearly that the states having the largest area, are, for the most part, located in the West. This fact coupled with the relatively low population of such states tends strongly to increase the per capita amounts which these states receive in annual subventions.

The second great element in the determination of the incidence of Federal grants-in-aid is that of matching requirements. By and large, although there are important exceptions, Federal grants must be matched on a dollar basis. As a result of this requirement more funds go to those which are able and willing to put forth the greatest amount of their own funds. This fact explains to a considerable degree the relatively low per capita grants that find their way into the southern states. Since these states are among the poorest in the nation it is impossible for them to take advantage of the maximum grant provisions. Another factor growing out of the matching requirements which tends to decrease the grants given to the southern states and increase the grants going to mid-western and western states is the provision for the so-called public land states. It will be recalled that some of the grant programs, particularly those dealing with highway and airport construction, make more generous grants to states containing large tracts of public lands, the theory being that such lands detract from the state's revenue possibilities, thus reducing their capacity for matching Federal appropriations, and therefore they should receive special consideration with respect to matching requirements. Once again the western states are favored since they contain,

by far, the greatest amount of the public land remaining in the United States today.

In view of the above considerations relating to apportionment formulae and matching requirements it is not difficult to understand the reasons for the present distributive pattern of grant-in-aid funds. The question that presents itself in the light of these considerations is whether or not the grant-in-aid device is being appropriately utilized. The fact that the southern states are neglected in comparison to other areas of the nation would seem to lend credence to the view that considerable improvement could be made in the present methods of distribution. If action is to be taken by the Federal government at all it would seem that such action should be most aggressive with respect to those states that are least able to afford the services to which the grant principle is usually applied. It should be remembered, however, that equalization of the national wealth has not, until recently, been one of the expressed objectives of the grant system. Such equalization as has occurred has been the by-product, so to speak, of the system. In recent years, it is true, there has occurred a noticeable change in the attitude of the nation toward grants-in-aid as an equalizing agency. This tendency has been manifested in various of the grant programs which rely in

some measure upon relative financial need as the basis of apportioning Federal funds; notable among these programs are those dealing with venereal disease control and the so-called "mother's grants" which provide aid for maternal care and child welfare. Still another evidence of the tendency toward using grants for wealth equilization purposes was the bill recently before the Congress to provide Federal aid for public schools. Though it was not adopted, this bill relied heavily upon financial need as the basis of apportionment. It is interesting to note in this connection that the bill in all probability was not defeated because of these provisions, but rather defeat came as a consequence of the ancient fear in educational circles of Federal domination of the public school system. If and when Federal aid for the support of public schools is adopted it is highly probable that a major portion of the funds authorized by the act will be distributed upon the basis of need.

It will be observed that no answer has been given to the question concerning the wisdom of current apportionment and matching policies. The answer to this question cannot be stated in dogmatic terms because it is not a question of fact. The analysis contained in this chapter relative to the incidence of Federal grants does reveal

that as a matter of fact the grant system is partially responsible for a degree of wealth re-distribution. Whether this is for the better or worse, whether the grant programs should be adjusted to bring about increased shifting effects and if so to what areas the wealth should be shifted are all questions involving personal opinions concerning the nature and role of the central government in a federal union, the desirability or undesirability of wealth equalization and a host of other intangibles that are not conducive to precise and objective calculations. In view of this, therefore, this essay will content itself with an objective presentation of the facts leaving the reader to draw his own conclusions concerning the wisdom, or lack of it, to be found in the distributive policies now in use.

Chapter V

Having surveyed the development of the grant-in-aid system and noted some of the effects which it has produced in relation to the distribution of national wealth, this essay will be concluded with a brief résumé reflecting the opinions formed by the writer in the course of preparing the material contained herein.

Perhaps the most striking impression created by an examination of the historical development of the grant-in-aid system is that of the spontaneous, almost haphazard, manner in which the entire program has evolved. It is not to be expected, of course, that such a complex social and political concept would emerge in a state of full development. The grant-in-aid system, and the theories underlying it, involves deep-seated economic and political traditions which must be altered gradually, if at all. After giving due consideration to these matters, however, the feeling persists that a more orderly and systematic approach to the entire concept might have been taken; and, for that matter, could well be undertaken

even today. Certainly if one concludes that the grant-in-aid device is the proper vehicle for a re-distribution of the wealth of the nation along state or regional lines there are many improvements that can very profitably be made in this direction. The writer is not, however, prepared to admit the unmitigated desirability of such a plan; hence, such improvements as are referred to concerning the grant system may be understood to be in the direction of greater coordination among the various grant programs, closer cooperation between state and Federal officials and a better defined concept of the role of the grant device as contrasted with efforts to assist the states by way of tax sharing plans and more equitable division of taxing areas between the states and the national government. In connection with these matters it seems that there is room for much improvement.

Concerning the first of these, for instance, it would seem that greatest benefits could be achieved if a greater degree of coordination existed between the highway and airport construction programs and those public assistance programs involving "make-work" projects such as were used during the period of the 1930's. To a certain extent efforts were made to coordinate these programs under the Public Works Administration, but for the most part the national

government financed relief projects directly through the Works Progress Administration.

Concerning the matter of State-Federal cooperation there is, beyond any doubt, great room for improvement. In many instances the state budgeting officials do not know what amounts the state will receive in Federal grants during the coming fiscal period. This unquestionably makes it difficult to prepare an adequately coordinated budget. In about one-half the states Federal funds are not channeled through the regular budget procedure, a fact which further complicates the budgetary processes of the states. In addition to this there is very little cooperation between State and Federal officials relative to the over-all planning of grant projects. In many instances the Federal government makes the initial decision to undertake a grant program without any consultation with state officials, the purpose of the Federal government being to coerce the states along a path of uniform action. A notable example of this tactic was the Unemployment Compensation law which all states were virtually forced to adopt in order not to lose the Federal tax of 3% on employer's payrolls. While uniform state action in this field, and others, is greatly to be desired the use of forceful measures to achieve it is highly questionable.

It seems that the same objectives could be accomplished just as effectively, and with less strain on Federal-State relations, through a mutuality of effort. In this connection the term "mutuality" must be emphasized; mutuality implies effort on the part of both parties working toward a common objective. It is by no means a problem for the Federal government alone. The various state governments can, and should, strive for greater improvements in the field of Federal-State relationships. Indeed, many of the areas which the Federal government now dominates could have remained the exclusive jurisdictions of the states had they been willing to work among themselves for the achievement of a common objective. Perhaps the best example of this is the unemployment program referred to above.

The third great area in which the grant-in-aid system can be improved consists of an over-all review of the role that grants-in-aid should play in our Federal system. The answer to the question posed in this problem is not easy to determine. A multitude of factors are involved each of which must be considered and placed in its proper perspective relative to others. Before the grant-in-aid system is expanded further, however, it is the opinion of the writer that very serious consideration should be given to these matters. There should, for example, be a

finer delineation of the areas to which the grant device may properly be applied and attention should be given to the possibilities of taxsharing plans as alternatives to further grants-in-aid. It may well be that the same objectives can be achieved with relatively greater ease and advantage to all concerned by this means rather than through further applications of the grant principle. It would also be of considerable benefit to the states to have a more equitable allocation of the taxing areas of the states and the Federal government respectively. As the situation now exists there is some justification for the belief that the states are gradually being eliminated from certain taxing areas that properly should be theirs exclusively. If the trend toward Federal monopoly of all the more lucrative taxing areas continues the states will have few, if any, alternatives to a future completely dominated by the Federal government. As Mr. Justice Marshall said in the case of *McCulloch v. Maryland*, (4 Wheat. 316, 432) "The power to tax is the power to destroy." It is not beyond the realm of possibility that virtual destruction of the present federal nature of our government may be the outcome of present trends in the field of taxation. At any rate, it would seem that a review of the basic considerations involved, the alter-

natives available and the consequences of persisting in current concepts would be to the inestimable benefit of all concerned.

It is not to be concluded from the above remarks that the grant principle is inherently detrimental. In an era in which social and political concepts are undergoing many changes, some of them extremely radical in nature, it cannot reasonably be expected that a government conceived and created in the relative simplicity of the 19th century can meet, without changes, the problems of the modern world. The grant-in-aid is a method whereby the ever increasing demands made upon government may be satisfied within the basic structure of the federal system. As such it possesses a distinct usefulness. This usefulness will continue, however, only so long as the grant principle is applied with restraint and propriety. It is to be hoped that state and Federal officials will exercise the necessary degree of caution in order that the grant-in-aid system may continue to serve as a useful implement of federal government rather than allowing it to become the means whereby the delicate balances of our federal structure are destroyed.

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